Revenue Disclosure Practices of Companies Within the Construction and Telecommunications Industries: Significant Judgements and Uncertainties

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Abstract The inherent significance of revenue for companies and users of financial statements prompted many debates on revenue recognition that ultimately led to the development of IFRS 15: *Revenue from contracts with customers*. The adoption of IFRS 15 has resultantly increased consistency in revenue recognition within industries, improving overall comparability, understandability, and transparency of financial information. In applying IFRS 15, some areas would require management to make significant judgements and estimates. Judgments and estimates play an integral role in financial reporting and the disclosure thereof results in useful information for the users of financial statements. This study analysed the significant judgements made and uncertainties addressed by management concerning the IFRS 15 disclosures in the financial statements of listed telecommunications and construction industries. The study followed a qualitative approach based on an empirical content analysis. This included an index study and thematic content analysis to assess the existence and quality of disclosures in the financial statements of the selected companies. The findings of the index study suggest that the level of compliance within the telecommunications and construction industries is relatively consistent. The construction industry's percentage of compliance is slightly lower than that of the telecommunications industry throughout the periods. The thematic content analysis suggests that the disclosures provided by management within the construction industry achieved, on average, a higher rating with a greater percentage of the population receiving an excellent rating. Over the period of review, the existence and quality of disclosures were improved to enhance the usefulness of the financial information for the users.

Keywords Revenue · Disclosure · Significant judgements · Uncertainty · IFRS 15

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1 Introduction

Revenue is an important indicator when considering a company's financial performance and ability to generate income. Investors extensively use this measure when making financial decisions about companies (De Sa Silva, 2017). Before the development of International Financial Reporting Standard (IFRS) 15 *Revenue from Contracts with Customers*, companies within the construction industry applied International Accounting Standard (IAS) 11 *Construction Contracts.* In contrast, all other industries applied IAS 18 *Revenue* (IASB, 2022a).

With the application of these standards, it was difficult for investors to ensure that they were comparing similar financial information when assessing companies and making financial decisions (Bohusova & Nerudova, 2009). The inherent significance of revenue in financial reporting has resulted in many debates and ongoing discussions about how revenue should be recognised (Wagenhofer, 2014). The previous accounting standards were insufficient in providing guidance on how companies should recognise, measure, and disclose revenue (De Sa Silva, 2017; Van Wyk, 2017). The objective stated within IFRS 15 *Revenue from Contracts with Customers,* seeks to ensure greater transparency for the users of the financial statements through the robust disclosures required by the standard. This aligns with the global standard setters' objectives to ensure more consistent concepts are applied throughout, improving comparability within the entities across industries and geographical locations (IASB, 2022a).

In addition to the general disclosure requirements stated in IAS 1 *Presentation of Financial Statements,* IFRS 15 requires specific disclosures for significant judgements relating to revenue recognition (IASB, 2022a, 2022c). This additional disclosure relates firstly to the timing and satisfaction of performance obligations and whether revenue is recognised over time or at a point in time (Coetsee et al., 2022; IASB, 2022a). Secondly, the significant judgements associated with determining the transaction price require disclosure, specifically the variable consideration and significant financing components (Coetsee et al., 2022; IASB, 2022a).

The construction and telecommunications industries have been impacted more than others by implementing the principles in IFRS 15. This is due to the complexities surrounding the accounting for variable consideration, multiple performance obligations and the recognition of revenue over the life of construction contracts (Dobler, 2008). A study conducted in the context of the European Union (EU), was conducted to determine the level of compliance with the mandatory disclosures espoused by IFRS 15 (Boujelben & Kobbi-Fakhfakh, 2020). This study focused on the top 22 EU listed groups and the transitional disclosures required by IFRS 15, focusing on the telecommunication and construction companies, which, based on the nature of the business operations, are deemed to have been significantly impacted by the implementation of IFRS 15. The findings of this study identified that on initial adoption, the quantity and quality of the IFRS 15 disclosures required improvement and that there was a differing degree of compliance within the respective industries (Boujelben & Kobbi-Fakhfakh, 2020). The companies within the telecommunication industry were more compliant than those in the construction sector (Boujelben & Kobbi-Fakhfakh, 2020).

Van Wyk (2017) and Mahmood (2019) assessed the principles and model applied in IFRS 15 in South Africa companies. They found them to be adequate in providing guidance for the recognition of revenue in the construction and telecommunications industry. A further study has been performed surrounding the revenue recognition practices in South Africa and the decision usefulness of the disclosures. This study focused on the initial adoption of the standards requirements and identified that the companies selected in the study were generally able to apply the standards appropriately in accordance with the analysis for the first time (Coetsee et al., 2022).

2 Research Objective and Contribution

The objective of this paper is to determine whether the significant judgements made, and uncertainties addressed, by management in the determination of the revenue recognition, provide sufficient disclosure to meet the objective of IFRS 15. The paper will focus on the disclosures made within the telecommunications and construction industry. The review will include an analysis of whether the disclosure provided by companies listed on the Johannesburg Stock Exchange (JSE) is useful to the users of the financial statements and whether relevant information is provided for investors, creditors and lenders for them to make informed investing and lending decisions (IASB, 2022c). For the disclosures to be considered useful, it should provide the users with sufficient information (quantity) and quality information. This is achieved if a company adheres to the principles contained in IFRSs. As the companies selected for review are listed on the JSE, they are required as part of the listing requirements to apply the IFRSs (JSE, 2010).

This paper aims to contribute to the academic literature by analysing whether companies in two important industries, impacted by the release of IFRS 15, are providing adequate and useful disclosures to the users of the financial statements specifically related to significant judgements and uncertainties. This analysis will provide preparers of financial statements, academics, and standard-setting bodies with useful information regarding the disclosure practices of companies and how it can be improved. It further provides information for these parties to consider when new standards have to be applied and adopted by companies and whether they have adequate guidance on how to apply the intricacies of new IFRS standards. This paper provides for an analysis of not only the initial year of adoption but also for the first and second year post adoption to determine if any improvements in disclosure occurred over time. Furthermore, by considering two distinct sectors, telecommunication, and construction, that are likely impacted by the implementation of IFRS 15, the nature and scope of the potential effect of IFRS 15 is highlighted. This is especially true when considering that prior to IFRS 15, these two industries' revenue practices were governed by two different standards, IAS 18 and IAS 11. No other studies could be identified that focused solely on the disclosures of significant judgements and uncertainties (and not disclosure practices in general) made by South African companies within the construction and telecommunications industry to inform useful decision-making among the users of the financial statements.

The content of this paper is presented as follows: in the next section the literature regarding the revenue standard and how it has impacted the construction and telecommunications industries is considered. The research methodology is then explained after which the results of the content analysis is provided. The last section consists of the conclusion, the limitations of the paper and the areas for future research.

3 Literature Review

3.1 Development of IFRS 15

The International Accounting Standards Board (IASB) and their American counterpart, the Financial Accounting Standards Board (FASB) entered into a collaborative project to develop the underlying principles that would be required for revenue recognition by both bodies (IASB, 2022b). This process was entered into to ensure consistency in applying both standards across all entities globally (IASB, 2022a). Previous standards implemented by the IASB resulted in inconsistent application across entities as there was limited guidance for specific complex transactions, such as revenue recognition for multi-elemental agreements (Mahmood, 2019). The new standard resulted in a shift in the way in which revenue is assessed by the company and ultimately recognised through a five-step model (IASB, 2022a). Applying this model required additional consideration by management and therefore the disclosure of significant judgements and uncertainties to ensure that the users understand how revenue was recognised.

3.2 Impact of IFRS 15

Studies have explored the impact that the implementation of IFRS 15 had on the financial statements and also on the companies as a whole (De Sa Silva, 2017; Klemmer, 2017; Mattei et al., 2019). De Sa Silva (2017) conducted a study on the adoption of IFRS 15 on JSE-listed companies and found that the implementation of IFRS 15 had an impact on companies beyond that of just financial reporting but also affected the business at five operational levels. The study further found that if the standard is accepted in a positive manner by companies this will ensure that there is greater compliance with the requirements of the standard (De Sa Silva, 2017). This may result in companies applying a mere compliance approach instead of a value-added approach (Hoogervorst, 2013). This is further emphasised by the work of Mattei et al. (2019) in that it was found that the implementation of IFRS 15 will impact the current profit management policies these companies apply. The revisions resulting from the new standard would have extensive impacts on the company's bottom line and the current key performance indicators (KPI'S) in which management's performance is assessed. This is mainly due to the movement in the timing and amount of revenue (Klemmer, 2017).

3.3 Impact of IFRS 15 on Companies Within the Telecommunications Industry

The telecommunications sector experienced concerns surrounding the potential identification of performance obligations and the allocation of the transaction price to those performance obligations (PWC, 2017). Revenue must be allocated to all the performance obligations identified within revenue contracts. Multiple performance obligations may be identified within a telecommunication contract, for instance the sale of handsets, the provision of data or airtime and warranties (Annual Reporting, 2022).

Studies have been conducted on the impact that IFRS 15 would have, upon its adoption, on the companies with the telecommunications industry (Mahmood, 2019; Valle, 2019). Mahmood (2019) assessed the adequacy of IFRS 15 within the telecommunications industry and the complexities surrounding its implementation. The main reasons for the difficulty in its application stem from the previous standard that allowed for additional guidance on the allocation of goods and services identified in contracts (Deloitte, 2014). IFRS 15, however, requires that the revenue be allocated to each distinct good or service on the standalone selling price basis (IASB, 2022a).

Valle (2019) argued that there was limited impact from the implementation of IFRS 15 on the amounts recognised by the telecommunications companies but that significant changes were required to the qualitative disclosures required per the new standard. Key findings identified in the study recognise that the information provided in line with IFRS 15 will provide more useful information to the users of the financial statements (Valle, 2019).

3.4 Impact of IFRS 15 on Companies Within the Construction Industry

IFRS 15 affected the revenue recognition for the construction industry due to the progressive nature of the performance obligations (Van Wyk, 2017). IAS 11 allowed for additional costs incurred during the pre-contract period to be capitalised as opposed to IFRS 15 which only allows for the incremental costs to be capitalised (IASB, 2022a). This change results in a greater expense for these costs reflected in the financial statements. In most cases when looking at construction contracts, the provision of goods and/or services is considered highly integrated and dependant, resulting in the goods and services being seen as one performance obligation (IASB, 2022a).

Hepp (2018) identified additional challenges within the construction industry as the guidance has shifted from applying a percentage of completion method to a more control-based approach. IFRS 15.33 states that, "the control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control further includes preventing other entities from directing the use of, and obtaining the benefits from, an asset" (IASB, 2022a: A901). Therefore, more judgement is required in determining when control transfers (at a point of time or over time) and to determine whether the performance obligation is satisfied. This then further requires more detailed disclosures as to ensure understandability by the users of the financial statements.

3.5 Results from Monitoring Review Processes

The JSE, the Financial Reporting Council (FRC) in the United Kingdom (UK) and the European Securities and Markets Authority (ESMA) performed reviews of a selection of annual financial statements of companies in their jurisdictions when IFRS 15 was first adopted. They found the following matters regarding the disclosures related to revenue:

- Many disclosures were identified to be generic, duplicated or boilerplate;
- There was a lack of detail in the disclosures to enable the users to fully understand the judgements and uncertainties applied in the determination of for example the transaction price or the timing of revenue;
- The disclosures did not provide the required level of justification for the selected method used and how this method ensured an appropriate representation of the transfer of good and/or services (EMSA, 2016; FRC, 2019; JSE, 2019, 2021).

IFRS 15 impacted both the telecommunications and the construction industries. Researchers and regulatory bodies have both explored the impact that the implementation of IFRS 15 would have on these industries and disclosures in the financial statements, respectively. However, as the literature shows, significant judgements and estimates would be required for these disclosures. This study focuses on the judgments and estimates disclosed regarding revenue in the financial statements.

4 Methodology

4.1 Paradigm and Research Method

As the paper is aimed at a qualitative approach from the view that the accounting field is a social science, an interpretative approach has been deemed as the most appropriate research method. An interpretative research method provides valuable insight into the subject matter from the perspective, and experience of the people it is involved with (Andrade, 2009). This approach does not solely look at qualitative data but is also appropriate when assessing quantitative data and the impact that this will have on the users of financial statements (Andrade, 2009).

The research methodology that will be applied in this study is an empirical content analysis that is further expanded upon through an index study and thematic content analysis. A content analysis is often used in the assessment of financial reporting and has been assessed as appropriate in the context of this study (Castilla-Polo & Ruiz-Rodríguez, 2017; Coetsee et al., 2022; Duff, 2016). The focal point of a thematic content analysis is to assess and interpret various forms of data, used to communicate the performance of the entity in both a qualitative and quantitative manner to the users of financial statements (Beattie et al., 2004).

4.2 Population Selected

The population used to select the companies for the paper included all of the JSE listed companies. Listed companies were chosen as they are obliged to prepare their financial statements according to IFRS as part of the listing requirements. The selection criteria were then further stratified only to include the companies within the telecommunications and construction industry. All of the companies listed on the JSE as part of the telecommunications sector were selected for the study. The industrial section was selected for further analysis as to isolate the construction companies. This sector was further reviewed to determine the companies with construction as their main operations and these companies were selected as part of the population. One of the companies with construction as their main operations, Basil Read Holdings voluntarily deregistered from the JSE in 2018 and therefore was not included for review (refer to Table 1 for a list of selected companies).

4.3 Data Used in This Study

The data used in this paper was the annual financial statements of the companies as selected and shown in Table 1. The financial statements included in the study assessed the year in which the initial adoption of the standard (IFRS 15) took

Table 1 Selected companies

Companies with the Telecommunications industry	Companies within the Construction industry
Blue Label Telecoms	Aveng Group Limited
Huge Group Limited	Murray and Roberts
MTN Group Limited	Raubex Group Limited
Telemasters Holdings Limited	Stefanutti Stocks Holdings Limited
Telkom Group Limited	Wilson Bayly Homes-Ovcon
Vodacom Group Limited	

place, the first year post adoption and the second year post adoption. IFRS 15 was effective for the financial periods beginning on or after 1 January 2018. All annual reports published since the effective date (1 January 2018) until 2021 were assessed as part of the study (refer to Appendix A).

4.4 Content Analysis

The annual financial statements selected were inspected for the specific disclosures required by IFRS 15.124–IFRS 15.127 (refer to Appendix B). Firstly, an index study was performed to assess the existence of the disclosures within the financial statements. Secondly, a thematic content analysis was performed over the disclosures as to assess quality of the disclosures and ability to achieve decision usefulness for the users. The index study used a yes, no or not applicable (N/A) rating scale to assess whether the disclosures were present within the financial statements. A yes rating was made where the disclosures met the minimum requirements as per IFRS 15, while a no rating did not achieve these minimum requirements. A not applicable rating meant that the disclosure was not relevant to the entity due to the nature of the entity or the accounting policy of the entity.

The thematic content analysis applied a rating scale of excellent, standard, below standard or not applicable. Where the disclosures where specific to the entity and additional information provided to explain the important judgements made, the disclosure was rated as excellent. A standard disclosure rating was deemed to be sufficient to meet the requirements of IFRS 15, while a below standard rating did not meet the minimum disclosure requirements.

5 Findings

In this section the findings of the index study and the thematic content analysis are provided for the following paragraphs from IFRS 15 dealing with significant judgements and uncertainties (refer to Appendix B for detailed information):

- IFRS 15.124—performance obligations satisfied over time;
- IFRS 15.125—performance obligations satisfied at a point in time;
- IFRS 15.126—judgements relating to the transaction price;
- IFRS 15.127—judgements relating to the costs incurred to obtain or fulfil a contract.

5.1 *Performance Obligations Satisfied Over Time (IFRS 15.124)*

Table 2 includes the findings from the index study, while Table 3 shows the content analysis findings for performance obligations satisfied over time where management are required to disclose:

a. The methods used to recognise revenue; and
b. An explanation of why the methods applied provided a faithful depiction of the transfer of goods or services (IASB, 2022a).

The index study and thematic content analysis findings showed that most companies provided adequate disclosure regarding the requirements of IFRS 15.124(a) but that

Table 2 Index study findings of performance obligations satisfied over time

Year	Rating	IFRS 15.124(a)	IFRS 15.124(b)
Companies within the Telecommunications industry			
Initial adoption	Yes	5	5
	No	1	1
	N/A	0	0
First year post adoption	Yes	6	6
	No	0	0
	N/A	0	0
Second year post adoption	Yes	6	6
	No	0	0
	N/A	0	0
Companies within the Construction industry			
Initial adoption	Yes	5	5
	No	0	0
	N/A	0	0
First year post adoption	Yes	5	5
	No	0	0
	N/A	0	0
Second year post adoption	Yes	5	5
	No	0	0
	N/A	0	0

Source: Authors' analysis

Table 3 Thematic content analysis of performance obligations satisfied over time

Year	Rating	IFRS 15.124(a)	IFRS 15.124(b)
Companies within the Telecommunications industry			
Initial adoption	Excellent	3	0
	Standard	2	5
	Below standard	1	1
	Not applicable	0	0
First year post adoption	Excellent	3	0
	Standard	3	6
	Below standard	0	0
	Not applicable	0	0
Second year post adoption	Excellent	3	0
	Standard	3	6
	Below standard	0	0
	Not applicable	0	0
Companies within the Construction industry			
Initial adoption	Excellent	4	4
	Standard	1	1
	Below standard	0	0
	Not applicable	0	0
First year post adoption	Excellent	4	4
	Standard	1	1
	Below standard	0	0
	Not applicable	0	0
Second year post adoption	Excellent	4	4
	Standard	1	1
	Below standard	0	0
	Not applicable	0	0

Source: Authors' analysis

the disclosures of one company within the telecommunications industry were deemed below standard. This was due to the company omitting the disclosure. The disclosure was however included for the years post the initial adoption and was rated at a level of standard. This was due to the explanations provided that were seen as too general and not specific enough to the entity and its service offerings.

It was identified that another entity within the telecommunications industry provided an explanation that revenue would be recognised over time but was not consistent throughout the years in the classification. Upon inspection of the policy, it was identified that it was consistent for all three years but that the classification was applied inconsistently in the disaggregation of revenue note. Management did not provide additional disclosure to clarify the difference in classification from year to year and therefore this would reduce the comparability of the financial statements to the users as well as the understandability.

The disclosures made by the management of four of the companies within the construction industry achieved an excellent rating. These disclosures were considered to be in detail and would allow additional understanding by the users as to how the timing of revenue is recognised for contract revenue. The entities made specific disclosure surrounding the actual processes applied by management in determining the method for timing of the revenue recognition.

For example, some of the entities included in their disclosure, the methods applied to understand the transfer of the control over the contract, through the review process by the clients engineer or surveys of work performed used to determine progress. These explanations ensure that the user clearly understands managements' judgements in the transfer of the control for the services over time.

For IFRS 15.124b for the companies within the telecommunications industry, the financial disclosures have been assessed at a level of standard as the companies have provided general disclosure that the revenue for the services provided is recognised over the period of the contract in accordance with the units of services provided. The disclosure did not provide additional explanations to specify how the service is recognised and why this provides a faithful depiction of the transfer of services. Management could provide additional disclosure to explain the service and how the transfer of control takes place as to enhance the users understanding. This finding is in line with the findings of Coetsee et al. (2022) that also noted the lack of disclosure of how the method was applied and why that method will be a faithful depiction of the transfer of goods and services.

For the companies within the construction industry, the disclosures included discussion on whether the input or output method was applied along with the reasons as to why the chosen method faithfully depicts the transfer of control. Some companies included additional detail such as how each contract is evaluated to estimate the costs incurred in the construction contract or that surveys are completed to estimate the costs incurred and to measure the progress. These were specific to the entity and ensured that the process followed was set out clearly and explained why the method provided a faithful depiction of the transfer of control.

5.2 *Performance Obligations Satisfied at a Point in Time (IFRS 15.125)*

Table 4 includes the findings from the index study, while Table 5 shows the content analysis findings for performance obligations satisfied at a point in time where management are required to disclose the judgements made in determining when the control of good and services are transferred to the customer (refer Appendix B).

One company within the telecommunication industry failed to provide the disclosures at initial adoption of the standard. Upon review, it was found that the company had split the revenue recognition in the revenue note between the revenue recognised at a point in time and over time. However, this classification and the

Table 4 Index study findings of performance obligations satisfied at a point in time

Year	Rating	IFRS 15.125
Companies within the Telecommunications industry		
Initial adoption	Yes	5
	No	1
	N/A	0
First year post adoption	Yes	6
	No	0
	N/A	0
Second year post adoption	Yes	6
	No	0
	N/A	0
Companies with the Construction industry		
Initial adoption	Yes	5
	No	0
	N/A	0
First year post adoption	Yes	5
	No	0
	N/A	0
Second year post adoption	Yes	5
	No	0
	N/A	0

Source: Authors' analysis

judgements made by management were not further explained in the policies or notes. Therefore, this company received a rating below standard for this disclosure.

Post adoption the company included further disclosure to explain to the users that they have device sales and that these sales are recognised when the customers take possession of the goods. This information would have been useful to the users of the financial statements in their understanding during initial adoption. As these disclosures were provided in the years post adoption, the company achieved a rating of standard for the disclosure. The disclosure does explain the point in which the transfer of control takes place, but additional information is not provided to make this specific to the circumstances of when the possession is transferred and how this relates to the transfer of control.

Finally, three of the companies within the telecommunications industry provided additional disclosure relating to when the transfer of control takes place and therefore were classified as excellent disclosures. The disclosures have been enhanced by management in that one company included the considerations surrounding the potential right that a customers may have to return the goods (devices) and that revenue is only recognised to the extent that there is no remaining right to return the devices. Another company disclosed that the transfer of control would occur upon the delivery of the goods and when there is no unfulfilling obligation that could affect the customers' acceptance of the product. They further provided that delivery is only met once the goods have been delivered to a specific location and the risks of

Table 5 Thematic content analysis of performance obligations satisfied over time

Year	Rating	IFRS 15.125
Companies within the Telecommunications industry		
Initial adoption	Excellent	3
	Standard	2
	Below standard	1
	Not applicable	0
First year post adoption	Excellent	3
	Standard	3
	Below standard	0
	Not applicable	0
Second year post adoption	Excellent	3
	Standard	3
	Below standard	0
	Not applicable	0
Companies within the Construction industry		
Initial adoption	Excellent	2
	Standard	3
	Below standard	0
	Not applicable	0
First year post adoption	Excellent	3
	Standard	2
	Below standard	0
	Not applicable	0
Second year post adoption	Excellent	3
	Standard	2
	Below standard	0
	Not applicable	0

Source: Authors' analysis

obsolescence have been transferred to the customer. These explanations will supplement the users understanding of when the transfer of control takes place considering management's analysis of the specific situation.

For companies within the construction industry, one finding was identified during the assessment of the financial information. The company's disclosure was rated at standard upon initial adoption and excellent both years post-adoption. The company only had residential developments that were classified as recognised at a point in time. During the initial adoption, it was stated that the control transferred at a point in time or over time depending on the ownership. The disclosure did not provide more detail as to how the ownership would impact the classification and therefore could be considered to be vague and result in a misunderstanding by the users. Upon the first-year post-adoption, additional discussion was included in the disclosure to state that if the property is owned, it is classified as being recognised at a point in time. This therefore provided specific disclosure in terms of the company. During the inspection of the financial information in the second-year post-adoption further disclosure was provided that explained that the transfer would take place upon the issue of a completion certificate or registration if the development is owned. It was noted that management progressively provided additional disclosure that would improve the users understanding of the financial information.

5.3 Judgements Relating to the Transaction Price (IFRS 15.126)

Table 6 includes the findings from the index study, while Table 7 shows the content analysis findings for judgements relating to the transaction price where management is required to disclose the following (refer Appendix B):

a. The determination of the transaction price, including the estimate of variable consideration as well as the impact of the time value of money on the consideration.

Table 6 Index study findings of judgements relating to the transaction price

Year	Rating	IFRS 15.126 (a)	IFRS 15.126 (b)	IFRS 15.126 (c)	IFRS 15.126 (d)
Companies within the Telecommunications industry					
Initial adoption	Yes	6	3	6	2
	No	0	3	0	4
	N/A	0	0	0	0
First year post adoption	Yes	6	3	6	2
	No	0	3	0	4
	N/A	0	0	0	0
Second year post adoption	Yes	6	3	6	2
	No	0	3	0	4
	N/A	0	0	0	0
Companies within the Construction industry					
Initial adoption	Yes	5	4	2	5
	No	0	1	3	0
	N/A	0	0	0	0
First year post adoption	Yes	5	3	2	5
	No	0	2	3	0
	N/A	0	0	0	0
Second year post adoption	Yes	5	3	3	5
	No	0	2	2	0
	N/A	0	0	0	0

Source: Authors' analysis

Table 7 Thematic content analysis of judgements relating to the transaction price

Year	Rating	IFRS 15.126(a)	IFRS 15.126(b)	IFRS 15.126(c)	IFRS 15.126(d)
Companies within the Telecommunications industry					
Initial adoption	Excellent	4	2	3	2
	Standard	2	1	3	0
	Below standard	0	3	0	4
	Not applicable	0	0	0	0
First year post adoption	Excellent	3	2	4	2
	Standard	3	1	2	0
	Below standard	0	3	0	4
	Not applicable	0	0	0	0
Second year post adoption	Excellent	3	2	4	2
	Standard	3	1	2	0
	Below standard	0	3	0	4
	Not applicable	0	0	0	0
Companies within the Construction industry					
Initial adoption	Excellent	4	4	2	4
	Standard	1	0	0	1
	Below standard	0	1	3	0
	Not applicable	0	0	0	0
First year post adoption	Excellent	4	3	2	4
	Standard	1	0	0	1
	Below standard	0	2	3	0
	Not applicable	0	0	0	0
Second year post adoption	Excellent	4	3	3	4
	Standard	1	0	0	1
	Below standard	0	2	2	0
	Not applicable	0	0	0	0

Source: Authors' analysis

b. The assessment as to whether the estimate of variable consideration is constrained
c. The allocation of the transaction price, this includes how management estimates the stand-alone selling price of the promised goods or services; and
d. The measurement of obligations for returns, refunds, and other similar obligations.

5.4 IFRS 15.126(a)

The variable consideration is explained to be determined at the inception of the contract and that the revenue is recognised at the amount estimated by management. Most of the financial statements of the companies within the telecommunications industry received a rating of excellent and achieved this classification as management have included the disclosures relating specifically to the determination of the transaction price and whether variable consideration and significant financing components have been considered by management. Some of the disclosures that have enhanced the financial information include judgements by management relating to the specific products and services provided. One of the companies included the judgements for SIM, airtime and data products individually, ensuring that the users can fully understand how the transaction price is measured and how the consideration for each is determined.

For the companies within the construction industry, the transaction price is recognised in accordance with the contracts, with further consideration to the variable elements and the potential for a significant financing component. The rating has been considered mostly excellent as management have disclosed all of the required elements. This has further been applied to the circumstances of the entity. Management have enhanced the disclosures and specifically included when the practical expedient has been applied that allows for no significant financing component to be recognised when the term between payment and the satisfaction of the performance obligation is less than 12 months.

5.5 IFRS 15.126(b)

The requirements of paragraph b are specific to where variable consideration is a consideration by management and the terms in which the variable consideration is recognised as revenue. Per the index study this requirement was not met by three of the companies within the telecommunication industry. The remaining three companies have further included the related disclosure.

Based on the above, two of the three companies have included the variable consideration and applied it specifically to the entity and therefore received a rating of excellent. The remaining company included the disclosure in a more general nature and therefore a rating of standard has been achieved. Three of the companies did not include disclosure relating to constraint surrounding variable consideration. There would be expected to be disclosure relating to management considerations in this area. These disclosures are required to ensure that the users can understand the uncertainty over the revenue recognition; therefore the omission of the disclosure could hinder the decision usefulness of the financial statements. Coetsee et al. (2022) also found a lack of disclosure for some companies in their study regarding the estimate of variable consideration.

For companies within the construction industry, one company did not include the disclosure for any of the years under review. This company achieved a rating below standard for all three years. One of the companies rated upon initial adoption as excellent was subsequently rated as below standard for failing to include the specific disclosures. In the first year of adoption, the company provided detailed disclosure surrounding the variable consideration as to how it was determined and that it would only be recognised once the amount is considered highly probable. A subsequent explanation was then provided that this was based on industry related KPI's. This disclosure is specific to the entity and therefore the rating upon initial adoption was considered as excellent.

5.6 IFRS 15.126(c)

This paragraph requires management to include judgements as to how they allocate the transaction price to the performance obligations within the contract. All companies within the telecommunications industry included the disclosure required per the standard, while three companies within the construction industry did not.

A rating of excellent was achieved for three of the companies within the telecommunications industry upon initial adoption and four companies in the years post-adoption. A rating of excellent was achieved where management included additional disclosure as to how the stand-alone selling price was determined. Upon inspection of the financial statements, it was noted that management included that the stand-alone selling price may be based on the listed price list or the market value. One of the financial statements included exceptional explanations of the process followed by detailing that they maximise external inputs or that the stand-alone selling price is based on the goods of similar products in the external market.

Three companies within the construction industry received a below standard rating for the initial and first-year post-adoption for not providing the necessary disclosures. One of the companies was identified to have not included any disclosure on this requirement in the year of initial adoption or within the first-year post-adoption but did include this in the second-year post adoption. Upon inspection of the financial statements the disclosure provided was detailed and explained all the instances in which the contracts would be considered separately or as a single construction contract. This disclosure provided a holistic view of the performance obligations and management judgements made in the determination of the allocation to the contracts.

The remaining companies were rated at a level of excellent for their disclosure. Where this rating was achieved, management have explained their rationale on determining whether the contracts contain a single or multiple performance obligation.

5.7 IFRS 15.126(d)

Based on the assessment of the financial statements of companies within the telecommunications industry, it was identified that four of the companies did not provide disclosure relating to whether there were any considerations by management as to potential refunds, returns or warranties. It would be expected that management would have included disclosure relating to this requirement. Where the disclosure is not considered significant, this would be relevant to the users of the financial statements to enhance the decision usefulness of the financial information. Therefore, these financial statements received a rating below standard. Management should include disclosure surrounding the judgements made relating to refund, returns and warranties even if these are not considered significant and the reasons why they have concluded them to not be significant.

For companies within the construction industry, most of the disclosures were rated as excellent for this requirement. The rating was achieved as the company provided detailed disclosure as to what the retentions were for and when they will be recognised as revenue. This disclosure enhanced the users understanding. The companies classified within this category provided that the revenue from the retentions would be recognised once the defect liability period have lapsed and once all of the conditions were met. One company even explained further that these retentions guarantee the performance of a contractor and safeguard against future defect in the defect liability period. These retentions are based on the percentage applied in the contracts.

5.8 Judgements Relating to the Costs Incurred to Obtain or Fulfil a Contract (IFRS 15.127)

Table 8 includes the findings from the index study, while Table 9 shows the content analysis findings for judgements relating to the costs incurred to obtain or fulfil a contract (refer Appendix B):

(a) Judgements relating to the determination of the costs incurred to obtain or fulfil a contract with a customer; and
(b) The method applied in amortising this asset over the period.

Table 8 Index study findings of judgements relating to the costs incurred to obtain or fulfil a contract

Year	Rating	IFRS 15.127(a)	IFRS 15.127(b)
Companies within the Telecommunications industry			
Initial adoption	Yes	4	4
	No	0	0
	N/A	2	2
First year post adoption	Yes	3	3
	No	1	1
	N/A	2	2
Second year post adoption	Yes	4	4
	No	1	1
	N/A	1	1
Companies within the Construction industry			
Initial adoption	Yes	1	0
	No	4	5
	N/A	0	0
First year post adoption	Yes	2	1
	No	3	4
	N/A	0	0
Second year post adoption	Yes	2	1
	No	3	4
	N/A	0	0

Source: Authors' analysis

For the telecommunications industry costs to obtain or fulfil a contract relate to the discretionary renewal bonuses at the renewal date, incremental acquisition costs for renewing contracts, subscriber acquisition costs and deferred customer acquisition costs. Where the disclosure was rated as excellent, management have provided that these costs are incurred specifically in relation to the contracts and therefore are capitalised. These costs are considered recoverable and therefore have been recorded as an asset (contract cost asset) and amortised.

One company included the relevant disclosure upon initial adoption but omitted the disclosure in both years post adoption. Per inspection of the financial statements all of the periods under review have contract cost assets on the balance sheet. For these financial statements a rating below standard has been achieved. This disclosure would be required in order to understand why these costs were capitalised as opposed to being expensed and therefore the limitation of this disclosure reduces the decision usefulness of the financial statements.

Two of the companies within the population do not have contract costs assets reflecting on their balance sheet and therefore no disclosure has been provided relating to the potential costs to obtain or fulfil a contract. In order to enhance the financial information management could provide additional disclosure as to their judgements in determining that there are no costs to be considered or what they have

Table 9 Thematic content analysis of judgements relating to the costs incurred to obtain or fulfil a contract

Year	Rating	IFRS 15.127(a)	IFRS 15.127(b)
Companies within the Telecommunications industry			
Initial adoption	Excellent	4	4
	Standard	0	0
	Below standard	0	0
	Not applicable	2	2
First year post adoption	Excellent	3	3
	Standard	0	0
	Below standard	1	1
	Not applicable	2	2
Second year post adoption	Excellent	4	4
	Standard	0	0
	Below standard	1	1
	Not applicable	1	1
Companies within the Construction industry			
Initial adoption	Excellent	0	0
	Standard	1	0
	Below standard	4	5
	Not applicable	0	0
First year post adoption	Excellent	0	0
	Standard	2	1
	Below standard	3	4
	Not applicable	0	0
Second year post adoption	Excellent	0	0
	Standard	2	1
	Below standard	3	4
	Not applicable	0	0

Source: Authors' analysis

considered. If these costs are being expensed due to the period being less than 12 months this should explicitly be stated as to ensure that the users have a complete understanding of these costs.

Most of the companies within the telecommunications industry provided clear explanations as to how these assets are amortised. This was included in a manner that explained that the asset was amortised using a straight-line or systematic basis over the period of the contract or average customer contract term. The average term considered by management was included in the disclosure and therefore is considered useful in the users understanding of the period applied. Where the amortisation period was considered to be less than twelve months management has included that the practical expedient from IFRS 15 has been applied and the costs have been expensed as opposed to capitalised.

No company within the construction industry received a rating of excellent for IFRS 15.127(a) or IFRS 15.127(b). This was due to disclosures being provided that was seen to be more general in nature and that as the practical expedient is applied no contract cost assets have been recognised. The companies did include that they pay costs to the employees relating to certain types of contracts that they obtain. Additional disclosure as to what contracts the commission is paid could be made so as to enhance the usefulness of the financial statements.

Several companies within the construction industry received a rating below standard where sufficient disclosure was not included regarding contract costs where it would be expected that such costs do exist. It was further noted that there were insufficient disclosure on whether and how the costs were amortised. Even if the companies decided to apply the practical expedient, sufficient disclosure of the fact should have been made.

6 Conclusion

The objective of this paper was to explore the sufficiency of the disclosures made by management, of JSE listed companies, within the telecommunications and construction industry. These disclosures specifically related to the significant judgements and uncertainties made, as specified within IFRS 15. The disclosures have been assessed per the requirements provided in IFRS 15.124 to IFRS15.127 to determine whether all of the disclosures are presented within the financial statements and if they inform useful decision-making among the users of the financial statements.

Due to the complexities identified within the implementation of IFRS 15, the study focused on companies within the telecommunications and construction industry. All (6) of the telecommunications companies listed on the JSE have been included in the study. The selection of the construction companies followed a logical approach. The process isolated the companies within the industrial sector and then further explored to identify the companies that provided construction as part of their main operations. Finally, all (6) of these companies were selected. One of the companies has voluntarily deregistered from the JSE and therefore has not been included in the study for the construction industry. Five companies were therefore included as part of the study.

The investigation identified that the disclosures relating to the judgements and uncertainties are sporadic and inconsistent in how management has applied them. Based on the assessment of the periods under review it can be noted that the disclosures are not consistent year on year. All of the disclosures have been identified as relevant to the construction industry; therefore, no disclosures are considered not applicable. Within the telecommunications industry, two companies have not included disclosure relating to IFRS 15.127. These were considered to be not applicable as there are no contract costs assets for the periods.

Both the results for the telecommunications and construction industry identified that over the period under review, management has increasingly improved the existence of the disclosures and an increase in the required disclosures has been included in the subsequent years. Therefore, upon review of the financial statements, management has improved the financial information, which would improve the usefulness of the disclosures for the users.

The thematic content analysis was performed to assess whether the disclosure made relating to the judgements and uncertainties by management are considered to be excellent, standard, below standard or not applicable. The quality of the disclosures relating to the telecommunications industry have been identified as inconsistent over the periods. When investigating IFRS 15.127, the disclosures fluctuate based on one company including relevant disclosure in the second-year post adoption and one company omitting the relevant disclosure in both years post adoption. This has resulted in the movement in the disclosures classified as excellent for the telecommunications industry fluctuating from 46% during initial adoption to 43% first year post adoption to 46% second year post adoption.

The standard rated disclosure follows an expected trend of improvement year on year. Intrinsically, this results in the expected reduction in the below standard disclosures over the period as the disclosures have been enhanced by management over the periods under review and therefore less disclosures have been rated as below standard.

The construction industry findings have followed the expected patterns in that the excellent and standard disclosures have increased over the periods. Thereafter, the percentage of the population achieving a below standard rating has decreased over the period. This has further evidenced an improvement by management in applying the specified disclosures and enhancing the financial information for the users as to ensure that they are useful for decision making.

Limitations

The companies selected are all listed on the JSE within the construction and telecommunications industry. This scope therefore provides for a limitation of the findings and therefore may not be an accurate representation of other industries such as financial institutions, mining and retail. Additionally, the findings may not reflect that of countries other than that of South African companies (Marx & Van Dyk, 2011).

Future Research

Further research could be performed on companies not listed on the JSE and companies within industries other than the telecommunication or construction industry. This also extends to companies that are not in South Africa. Studies could be performed as to assess the level of compliance of these other companies from an international perspective.

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