Beyond the GAAP
Mazars’ newsletter on accounting standards

Contents

Editorial

As announced last month, the IASB has begun to publish a number of exposure drafts. With consultation deadlines phased from June to September, these will keep stakeholders busy throughout the summer.

As if they needed to be! We are coming up to the period of half-yearly financial statements, and of the first application of IFRS 16 on Leases. To help you, our special studies consider the (other) new standards that have come into effect since the beginning of the year, as well as the provisions applicable under IFRS 16. We also return to some aspects of the application of IFRS 15 – Revenue on contracts with customers that call for particular attention.

Enjoy your reading!

Edouard Fossat                        Isabelle Grauer-Gaynor
IFRS highlights

Improvements to IFRSs – 2018-2020 Cycle

On 21 May 2019, the IASB published its draft Improvements to IFRSs – 2018-2020 cycle (ED/2019/2). The amendments proposed by the IASB relate to the following standards and topics:

- **IFRS 1 – First-time Adoption of International Financial Reporting Standards:**
  The amendment proposes to require a subsidiary adopting IFRSs after its parent and that elects to apply paragraph D16(a) to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRSs.

- **IFRS 9 – Financial instruments:**
  The amendment clarifies the fees that an entity should include in the ‘10 per cent’ test for derecognition of financial liabilities. Only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf, would be included in this test.

- **IFRS 16 – Leases:**
  The Board proposes to amend Illustrative Example 13 of IFRS 16 to remove the example of payments from the lessor relating to leasehold improvements incurred by the lessee. In its original form, Illustrative Example 13 was a source of confusion regarding the treatment of lease incentives.

- **IAS 41 – Agriculture:**
  The amendment proposes to remove the requirement in paragraph 22 under which entities must exclude cash flows for taxation when measuring the fair value of a biological asset.

No application date for these amendments is mentioned in the exposure draft. The IASB intends to clarify this after the consultation period. Comments are to be received by 20 August 2019. The exposure draft can be consulted at:  

Draft narrow-scope amendments to IFRS 3

On 30 May, the IASB published an ED proposing limited amendments to IFRS 3 – Business combinations

The main aim of these amendments is to update the reference to the Conceptual Framework, referring to the 2018 text rather than the earlier 1989 version.

Since updating this reference could entail consequences (as the definition of assets and liabilities in the 2018 Conceptual Framework differs from that in the previous version) that are likely to generate gains or losses after accounting for the business combination (i.e., some assets and liabilities recognised as part of the business combination might not meet the definitions of other IFRSs and could therefore require immediate derecognition), the IASB proposes to amend IFRS 3 to clarify that, for transactions and other events within the scope of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 – Levies, an acquirer must apply these standards to identify the liabilities assumed in a business combination.

Finally, the IASB proposes to add an explicit statement to the effect that an acquirer should not recognise any assets acquired in the course of a business combination. At present this statement appears in the Bases for Conclusions which accompany the standard, but is not an integral part of it.

The application date of these amendments will be announced by the IASB after the comments period, which ends on 27 September 2019. The exposure draft can be consulted at:  

European highlights

ESEF regulation published in the OJEU

On 29 May the European Commission published a Regulation concerning the single electronic reporting format (ESEF), requiring listed entities in the European Union to file their consolidated financial statements under IFRSs in electronic format, using Inline XBRL specifications and the taxonomy established by ESMA, which is based on the IFRS taxonomy defined by the IFRS Foundation.

In practical terms, the regulation sets out the timetable and methods for this new obligation:

- primary financial reports containing financial statements for financial years beginning on or after 1 January 2020 must be filed in this format. All the lines and sub-totals on these statements must be tagged;
- for financial years beginning on or after 1 January 2022, the notes must also be submitted using this format, with text block tagging as a minimum.
The annex to the Regulation contains the technical standards prepared for the Commission by ESMA, along with the list of all the taxonomy tags to be used. This list will be amended annually to reflect the IFRS Foundation’s updates to its own taxonomy.

Hot on the heels of this publication, the European Commission produced a document containing 15 Q&A explaining the aims and benefits of this reporting format and the obligations it entails, in particular in terms of certification.

Finally, ESMA publishes a reporting manual and videos on its website to assist entities in implementing the new format.


The ESMA page on the ESEF can be found at: https://www.esma.europa.eu/policy-activities/corporate-disclosure/european-single-electronic-format

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**Crossword: last month’s solution**

INTERCHANGEABLE

LOT A FA

INVENTORY SELLING

FAULKENBERT

HARVEST

REVERSED

THREE A

FIFTEEN

BORROWING

REALISABLE

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Crossword:
Financial statements are a breeze!

Across
1. Term used by IAS 1 for the recording of other comprehensive income in the income statement
4. Prohibited by IAS 1 between assets and liabilities or between income and expenses, unless required or authorised by another standard
7. When it isn't, such an item must not be presented separately
9. When an entity considers that they are more relevant, their application and description in the notes should not replace the application of those defined by IFRSs
15. The statement of profit or loss is an integral part of this income statement
16. IAS 1 is a standard of this kind
17. Where management is set on this path, the financial statements must be presented on a basis other than IFRS
19. Integral part of a complete set of financial statements
20. When not presented by nature, items in the income statement are presented in this way
21. Departing from a requirement compliant with an IFRS is only possible if the application in accordance with that requirement would lead to such a presentation

Down
2. The current/non-current distinction is based on the duration of this cycle
3. No primary statement is more than another
5. A particular one is not required by IAS 1 for primary statements
6. IAS 1 requires the presentation of additional lines or sub-totals in accordance with this principle
8. When these are significant to estimates, they must be described in the notes
10. Number of primary financial statements to be presented
11. IAS 1 does not insist on separate presentation of this intangible asset under all circumstances
12. Alternative basis of presenting the current and non-current distinction in the statement of financial position
13. Declaration required by IAS 1
14. These, relating to equity, are presented in a primary statement
18. Minimum number of comparative reporting periods to be presented
A Closer Look

Standards and interpretations applicable at 30 June 2019

To coincide with the preparation of interim financial reports, Beyond the GAAP presents an overview of the IASB’s most recent publications. For each text, we clarify whether it is mandatory for this closing of accounts, or whether early application is permitted, based on the EU endorsement status report (Position at 28 March 2019): 
http://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FEFRAG%2520Endorsement%2520Status%2520Report%252028%2520March%25202019%2520.pdf

As a reminder, the following principles govern the first application of the IASB standards and interpretations:

1. The IASB’s exposure-drafts cannot be applied as they are not published standards.
2. The IFRS IC’s draft interpretations may be applied if the two following conditions are met:
   - The draft does not conflict with currently applicable IFRSs;
   - The draft does not modify an existing interpretation which is currently mandatory.
3. Standards published but not yet adopted by the European Union may be applied if the European adoption process has been approved by the relevant authority (i.e. usually the board of directors).

4. Interpretations published but not yet adopted by the European Union at the end of the interim financial reporting period may be applied unless they conflict with standards or interpretations currently applicable in Europe.

It should also be noted that under IAS 34 “Interim Financial Reporting”, the changes in accounting policies required by new standards must also be disclosed in the interim financial reporting published during the course of the year.

1. Situation of European Union adoption process for standards and amendments published by the IASB

<table>
<thead>
<tr>
<th>Standard</th>
<th>Subject</th>
<th>Effective date according to the IASB</th>
<th>Date of publication in the Official Journal</th>
<th>Application status at 30 June 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amendments to IFRS 9</td>
<td>Prepayment Features with Negative Compensation (issued on 12 October 2017)</td>
<td>1/01/2019 Early application permitted</td>
<td>26 March 2018 Effective for annual periods beginning on or after 1 January 2019</td>
<td>Mandatory</td>
</tr>
<tr>
<td>IFRS 14</td>
<td>Regulatory Deferral Accounts (issued on 30 January 2014)</td>
<td>1/01/2016 Early application permitted</td>
<td>9 November 2017 Effective for annual periods beginning on or after 1 January 2019</td>
<td>Not permitted</td>
</tr>
<tr>
<td>IFRS 16</td>
<td>Leases (issued on 13 January 2016)</td>
<td>1/01/2019 Early application permitted</td>
<td>Awaiting endorsement by the EU (date not yet announced)</td>
<td>Not permitted</td>
</tr>
<tr>
<td>IFRS 17</td>
<td>Insurance Contracts (issued on 18 May 2017)</td>
<td>1/01/2021 Early application permitted</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### 1. Situation of European Union adoption process for standards and amendments published by the IASB (end)

<table>
<thead>
<tr>
<th>Standard</th>
<th>Subject</th>
<th>Effective date according to the IASB</th>
<th>Date of publication in the Official Journal</th>
<th>Application status at 30 June 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual improvements to IFRSs 2015-2017 Cycle</strong></td>
<td>Annual improvements to various Standards (issued on 12 December 2017)</td>
<td>1/01/2019 Early application permitted</td>
<td>15 March 2019 Effective for annual periods beginning on or after 1 January 2019</td>
<td>Mandatory</td>
</tr>
<tr>
<td><strong>Amendments to IAS 28</strong></td>
<td>Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017)</td>
<td>1/01/2019 Early application permitted at the same time as IFRS 9</td>
<td>11 February 2019 Effective for annual periods beginning on or after 1 January 2019</td>
<td>Mandatory</td>
</tr>
<tr>
<td><strong>Amendments to IAS 19</strong></td>
<td>Plan Amendment, Curtailment or Settlement (issued on 7 February 2018)</td>
<td>1/01/2019 Early application permitted</td>
<td>14 March 2019 Effective for annual periods beginning on or after 1 January 2019</td>
<td>Mandatory</td>
</tr>
<tr>
<td><strong>Amendments to IFRS 10 and IAS 28</strong></td>
<td>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014)</td>
<td>Postponed Early application permitted</td>
<td>Deferring</td>
<td>Permitted (2)</td>
</tr>
<tr>
<td><strong>Amendments to the Conceptual Framework</strong></td>
<td>Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)</td>
<td>1/01/2020</td>
<td>Awaiting endorsement by the EU (expected in 2019)</td>
<td>Not permitted</td>
</tr>
<tr>
<td><strong>Amendment to IFRS 3</strong></td>
<td>Definition of a business (issued on 22 October 2018)</td>
<td>1/01/2020 Early application permitted</td>
<td>Awaiting endorsement by the EU (expected in 2019)</td>
<td>Permitted (2)(2)</td>
</tr>
<tr>
<td><strong>Amendments to IAS 1 and IAS 8</strong></td>
<td>Definition of Material (issued on 31 October 2018)</td>
<td>1/01/2020 Early application permitted</td>
<td>Awaiting endorsement by the EU (expected in 2019)</td>
<td>Permitted (1)</td>
</tr>
</tbody>
</table>

(1) If the amendment is a clarification of an existing standard and is not in contradiction with current standards
(2) If the entity had not developed an accounting policy

### 2. Situation of European Union adoption process for interpretations published by the IFRS IC

<table>
<thead>
<tr>
<th>Standard</th>
<th>Subject</th>
<th>Effective date according to the IASB</th>
<th>Date of publication in the Official Journal</th>
<th>Application status at 30 June 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRIC 23</td>
<td>Uncertainty over Income Tax Treatments (issued on 7 June 2017))</td>
<td>1/01/2019 Early application permitted</td>
<td>24 October 2018 Effective for annual periods beginning on or after 1 January 2019</td>
<td>Mandatory</td>
</tr>
</tbody>
</table>
A Closer Look

IFRS 16: Disclosures required in the first interim financial statements

IFRS 16 – Leases came into effect on 1 January 2019. The first interim financial statements, which are usually presented in a condensed format in accordance with IAS 34 – Interim Financial Reporting, must take account of the implementation of the new standard.

1. Interim financial report in accordance with IFRS 16

The condensed interim financial report to 30 June 2019 must include, in accordance with IAS 34, and in conjunction with IFRS 16:

a) a condensed statement of financial position that takes account of the new principles for presentation of the statement of financial position in IFRS 16 and the elections made by the entity for the presentation of lease assets and lease liabilities;

Readers will remember that IFRS 16 permits entities to either present right-of-use assets separately from other assets or aggregate them with the line items representing the underlying fixed assets. Similarly, lease liabilities may be either presented separately, or aggregated with other liability line items.

b) one or more condensed statements of profit and loss and other comprehensive income;

c) a condensed statement of changes in equity:

This statement shall include a separate line item for the impact of the change of accounting principle on opening equity (i.e. at 1 January 2018 if the full retrospective approach is used and only one comparative period is presented, or at 1 January 2019 if the modified retrospective approach is used);

d) a condensed statement of cash flows; and

e) a selection of explanatory notes:

- IAS 34 requires an explanation of significant events and transactions to enable users to understand how the entity’s financial position and performance have changed since 31 December 2018. These disclosures must update the relevant information contained in the most recent annual report.

- IAS 34 also includes a minimum list of disclosures required in the notes (or elsewhere in the interim financial reporting, incorporated by cross-reference to the interim financial statements) including a description of the nature and impact of the change of accounting policy in response to the introduction of the new standards (IFRS 34.16 A (a)).

Entities may also need to disclose any other information that is relevant, particularly if IFRS 16 has a significant impact.

In its 2018 year-end enforcement priorities, ESMA noted that once IFRS 16 is applied, disclosures required by Appendix C of the standard relating to the initial application and chosen method of transition need to be provided. This applies in our view to the first financial statements issued in the first year of application, i.e. to the interim financial statements, as well as to the annual financial statements.

It had also indicated that it should be expected that users would try to make a link between minimum lease payments for operating leases based on the requirements of IAS 17 and IFRS 16 impacts and therefore encouraged entities to provide an explanation for any differences between these two amounts. In our view, this disclosure is more particularly relevant in the interim financial statements if the entity had not provided such explanation in the 2018 annual financial statements.

2. Transition disclosures required under IFRS 16

IFRS 16 – Leases offers lessees the choice between:

- full retrospective application (which involves restating the comparative financial statements presented and disclosing the impact of first-time application on opening equity for the first comparative period presented);

- or modified retrospective application (which involves recognising the impact of first-time application on equity at the transition date, i.e. at 1 January 2019).

Therefore, the transition disclosures required under IFRS 16 differ depending on the transition approach chosen by the entity.

Full retrospective approach

If the entity has elected to use the full retrospective approach, IFRS 16 refers back to IAS 8. In this case, the entity shall disclose the following information on first-time application of IFRS 16 (IAS 8.28):
a) the title of the IFRS;
b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;
c) the nature of the change in accounting policy;
d) when applicable, a description of the transitional provisions;
e) when applicable, the transitional provisions that might have an effect on future periods;
f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
   § for each financial statement line item affected; and
   § if IAS 33 – Earnings per Share applies, for basic and diluted earnings per share;
g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
h) if the required retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Modified retrospective approach

If the entity has elected to use the modified retrospective transition approach, IFRS 16 states (IFRS 16.C12) that the entity shall disclose all the information required by paragraph 28 of IAS 8, except for the information required by 28(f), i.e. the amount of the adjustment for each financial statement line item affected, and for earnings per share.

This amendment to the requirements of IAS 8 stems from the fact that the modified retrospective approach prohibits entities from restating comparative information presented (in the primary financial statements and in the notes). However, if it wishes, an entity may still present this information outside the financial statements. This “non-financial” reporting would thus fall within the scope of ESMA’s Guidelines on Alternative Performance Measures, as recalled by ESMA in its 2018 European Common Enforcement Priorities.

Instead of this information, IFRS 16 requires first-time adopters using the modified retrospective approach to disclose the following (IFRS 16.C12):

- the weighted average lessee’s incremental borrowing rate applied to lease liabilities at the date of initial application; and
- an explanation of any difference between (i) operating lease commitments disclosed applying IAS 17 (i.e. the amount of commitments disclosed immediately preceding the date of initial application), discounted using the incremental borrowing rate at the date of initial application; and (ii) lease liabilities recognised at the transition date.

Finally, as the modified retrospective approach permits entities to choose from a list of available practical expedients (i.e. applying a single discount rate to a portfolio of leases with reasonably similar characteristics, relying on assessments made under IAS 37 immediately before the transition date rather than carrying out an impairment test, not restating leases with a remaining term of less than 12 months, excluding initial direct costs, etc.), entities that elected to apply this transition approach shall disclose which of these practical expedients they used.

3. Presentation of an additional balance sheet in the interim financial statements

If an entity elects to apply the full retrospective approach, there is no obligation to present an additional balance sheet at the start of the earliest period presented. The presentation of a "third balance sheet" (generally at 31 December 2017) is only required in the 2019 annual financial statements. However, an entity may elect to present this information in the financial statements to 30 June if IFRS 16 has a significant impact.

The question of whether or not to present an additional balance sheet does not arise if the entity uses the modified retrospective transition approach, as this approach prohibits restatement of comparative information presented.

4. Benchmarking

The interim and annual financial reports of the few companies that elected to early apply IFRS 16 provide a useful benchmark for others.

The companies that elected to early apply IFRS 16 and chose a full retrospective approach include Air France-KLM and Nestlé.

The companies that opted for early application and chose a modified retrospective approach include Publicis, SES and Nexity.
Key points to remember

- As from the 2019 interim financial statements (generally drafted at 30 June), it is necessary to give detailed information on the first application of IFRS 16. The amount of information required depends on the level of impact identified.

- The important information to be presented in the financial statements at 30 June 2019 is as follows:
  - A description of the accounting policies and methods for leases; the presentation option chosen (separate or in aggregate); whether the entity used the practical expedients for short-term leases or leases for which the underlying asset is of low value; and the key judgements made (assessing whether a contract contains a lease, determining the lease term and the discount rate, and separating out non-lease components).
  - The transition approach chosen, and the elections made for this approach:
    - Whether the entity has elected to use the practical expedient that permits it to apply the provisions of IFRS 16 to contracts identified as leases in accordance with IAS 17 and IFRIC 4 (rather than reassessing them in light of the new definition).
    - If the entity has elected to apply the modified retrospective approach, the method used to measure the right-of-use asset (at its carrying amount as if IFRS 16 had been applied since the commencement date or at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised immediately before the date of initial application); any practical expedients that the lessee has used from the list in paragraph C10 (i.e. applying a single discount rate to a portfolio of leases with reasonably similar characteristics, relying on assessments made under IAS 37 immediately before the transition date rather than carrying out an impairment test, not restating leases with a remaining term of less than 12 months, excluding initial direct costs, etc.); and the key judgements made at the transition date (e.g. whether the incremental borrowing rate is calculated with reference to the remaining term or the original lease term).
  - Quantitative disclosures should make it possible to measure the extent of the change of accounting principle:
    - If the entity has elected to use the full retrospective approach: the effect of the change for the financial statements line items impacted by IFRS 16 in the comparative periods presented (i.e. for 2018 at a minimum);
    - If the entity has elected to use the modified retrospective approach: the effect of the change on the line items impacted by IFRS 16 at 1 January 2019, and all significant information relating to first-time application required by Appendix C, especially the lessee’s weighted average incremental borrowing rate applied to lease liabilities at the date of initial application and an explanation of the difference between (i) the amount of commitments disclosed applying IAS 17 immediately preceding the date of initial application, discounted using the average incremental borrowing rate at the date of initial application; and (ii) lease liabilities recognised at the transition date.
A Closer Look

IFRS 15: Learning points from disclosures in the notes at 31 December 2018

Following the publication of the first annual consolidated IFRS financial statements applying IFRS 15, we examined the financial reporting (financial statements and other elements of financial communication) of a sample of 70 European groups at 31 December 2018. This has enabled us to identify the key lessons to be learned on some of the major issues relating to disclosures required in the notes.

We decided to focus on two key requirements of the standard: the disclosures required on disaggregation of revenue and the disclosures relating to the transaction price allocated to unsatisfied performance obligations (or in other words, the "order backlog", defined and measured in accordance with IFRS 15). These two issues raised a lot of questions from preparers of financial statements prior to initial application of IFRS 15, and regulators are therefore paying close attention to these topics.

Our study aims to examine the decisions made by the groups in our sample, and to identify good practice. It also puts forward some points for consideration in the future, with a view to improving and enriching disclosures in the notes.

1. Characteristics of the sample

We used the same sample selection criteria as in our previous studies on implementation of IFRS 15 (cf. Beyond the GAAP no. 109 – March 2017, and no. 114 – September 2017), analysing the financial reporting of industrial and services companies from the Eurostoxx 50, CAC 40 and Next 20, with the exception of those whose financial reporting did not coincide with the calendar year. This gave us a sample of 70 European companies:

All of the charts and tables in this study have been produced by Mazars, based on data gathered from the financial statements and other elements of financial reporting (management reports, press releases, etc.) published by the companies in our sample for the period to 31 December 2018.

The extracts from financial reporting that follow are provided as illustration only, and are not intended to represent the whole range of good practices identified when analysing the financial communication of the sample.
2. Disaggregation of revenue: application of IFRS 15 results in more detailed reporting

Unlike the standards that it replaced, IFRS 15 contains substantive and detailed requirements for revenue-related disclosures.

In particular, IFRS 15 now requires entities to disaggregate revenue in such a way as to enable users of the financial statements to understand the main drivers of revenue, by showing how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

In its 2018 European Common Enforcement Priorities, ESMA emphasised the importance of determining the appropriate revenue disaggregation categories and providing additional information where required. It encouraged entities to take into account the principles and examples provided in the standard, as well as the information provided in the segment information and the information presented in financial communication documents other than the financial statements. This could require entities to present a more detailed disaggregation than required by IFRS 8.

Although this information should already have been included in the 2018 interim financial statements, we were interested in investigating how this played out in practice at 31 December 2018, when the first annual consolidated financial statements applying IFRS 15 were published.

Of the 35 groups that presented additional disclosures:
- 29 groups presented one or more new revenue disaggregation categories in a table, with some cross-referencing them to pre-existing categories;
- 4 groups reworked their segment information, cross-referencing it to the categories used historically;
- 2 groups presented new information on the timing of the transfer of goods and services in a narrative format.

It should be noted that, of the 35 groups that did not present any additional disclosures, only five were materially impacted by the implementation of IFRS 15.

Among the companies in the sample, the number of categories used ranged between 1 and 4, with nearly all the groups in the sample (91%) using at least two categories. Moreover:
- the large majority of groups (84%) disaggregated revenue using two or three categories including ‘Geographical region’ and ‘Type of good or service’;
- 9% of groups disaggregated revenue using only a single category (‘Geographical region’ or ‘Type of good or service’);

† Assessing materiality requires the use of judgement
7% of groups disaggregated revenue using four categories (including ‘Geographical region’ and ‘Type of good or service').

In summary, while in general companies have provided more detailed information on revenue, it should be noted that IFRS 15 does not only require entities to disaggregate revenue into relevant categories in order to achieve the objectives discussed above, but also to disclose information that will enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue and revenue information that is disclosed for each reportable segment in accordance with IFRS 8 (cf. IFRS 15.115). On this topic, an illustrative example in the standard (IFRS 15.JE211) includes a cross-tabulation showing the relationship between disaggregation of revenue (by geographical region, type of good or service and timing of transfer of goods/services) and segments reported in accordance with IFRS 8 (which happen to be the group’s main business segments).

However, our study shows that the relationship with IFRS 8 segment information is not always clearly shown (even though, as noted above, many groups have presented more detailed revenue disclosures following application of the standard). While some preparers may have run up against issues relating to the availability of certain information, it is nonetheless important to point out that this requirement is a key enforcement priority for ESMA. Finally, it should be noted that another of the enforcers’ priorities is consistency in the level of detail of disaggregation of revenue between the other financial disclosures and the financial statements. Thus, if a category is used for analysis outside the financial statements, it should probably also be used for the disaggregation of revenue in order to meet the objectives of IFRS 15.

Extract from Notes to the Consolidated Financial Statements – Thales 2018 Registration Document:

Key points to remember

- It is not always necessary to add new revenue disaggregation categories in order to meet the requirements of IFRS 15. The categories that have historically been used – particularly for segment reporting in accordance with IFRS 8 – may be adequate. Remember that the objective is to disaggregate revenue “into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors” (IFRS 15.114). However, an assessment should always be carried out in order to document that this point has been addressed and to identify any additional categories that may be required in order to meet the objective set out in IFRS 15. In practice, half of the groups in our sample presented additional details on the disaggregation of revenue at 31 December 2018, compared with the information that had historically been presented.

- It is important – applying IFRS 15.115 – to show the connection between disclosures of disaggregated revenue and IFRS 8 disclosures on revenue information for each reportable segment. Users of financial statements must be able to “understand the relationship” between these two sources of information; a cross-tabulation could be useful in order to meet this requirement. In practice, our study showed that this connection was rarely made.

- Finally, revenue disaggregation disclosures in the notes to the financial statements must be consistent with information presented in other elements of financial reporting. It is likely that an analysis presented in non-financial communication is relevant information that should be taken into account in the disaggregation of revenue in order to meet the objectives of IFRS 15.
3. “Order backlog”: what disclosures are presented within and outside the financial statements?

Forty-one groups did not present any disclosures on their “order backlog”, either in the financial statements or in any other element of their financial reporting. Of these:

- 36 groups (i.e. nearly 90%) were not materially impacted by IFRS 15;
- of the five groups that were materially impacted, one group (Valeo) stated that its framework agreements with clients did not create enforceable rights and obligations at year-end; two groups explicitly presented disclosures on the application of practical expedients permitted under IFRS 15.121 (Accor and Publicis).

Furthermore, 17 groups in the sample (24%) explicitly stated that they had used one or both of the practical expedients permitted by the standard, which allow entities to exclude certain contracts from the “order backlog”, defined and measured in accordance with IFRS 15. We surmise that several groups that did not present their “order backlog” in the financial statements had probably also used the practical expedients, given their area of activity, although they did not explicitly state that they had done so. We remind readers that this is one of ESMA’s enforcement priorities: issuers are expected to provide an explanation of the practical expedients used.

Quantitative breakdown or qualitative segment information?

Although IFRS 15 does not require a quantitative breakdown or segment information for the order backlog, we noted that 1/3 of the groups in the sample that presented their order backlog in the financial statements (i.e. 9 of the 27 groups that included this disclosure in the notes) voluntarily provided this information.

We also noted that seven of these nine groups presented the breakdown of the order backlog using the same categories as for the disaggregation of revenue.

Was comparative information restated?

Readers will remember that, on transition, the presentation of comparative information on the order backlog is:

- not applicable for groups using the modified retrospective approach;
- required for groups using the full retrospective approach.

However, IFRS 15.C5 (d) permits a practical expedient for transition, under which an entity need not disclose comparative information on the “order backlog”.

Of the groups applying the full retrospective approach that presented their “order backlog” in accordance with IFRS 15 in the financial statements (i.e. 13 groups), four presented restated comparative information for 2017: Bouygues, Eiffage, Safran and Thales.

We also noted that these four groups already presented their order book prior to first-time application of IFRS 15 (with two of the groups presenting these disclosures in both the notes to the financial statements and the management report, and the two other groups presenting them only in the management report).

Are there disclosures on the timetable for recognition of the order book?

IFRS 15 requires entities to provide either quantitative or qualitative information on the timetable for recognition of the “order backlog”.

This will explain when the entity expects to recognise as revenue the amount allocated to unsatisfied performance obligations.

---

\(^2\) Assessing materiality requires the use of judgement
Of the 21 groups that provided disclosures on the timetable for recognition of the order backlog:

- 13 groups presented them in a **textual format**;
- 8 groups presented them in a **tabular format**;
- 8 groups broke down the order book into **one year or less and over one year**.

The standard offers quite a lot of latitude as to the type of disclosures provided (i.e. quantitative vs. qualitative) and the time bands used ("the time bands that would be most appropriate for the duration of the remaining performance obligations", cf. IFRS 15.120 (b) i). It is thus unsurprising that there is some diversity in the presentation of disclosures on the timetable for recognition of the order backlog. For example:

<table>
<thead>
<tr>
<th>Groups</th>
<th>Format</th>
<th>Time bands used for breakdown</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thales</td>
<td>Text</td>
<td>3 years (order of magnitude)</td>
</tr>
<tr>
<td>Airbus</td>
<td>Text</td>
<td>7 years (order of magnitude)</td>
</tr>
<tr>
<td>Orange</td>
<td>Table</td>
<td>&lt; 1 an, between 1 and 2 years, between 2 and 3 years, between 3 and 4 years, between 4 and 5 years, &gt; 5 years</td>
</tr>
<tr>
<td>Bouygues</td>
<td>Table</td>
<td>&lt; 1 years, between 1 and 5 years, &gt; 5 years</td>
</tr>
</tbody>
</table>

It should however be noted that simply providing the average duration (in months) of the remaining performance obligations at year-end is not sufficient to meet the requirements of the standard.

**Extract from Notes to the Consolidated Financial Statements**

- Thales 2018 Registration Document (page 187):

**2.3 COMMERCIAL ACTIVITY AND EBIT BY SEGMENT**

<table>
<thead>
<tr>
<th>2018</th>
<th>Aerospace</th>
<th>Transport</th>
<th>Defence &amp; Security</th>
<th>Oth. elim. and unallocated*</th>
<th>Thales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Order book – n Group</td>
<td>7,948</td>
<td>4,143</td>
<td>20,130</td>
<td>60</td>
<td>32,226</td>
</tr>
<tr>
<td>Order intake – n Group</td>
<td>5,845</td>
<td>1,956</td>
<td>8,756</td>
<td>50.3</td>
<td>15,042</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2017</th>
<th>Aerospace</th>
<th>Transport</th>
<th>Defence &amp; Security</th>
<th>Oth. elim. and unallocated*</th>
<th>Thales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Order book – n Group</td>
<td>8,259</td>
<td>4,283</td>
<td>19,451</td>
<td>63.6</td>
<td>32,046</td>
</tr>
<tr>
<td>Order intake – n Group</td>
<td>5,237</td>
<td>1,780</td>
<td>7,856</td>
<td>56.5</td>
<td>14,931</td>
</tr>
</tbody>
</table>

At the end of 2018, the order book reached €2,328.7 million. Around 80% of this amount is expected to convert into sales within three years.

**Extract from Notes to the Consolidated Financial Statements**

- Orange 2018 Registration Document (page 169):

**Order backlog**

<table>
<thead>
<tr>
<th>Movements during 2018</th>
<th>30/12/2017</th>
<th>Translation adjustments</th>
<th>Changes in scope of consolidation</th>
<th>Increase</th>
<th>Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction businesses</td>
<td>4,709</td>
<td>(241)</td>
<td>1,188</td>
<td>10,001</td>
<td>9,872</td>
</tr>
<tr>
<td>- Bouygues Construction</td>
<td>5,117</td>
<td>(45)</td>
<td>509</td>
<td>13,153</td>
<td>(5,043)</td>
</tr>
<tr>
<td>- Bouygues Immobilier</td>
<td>1,996</td>
<td>(74)</td>
<td>335</td>
<td>8,955</td>
<td>(3,322)</td>
</tr>
<tr>
<td>Other</td>
<td>15,450</td>
<td>(74)</td>
<td>958</td>
<td>16,588</td>
<td>(3,972)</td>
</tr>
<tr>
<td>Bouygues Telecom</td>
<td>1,649</td>
<td>(42)</td>
<td>5,166</td>
<td>5,763</td>
<td>3,613</td>
</tr>
<tr>
<td>Other segment adjustments</td>
<td>(110)</td>
<td>(11)</td>
<td>(10)</td>
<td>(111)</td>
<td>(111)</td>
</tr>
<tr>
<td>Total order backlog</td>
<td>48,784</td>
<td>(241)</td>
<td>1,309</td>
<td>31,860</td>
<td>(10,979)</td>
</tr>
<tr>
<td>- maturing within less than 1 year</td>
<td>21,212</td>
<td></td>
<td></td>
<td>16,775</td>
<td>(5,475)</td>
</tr>
<tr>
<td>- maturing within 1 to 3 years</td>
<td>10,464</td>
<td></td>
<td></td>
<td>12,249</td>
<td>(1,790)</td>
</tr>
<tr>
<td>- maturing after more than 3 years</td>
<td>6,098</td>
<td></td>
<td></td>
<td>4,045</td>
<td>(5,045)</td>
</tr>
</tbody>
</table>

(a) Includes newly consolidated entities (K76M for Alpin Engineering Services and €21M for AW Edwards) and the deconsolidation of Aviono (€464M).

**Non-financial information**

Of the 10 groups (14% of the sample) that presented disclosures on the "order backlog" **outside the financial statements**:

- Six groups presented the "IFRS 15 order backlog" that was included in the financial statements;
- Four groups presented disclosures using a "non-GAAP" measure:
  - Two of these had presented an "IFRS 15 order backlog" in the financial statements, and in addition to this presented an order backlog broken down by operating business segment.
  - The other two had not presented an "IFRS 15 order backlog" in the financial statements, but nonetheless continue to include the order backlog that had historically been presented in the non-financial information. It was not made clear whether this order backlog complied with the definition and measurement requirements set out in IFRS 15.
Key points to remember

- Around 60% of the groups in the sample did not present an "order backlog" defined and measured in accordance with IFRS 15 in the notes to the financial statements. A minority of the groups that did not present this information explicitly stated that they had applied one or both of the practical expedients permitted by the standard; thus, the lack of disclosures on the "order backlog" was presumably due to the fact that the performance obligations were part of customer contracts with short durations. It is thus important to point out that any practical expedients used should be disclosed, as they form part of the accounting policies and methods, and are also an enforcement priority this year.

- More than 3/4 of the groups that presented disclosures on their IFRS 15 “order backlog” included the required information on the timetable for recognition. In practice, the time bands used varied significantly, as each group chose the most appropriate for its business. However, simply providing the average duration (in months) of the remaining performance obligations at year-end is not sufficient to meet the requirements of the standard.

- Finally, if disclosures on the “order backlog” are presented in both the financial statements and other elements of financial reporting, the entity should explain any discrepancy between an “order backlog” defined and measured in accordance with IFRS 15 and an “order backlog” defined by the Group and used as an alternative performance measure. This is also one of this year’s enforcement priorities.
Events and FAQ

Frequently asked questions

IFRS
- The correct accounting treatment for an indemnity received
- Contracts for the sale of licences
- Condensed financial statements to 30 June 2019: IFRS 16 disclosures
- Assessing the level of control in a joint venture
- Sale of receivables
- IFRS 16: classification of leases in the accounts of the lessor (operating lease or finance lease)

Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

<table>
<thead>
<tr>
<th>IASB</th>
<th>IFRS Committee</th>
<th>EFRAG</th>
</tr>
</thead>
<tbody>
<tr>
<td>22-26 July</td>
<td>16-17 September</td>
<td>9 July</td>
</tr>
<tr>
<td>23-27 September</td>
<td>25-26 November</td>
<td>26 September</td>
</tr>
<tr>
<td>21-25 October</td>
<td>21 January</td>
<td>8 October</td>
</tr>
</tbody>
</table>

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