

The Impact of IFRS 15 – Revenue from Contracts with Clients – on the Explanatory Notes of Publicly Traded Companies in Brazil

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Abstract

Objective: This study's objective was to analyze the quality of explanatory notes transitioning to the IFRS 15 in Brazil by comparing effects estimated in 2017 and those that effectively occurred in 2018; developing an Explanatory Notes Quality Index – the *Índice de Qualidade das Notas Explicativas (IQNE)*; and describing the significant effects.

Method: 429 companies from the Brazilian market were assessed by comparing the explanatory notes concerning the effects caused by the IFRS 15. Such effects were classified according to the impacts expected in 2017 and recorded on the explanatory notes or the lack of them. Such expected effects were compared to the effects that effectively occurred in 2018 to see if they were greater or smaller than the estimated or not reported. The Explanatory Notes Quality Index was developed.

Results: More than half of the companies only reclassified accounts for a better presentation of information, increased the disclosure of explanatory notes, or did not report any impact caused by adopting the IFRS 15. Even though the standard did not cause significant impacts on most companies, some sectors, such as public utility, communication, non-cyclical stocks, industrial goods, and civil construction, were considerably impacted. Finally, the companies presented good quality information in the transition notes; 45% of the sample obtained the highest IQNE.

Contributions: This study is relevant as it reports the effects of the transition to the IFRS 15 in Brazil, which supports the discussion on how companies deal with the adoption of a new standard regarding its previous preparation and analysis of the effects that effectively occurred. Therefore, it contributes to academia, but mainly to those using accounting information and regulating bodies, such as Iasb, during the Post-Implementation Review (PIR) of IFRS 15.

Keywords: IFRS 15; Explanatory Notes; Revenues; Accounting Information; Quality.

1. Introduction

Accounting information has a fundamental purpose, that of being useful for decision-making, and to be useful, information must be relevant and make a difference in users' decisions (CPC – 00 (R2), 2020; Hendriksen & Breda, 1999; Iudícibus, 2015).

However, due to economic development, the growth of markets, and the advancement of the accounting field, financial statements became increasingly complex and sizeable (Cheung & Lau, 2016; Morunga & Bradbury, 2012; Richards & Staden, 2015), affecting how accounting information is used and understood (Boubaker, Gounopoulos, & Rjiba, 2019). Explanatory notes are central in this discussion because they contain the largest amount of information conveyed by financial reports and provide the information that facilitates understanding financial statements (Lourenço, 2014).

In 2014, the Brazilian Accounting Pronouncements Committee issued OCPC 7 in an attempt to convince those preparing such reports to pay greater attention to explanatory notes and decrease the considerable amount of irrelevant information provided in such notes (Flores, Santos, & Carvalho, 2015). Iasb is also developing a project to discuss improved disclosure (the Disclosure Initiative) among international bodies, such as the European Financial Reporting Advisory Group (EFRAG).

Glaum et al. (2013) addressed the effect of adopting IFRS on the accuracy of analysts' projections and verified that the quality of explanatory notes is relevant for analysts. Additionally, explanatory notes have been the object of various theoretical and empirical studies, both in Brazil and internationally, corroborating the importance of such information (Healy & Papelu, 2001; Verrecchia, 2001; Salotti & Yamamoto, 2005; Murcia & Santos, 2009; Merkley, 2014; Moreno & Casasola, 2016).

In this context, one of the main accounting standards issued by Iasb in the last decade was IFRS 15 – Revenue from Contracts with Customers. In addition to impacting the amounts reported by companies in the main line of the Income Statement for the Year (DRE), IFRS 15 also has the potential to increase the volume of information disclosed in explanatory notes; hence, it is pertinent to study this standard in this context.

IFRS 15 was issued in May 2014, and became effective from January 1st, 2018, to consolidate and replace previous regulations and interpretations (IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18, and SIC- 31). Specifically, IFRS 15 establishes principles for measuring, recognizing, and disclosing revenues (IFRS, 2014). In Brazil, its correlated standard was established on November 14th, 2016, through Technical Pronouncement CPC 47 – Revenue from Contracts with Customers.

Most studies addressing the adoption of IFRS 15 assess the effect of the amounts reported by companies (Napier & Stadler, 2020; Silva et al., 2021) on the level of compliance with disclosure requirements (Boujelben & Kobbi-Fakhfakh, 2020; Moraes da Silva & Gonzales, 2022; Silva & Pierrri Junior, 2021), the relevance of accounting information (Braga, Nascimento, & Santos, 2022; Dani, Santos, Panucci Filho, & Klann, 2017; Onie et al., 2022), and at the earnings management level (Baldissera et al., 2018; Morawska, 2021; Piosik, 2021; Souza, Gonçalves, & Tibúrcio, 2022).

This study explores the effect of IFRS 15 on the disclosure of accounting information in explanatory notes using a different perspective from the previous literature, i.e., explanatory notes transitioning to the new standard. This discussion is pertinent, considering that IFRS 15 was issued almost four years before it entered into effect in 2018. As a result, IAS 8 (and, in Brazil, CPC 23) requires that companies report when they apply a new standard that has already been published but has yet to enter into force. Additionally, companies are supposed to provide the relevant information in the explanatory notes to assess the potential impact of such implementation on financial statements. Therefore, those companies that made such estimates disclosed (or were expected to disclose) the estimated impact from the application of the new standard beginning in January 2018 in explanatory notes when they prepared their balance sheets in the years prior to the standard entering into effect.

Therefore, based on the analysis of the impact of the new standard on financial statements' figures and information disclosed before and after the adoption of IFRS 15, the objective is to compare estimated with actual effects to answer the following research question: **What is the quality of explanatory notes transitioning to IFRS 15?**

Therefore, three main objectives were established: 1) assess whether the estimated effects disclosed by companies in the financial statements published before the adoption of IFRS 15 (2017) were confirmed in the first financial statements published after the standard came into force (2018); 2) measure the quality of accounting information disclosed in the IFRS 15 transitioning explanatory notes, using the *Índice de Qualidade das Notas Explicativas (IQNE)* [Explanatory Note Quality Index]; and 3) describe the significant impacts after companies adopted the IFRS 15. By achieving these three objectives, this study will provide evidence to assess the quality of information disclosed by companies when adopting a new standard (in this case, IFRS 15) before and after its effective transition.

This study's results are expected to contribute not only to academia but also to those using accounting information and regulatory bodies as well. Specifically, this study will add to the literature on the adoption of IFRS 15 by exploring an aspect that, thus far, has not been analyzed: the quality of information disclosed in explanatory notes transitioning to IFRS 15. Additionally, this study's results might be helpful to those using accounting information, as they indicate whether the information disclosed initially by a company when estimating the impact of new accounting standards is verified when the standard is effectively adopted. Such information contributes to the users' assessments and projections, consequently favoring decision-making. Finally, this study will also contribute to regulatory bodies, such as the Iasb, by providing information on the effects of adopting a new standard, which may be helpful during the IFRS 15 Post-Implementation Review (PIR) process.

2. Theoretical framework

This section is divided into three main topics. Topic 2.1 addresses the importance of disclosing accounting information and the process of preparing explanatory notes. Topic 2.2 presents the history and main changes brought about by the IFRS 15. Finally, topic 2.3 describes the primary studies addressing this subject and shows a gap in the literature this study seeks to fill.

2.1. Accounting Information and Explanatory Notes

The quality of accounting information is paramount because people and companies use such information as a source for decision-making. Its purpose is to serve different users mainly interested in the companies' economic performance, profitability, cash generation potential, and the continuity of activities (Nascimento & Reginato, 2008). Information provided to users is based on the accounting process of recognition, measurement, and disclosure (Lopes & Martins, 2005).

Therefore, for financial statements to be useful for users outside a company, they must contain relevant and trustworthy information (CPC 00 R2). As a result of the reconciliation between Brazilian accounting practices and international standards (IFRS), Laws No. 11,638, from December 28th, 2007, and No. 11,941, from May 27th, 2009, introduced changes to Law No. 6,404, from December 15th, 1976, to modify the set of financial statements companies prepare. According to Pronouncement CPC 26 (R1), this set of financial statements includes explanatory notes comprising meaningful accounting policies, information comparing to the previous period, and other explanatory elements.

Explanatory notes are essential to improve the quality of accounting information, as they provide information complementing financial statements. Such notes can be descriptive, presented in analytical charts, or even encompass other financial statements necessary to clarify an entity's economic and financial situation (Diniz et al., 2018).

A more significant amount of information is currently required in explanatory notes due to the adoption of new accounting practices, increasing informational content. This fact occurred because Brazilian accounting became based on principles, no longer tied solely to tax rules. As a result, accountants assumed the responsibility to clearly explain the various relevant circumstances that affected each account in a financial statement, and the explanatory notes are the most appropriate place for this (Antunes et al., 2012; Diniz et al., 2018).

There is empirical evidence that the disclosure of accounting information decreases information asymmetry between managers and investors and, consequently, allows for increased stock liquidity and decreased volatility and cost of capital (Healy & Palepu, 2001; Shroff, Sun, White, & Zang, 2013; Zhou, 2007). However, the benefits obtained by disclosing such information must outweigh its direct and indirect costs (Lourenço, 2014).

As part of the financial statements currently required by CPC 26 (R1), the explanatory notes must include information required by the IFRSs (or CPCs, in Brazil), provided that these are applicable and the respective information is relevant. Thus, only certain information required by the rules should be disclosed. However, many companies, fearing lawsuits or being confronted, are induced to disclose excessive information in this report, decreasing its relevance and usefulness (Lourenço, 2014).

Accordingly, Flores et al. (2015) state that, in general, companies comply with the obligations required by IAS/IFRS but do not consider how beneficial such information is to their users.

On the other hand, some companies intentionally omit information to hide elements that may negatively influence external users. Thus, they keep strategic information, which can translate into a competitive disadvantage or even cause third parties to contest the value of the company and its contractual relationship with it. For this reason, the Accounting Pronouncements Committee (CPC) issued, in September 2014, Technical Guidance OCPC 7 – *Evidenciação na Divulgação dos Relatórios Contábil-Financeiros de Propósito Geral* [Evidence in the Disclosure of General Purpose Accounting and Financial Reports] to solve such issues (Lourenço, 2014; Martins, 2014).

When analyzing the current rules on information disclosure, especially in explanatory notes, CPC concluded that there were already sufficient guidelines instructing how to prepare them. Therefore, its primary purpose was to clarify and reinforce that only relevant information contributing to users' analyses and decision-making should be disclosed in financial reports (Martins, 2014).

2.2 IFRS 15 general aspects – revenue from contract with customers

IFRS 15 is one of the primary standards issued by the Iasb in the last decade. The relevance of IFRS 15 is that any change it proposes affects all companies' main line of the Income Statement for the Year (DRE). Additionally, IFRS 15 impacted not only the amounts reported but also changes in the companies' business models and internal controls.

Regarding its history, IFRS 15 was issued in 2014 to heed users' complaints, wishes, and concerns. As it is entirely based on principles, this standard provides a model of five didactic steps for recognizing and measuring revenues (Gelbcke, Santos, Iudícibus, & Martins, 2018). IFRS 15 was approved in Brazil on November 14th, 2016, with a corresponding Brazilian accounting standard, Technical Pronouncement CPC 47, though only on January 1st, 2018, it became effective.

The standard creates a single model for accounting for revenue from contracts with customers, regardless of the business sector or the nature of the transactions. Note that although IFRS 15 and, consequently, CPC 47, caused several controversies and debates regarding its application, the principles included in its scope were already expressed in the accounting standards replaced by this technical pronouncement. For this reason, this new standard provides more details regarding the recognition, measurement, and recording of revenues without changing the essential assumptions (Pinto et al., 2020).

Specifically, IFRS 15 brings a five-step model to identify, recognize, and measure revenues from commercial operations: (1) Identifying the contract with a customer; (2) Identifying performance obligations; (3) Determining the transaction price; (4) Allocating the transaction price to performance obligations; and (5) Recognizing revenue when (or as) the obligation is satisfied. These steps, in turn, are not necessarily sequential and may even co-occur. The definition provided by this standard is intended to be more comprehensive, clear, and didactic so that accounting information is more coherent and uniform, meeting the qualitative characteristics of useful financial information as established in the Conceptual Framework R2 (Gelbcke et al., 2018; Pinto et al., 2020).

IFRS 15 affected all companies, but differently. The effect would be less relevant for some companies, though changes would be more significant for others. Therefore, adopting IFRS 15 represented a significant advance for accounting because it addresses the revenue recognition process for all segments. Hence, it is a highly relevant change, as in addition to directly affecting the most critical component of the companies' results, it also shows an interpretative nature of the standard and the operation itself. According to Kreston Partnership (2016), the complexity of its adoption varies according to the industry segment and the structure of organizations' internal controls.

According to Gelbcke et al. (2018), IFRS 15 establishes, as a basic principle, that entities must recognize revenues to reflect the transfer of goods or services to customers, in an amount that reflects the compensation such an entity expects to receive in exchange for those goods or services. In this sense, revenue recognition is highly connected to the fulfillment of an obligation (or performance).

This new concept introduced by IFRS 15 shows that the selling entity complies with its obligation to transfer control of the good or service to the purchasing entity through a contract. In standards before the IFRS 15, what is now understood to be an obligation would be fulfilled with the transfer of risks and benefits, at which point revenue would be recognized in the accounts. After implementing the new standard, this process occurs when the seller transfers control to the buyer. As it is more comprehensive, for some segments, this concept should have a temporal effect on the recognition of accounting revenue (EY, 2014).

Regarding the transition model, due to the various conceptual changes and changes of a practical nature introduced by the new standard in all its steps, companies could choose between retrospective full adoption and modified retrospective adoption.

Under CPC 23, the full retrospective application consists of the company adjusting the opening balance of each component of equity affected considering the earliest prior period presented and other comparative amounts disclosed for each prior period presented, as if the new accounting policy had always been applied, thus enabling comparisons between the entity's financial statements.

In the case of applying the modified retrospective method, the entity shall recognize the cumulative effect of the initial application of the standard as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) for the reporting period that includes the date of initial application. When considering this method, an entity may choose to only apply the new standard to contracts that were not completed at the date of the initial application of the standard.

2.3 Empirical Evidence on the Adoption of IFRS 15

When a new accounting standard is issued, academia and researchers play an important role in the search for empirical evidence on the effects and consequences of the changes proposed to contribute to regulatory bodies. Thus, in recent years, several researchers have studied the impacts arising from the adoption of IFRS 15.

Part of these studies sought to assess the effect of adopting IFRS 15 on the values reported by companies (Napier & Stadler, 2020; Silva et al., 2021) and verified that only some sectors verified material effects. Napier & Stadler (2020), for example, surveyed 48 companies in the European market, and the results showed that its impact on accounting numbers was minimal for most companies, except in some sectors, such as telecommunications.

One of the main effects expected of adopting IFRS 15 was an increase in the volume and quality of information disclosed in explanatory notes concerning the process of recognizing and measuring revenues. In this sense, Boujelben & Kobbi-Fakhfakh (2020) assessed the degree of compliance with the mandatory disclosures of IFRS 15 in a sample of companies in the construction and telecommunications sectors in the European Union. The results showed that the companies did not fully comply with mandatory disclosures, with the degree of compliance differing between the two sectors. Moraes da Silva & Gonzales (2022) found similar results in Brazil. Silva & Pierrri Junior (2021) analyzed the level of adherence to CPC 47 requirements in five Brazilian companies in the telecommunications sector and identified diverse degrees of adherence to disclosure items and impacts resulting from adopting the new standard in four of the five companies.

From the perspective of effects on the capital market, Onie et al. (2022) assessed the impact of IFRS 15 on the value relevance of financial reports of publicly traded companies in the Australian market. The impact of the transition was immaterial in most companies; however, some companies experienced a significant decrease in earnings relevance. There is little evidence that the new standard has increased earnings relevance after adopting the standard. In Brazil, however, evidence was found that adopting IFRS 15 increased the relevance of accounting information among companies in the civil and heavy construction sectors (Braga, Nascimento, & Santos, 2022).

Still from the perspective of the relevance of accounting information, Dani, Santos, Panucci Filho, and Klann (2017) assessed the voluntary early adoption of IFRS 15 in Brazil, addressing a sample of 15 civil construction companies listed on B3, and concluded that early voluntary adoption impacted stock prices and, therefore, was relevant for the capital market.

Because IFRS 15 is firmly based on principles, it increased the discretionary power of managers, demanding greater professional judgment. Therefore, a very fruitful line of research sought to assess the effect of adopting IFRS 15 on earnings management (Baldissera et al., 2018; Morawska, 2021; Piosik, 2021; Souza, Gonçalves, & Tibúrcio, 2022). Specifically in the Brazilian market, Souza et al. (2022) found evidence that the adoption of IFRS 15 decreased the quality of accruals and increased earnings management, especially in some specific sectors. Baldissera et al. (2018) reached a similar conclusion.

In summary, most studies sought to assess the effects of IFRS 15 on the values reported, compliance with disclosure requirements, value relevance, and earnings management. There is, therefore, a need for studies assessing the quality of the explanatory note for the transition to IFRS 15, comparing the estimated effects on the financial statements before adoption with the actual effects reported in the first financial statements after the IFRS 15 came into effect. This study seeks to fill this gap in the literature.

3. Method

3.1 Methodological Classification

This study proposes a reflection on the quality of accounting information, especially regarding explanatory notes considering the implementation of the new accounting standard IFRS 15. From this perspective, the objective is to address the objectives proposed and investigate them in greater depth using a qualitative-quantitative approach.

As for the procedures, documental research was used, in which the primary source of data collection was corporate financial reports (Marconi & Lakatos, 2003).

3.2 Sample characterization

The sample comprised all publicly traded companies listed on B3 in 2017 that remained with assets on the market in 2018, totaling 429 companies.

Table 1 presents the sectors in which the companies in the sample operate.

Table 1
Companies' business sectors

| Business sector | Total No. of companies |
|--------------------------|-------------------------------|
| Industrial goods | 70 |
| Communication | 6 |
| Consumer Cyclical Stocks | 79 |
| Non-Cyclical Stocks | 27 |
| Financial | 87 |
| Basic Material | 32 |
| Oil, Gas, and Biofuels | 11 |
| Healthcare | 19 |
| Information Technology | 6 |
| Public Utility | 67 |
| Others | 25 |
| Total | 429 |

Source: developed by the authors

Note that given the objective of analyzing the quality of the explanatory notes specifically related to the adoption of IFRS 15 in Brazil, extending the analysis period would not be relevant because this standard was issued in Brazil (through CPC 47) only at the end of 2016. Hence, it would not make sense to analyze 2016 or the years prior to 2016, as the standard was approved at the end of that year. Likewise, analyzing data from years after 2018 would not be relevant because, from that year forward, the standard had already been adopted. For this reason, the explanatory notes would not specifically provide data that would enable comparisons between the new and old standards.

3.3 Data Collection

The explanatory notes of the 429 companies were compared to investigate whether IFRS 15, which had been issued but was not yet in force, had been adopted. Therefore, these companies' websites were consulted, and the respective annual financial statements, including the explanatory notes, were manually collected. The explanatory notes from before (2017) and after (2018) the standard came into force and mentioned its implementation were selected to understand better the relevance and usefulness of the information provided.

3.4 Result Analysis

The comparative method was chosen to study the similarities and differences between the samples concerning the periods under analysis. Thus, to enable such an analysis, the impacts each of the companies estimated in 2017 and then recorded in 2018 (in the explanatory notes) after the standard came into force were first classified into the following categories:

Table 2

Criteria to classify the impacts

| Classification* | Classification criteria |
|------------------------|---|
| Not reported | Companies that did not mention, in the explanatory notes of their 2017 financial statements, the potential effects of the adoption of IFRS 15 as of January 1st, 2018. Companies that did not mention, in the explanatory notes of their 2018 financial statements, whether the adoption of the IFRS 15 caused any or no significant impact. |
| Uncertain | Companies that in 2017 were assessing the potential effects of adopting the IFRS 15 on their financial statements and accounting disclosures. Companies that continued assessing the potential effects of the adoption of the IFRS 15 on their financial statements and accounting disclosures even after having adopted the standards as of January 1st, 2018. |
| None | Companies that, in 2017, did not expect any significant impact on their financial statements from adopting the IFRS 15. Companies that, in 2017, did not report or expected any potential impact on their financial statements from adopting the IFRS 15 or were still assessing potential impacts, and after adopting the standard in 2018, confirmed that no significant impacts were identified. |
| Some | Companies that in 2017 studied the new standard and verified that it would have some impact on their financial statements after it came into effect. Companies were still studying the potential effects in 2018 but recorded impacts after adopting the standard as of January 1st, 2018. |
| Expected | Companies that, in 2017, correctly estimated impacts or no impacts would be caused by the IFRS 15 and companies that did not estimate any impact and verified no impacts in 2018. Note that we did not verify the exact estimated amount, but rather, the accounts and contracts affected and how they impacted the companies' financial statements. |
| Major | Companies that, in 2018, recorded an impact greater than expected in 2017; i.e., the expected impact occurred, but more accounts and/or contracts than previously expected were affected when the IFRS came into effect. |
| Minor | Companies that, in 2018, recorded an impact smaller than expected in 2017; i.e., the expected impact occurred, but fewer accounts and/or contracts than previously expected were affected when the IFRS came into effect. |

*The categories "not reported", "none", and "some" were adopted in both periods, i.e., they were used to classify the impacts in 2017 and 2018. The categories "expected", "minor", and "major" were used only to classify the impacts reported in 2018 as they refer to impacts expected in 2017 and serve as a base for comparison.

Source: developed by the authors.

We established and revised these criteria based on the analysis of the object to be studied (impacts of the adoption of IFRS 15). Obviously, as noted in section 5, this imposes limitations as the results depended on the authors' judgments.

We developed an Explanatory Notes Quality Index (*IQNE*) based on the logic proposed by Gabriel (2011)¹ to compare the estimated qualitative impacts with impacts that occurred, adapting the questions to the object addressed here, i.e., impacts resulting from adopting IFRS 15. Thus, four objective questions were asked to develop the *IQNE*. These questions were intended to facilitate comparing the relevance and reliability of the information provided in the financial reports from 2017 and 2018. The first two questions concern the disclosure prior to the standard, which, despite being approved, was not yet in force. The two last questions refer to the impacts caused by the standard and the quality of the information provided before it, and the two first questions concern disclosures prior to the standard and the quality of information previously provided.

1 The rationale proposed by Gabriel (2011) consisted in choosing 12 questions related to the object of study – Quality of Accounting Information – and establishing criteria to rate answers to each question. Accordingly, by calculating each company's total score, the above author obtained a proxy for the quality of accounting information.

Depending on the question, an affirmative answer (verified via a set of accounting statements available to the public) is scored from 0.5 to 2 points. Thus, a company can obtain an *IQNE* from 0 to 5; the higher the index, the greater the quality of the accounting information. Table 3 presents the objective questions adopted in the development of the *Índice de Qualidade das Notas Explicativas (IQNE)* [Explanatory Notes Quality Index].

Table 3

Questions Considered in the Development of the Índice de Qualidade das Notas Explicativas (IQNE)

| Question | Justification | Score |
|---|---|---|
| 1) Does the company mention the IFRS 15 in the 2017 financial statements as a new standard to be adopted in 2018? | IAS 8 – Accounting Policies, Change of Estimates and Errors (in Brazil, CPC 23) establishes that a company must disclose in its explanatory notes when it does not adopt in advance a newly issued IFRS (though not still mandatory) and provide information regarding the expected impacts caused by its application. | 1 – The company mentioned the IFRS 15 as a new standard to be adopted starting in 2018. 0 – The company did not mention the IFRS 15 as a new standard to be adopted starting in 2018. |
| 2) Does the company report, in 2017, the potential effects of the IFRS 15 adoption? | According to IAS 8, one of the topics that must be addressed concerns assessing potential impacts on financial statements resulting from the standard's application. If the impact is still unknown or not estimable, explain the reason for such impossibility. | 1 – The company estimated the potential effects of adopting the IFRS 15. 0.5 – The company was still estimating the potential effects of adopting the IFRS 15. 0 – The company did not report the potential effects of adopting the IFRS 15. |
| 3) Does the company report, in its 2018 financial statements, the impacts caused by the adoption of the IFRS 15? | When the standard comes into effect, IAS 8 establishes that the company must determine any existing effects on the current period, reporting the standard title, the nature of the change in accounting policy, the transitional provisions adopted, the adjustment values for the current and previous periods and, also, if the required retrospective application is impracticable for a given period, explain why. | 1 – The company reported the effects caused by the adoption of the IFRS 15. 0.5 – The company was assessing the effects caused by the adoption of the IFRS 15. The company did not report the effects caused by the adoption of the IFRS 15 or only described the standard. |
| 4) Do the impacts reported in 2018 confirm the impacts estimated in 2017? | The main objective of financial accounting is to provide its users, especially external users, with helpful information that allows them to assess the present and future economic and financial situation of a supplier company (CPC 00 R2). Financial statements must contain relevant information that is faithfully represented to be helpful to users external to the company (CPC 00 R2). • Relevance: Relevant financial information makes a difference in users' decisions. • Reliable Representation: Reliable information is complete, neutral, and error-free. Due to this question's qualitative nature, greater weight was attributed to its answers. | 2 – The impacts reported confirm the impacts estimated in 2017. 1 – The impacts reported partially confirm the impacts estimated in 2017. 0 – The impacts reported do not confirm the impacts estimated in 2017 or were not reported. |

Source: developed by the authors.

Cronbach's alpha, which ranges from 0 to 1, was used to validate the *IQNE*; the closer to 1, the greater the scale's reliability; the alpha was equal to 0.73, considered satisfactory in Social Sciences studies.

As reported in sub-item 4.3.4, the *IQNE* was empirically validated. Additionally, the results obtained in the *IQNE* by the companies in this study's sample were compared with those of the companies awarded the Anefac-Fipecafi-Serasa Experian Transparency Trophy. The results confirm the index consistency.

In addition to comparing the estimated effects with the effects that occurred, we verified the numbers and the impacts the companies reported due to the adoption of the new accounting standard for recognizing revenue from contracts with customers. The objective was to assess the actual impacts caused by adopting IFRS 15 in Brazil and which sectors were the most affected.

4. Analysis of results

This section presents the analysis of results and the limitations of the methodology adopted to assess, through empirical evidence, whether the expected impacts (reported by explanatory notes in 2017 statements) occurred partially, entirely, or were not verified when the standard was effectively adopted as of January 1st, 2018. This analysis is intended to examine the usefulness, relevance, and reliability of the explanatory notes released by companies on the impacts resulting from the adoption of IFRS 15.

4.1 Classification of expected impacts (in 2017) and actual impacts (in 2018)

Table 4 summarizes a comparison of the impacts estimated in 2017 and recorded after the IFRS 15 came into effect in 2018.

Table 4

Comparison between estimated impacts (2017) and actual impacts (2018) after adopting the IFRS 15/CPC 47

| 2017 \ 2018 | Not reported | Uncertain | None | Some | Expected | Minor | Major | Total |
|---------------------|--------------|-----------|-----------|-----------|------------|----------|-----------|------------|
| Not reported | 45 | 1 | 23 | - | - | - | - | 69 |
| Uncertain | 10 | 5 | 36 | 10 | - | - | - | 61 |
| None | 29 | 2 | - | - | 152 | - | 44 | 227 |
| Some | 2 | - | 5 | - | 41 | 4 | 20 | 72 |
| Total | 86 | 8 | 64 | 10 | 193 | 4 | 64 | 429 |

Source: developed by the authors.

Forty-five out of the 69 companies not mentioning the potential effects of adopting IFRS 15 in 2017 continued not reporting any effects of the standards in 2018; 23 did not identify relevant impacts; and only one company continued assessing the potential impacts. Therefore, for this subset of companies, not reporting any potential impacts of the IFRS 15 in 2017 is likely associated with the non-existence of any impacts arising from the standard's adoption.

Among the subset of 61 companies assessing the effects of CPC 47/IFRS 15 on their accounting statements in 2017, 36 did not identify any relevant impact after they adopted the standard on January 1st, 2018; 10 companies, despite not having initially foreseen any impacts, reported impacts after adopting the standard; 10 companies did not report whether the standard caused any impact; and the 15 remaining companies continued assessing the potential impacts. Hence, there was uncertainty in 2017 about the potential impacts the IFRS 15 would cause, but most companies in this category did not report impacts in 2018.

Moreover, 152 of the 227 companies in 2017 did not expect material impacts and, in fact, did not identify significant impacts after adopting the standard in 2018; 44 recorded some impact; 29 did not report whether the adoption of the standard caused any relevant impact; and only two companies, which initially did not expect any impacts, in 2018 reported that they were assessing potential impacts. Hence, it was clear in 2017 that no impacts would arise from the IFRS 15 in this subset comprising more than half of the companies in the sample; this finding was confirmed in approximately 2/3 of the cases (152 out of a total of 227).

Finally, of the 72 companies that identified in 2017 that IFRS 15 would cause some impact on their financial statements, 41 companies correctly estimated the effects caused by the adoption of IFRS 15; 20 companies recorded an impact more significant than expected in 2017; five companies did not identify relevant impacts after adopting the standard in 2018; four companies recorded an impact smaller than expected; and only two companies did not mention whether the adoption of the IFRS 15 caused any relevant impact. Hence, more than half of the companies in this subgroup correctly predicted what would happen in 2018.

An analysis of the level of errors in the 2017 forecast considering the actual impacts in 2018 showed that the errors are classified under columns “some”, “minor” and “major”, totaling 78 companies, i.e., 18.2% of the cases. Therefore, approximately 1/5 of the companies failed to predict the impacts that would occur in 2018 correctly. Despite the low percentage of incorrect forecasts, these companies might not be prepared to adopt IFRS 15 effectively.

4.2 Development of the Explanatory Notes Quality Index (IQNE)

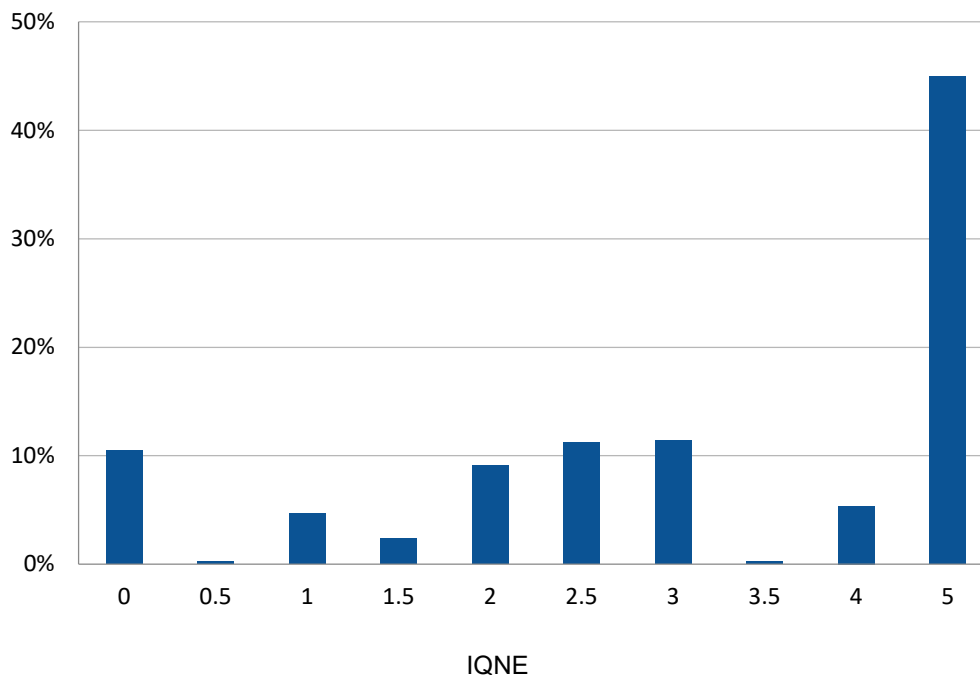
According to Table 5, the mean *IQNE* was 3.359, considered reasonable, and the standard deviation of 1.746 suggests that the distribution is dispersed around the mean, as shown in Graph 1.

Table 5

Descriptive statistics concerning the Explanatory Notes Quality Index (IQNE)

| Variable | Mean | Standard deviation | Median | Sample (companies) |
|----------|-------|--------------------|--------|--------------------|
| IQNE | 3.359 | 1.746 | 3.048 | 429 |

Source: developed by the authors.



Graph 1. Histogram of the Explanatory Notes Quality Index (IQNE)

Source: developed by the authors.

Graph 1 indicates that 45% of the companies obtained the maximum IQNE; i.e., these companies reported in the 2017 financial statements that the IFRS 15 would be adopted on January 1st, 2018, and mentioned the potential effects arising from its adoption. These companies also reported in the 2018 financial statements the impacts that occurred and which coincided with the impacts estimated in 2017. Nevertheless, 10.72% of the companies in the sample did not report any predictions or impacts.

Additionally, the distribution of the companies' IQNE is asymmetrically positive. Not by chance, approximately 70% of the companies obtained an index between 2.5 and 5.

A potential explanation for these results is that the IFRS 15 was issued approximately four years in advance; hence, the companies had sufficient time to assess and measure potential impacts and adequately disclose such impacts in the explanatory notes. Another potential explanation is that, as documented by the literature addressed in section 2.3, no significant impacts were expected from adopting the IFRS 15, except for some specific sectors. Therefore, adopting the IFRS 15 and disclosing its impacts did not represent a significant challenge for companies. On the other hand, around 30% of the companies obtained an IQNE below 2.5, indicating that a non-negligible portion of the sample reported low-quality information concerning the adoption of IFRS 15.

Additionally, the results are consistent with those reported by Boujelben & Kobbi-Fakhfakh (2020), Moraes da Silva & Gonzales (2022), and Silva & Pierrri Junior (2021). These studies addressing different samples and perspectives generally show a high adherence to the IFRS 15 disclosure requirements, which corroborates the empirical evidence presented here.

4.3 Analysis of the Impacts Caused by the IFRS 15

In addition to comparing the estimated effects with those that occurred after the IFRS 15 was adopted, this section discusses the numbers and the effects the companies reported as a result of the IFRS 15 to assess its actual effects in Brazil and which sectors were most affected.

4.3.1 Sector classification

The companies in the sample were categorized according to the sectoral classification defined by B3 and their respective subsectors (Table 6).

Table 6

Classification of the Impact of the IFRS 15/CPC 47 according to sector

| | Not Reported | Uncertain | None | Some | Expected | Minor | Major | Total |
|--------------------------|--------------|-----------|------|------|----------|-------|-------|-------|
| Industrial goods | 14 | 1 | 9 | 2 | 33 | 3 | 8 | 70 |
| Communication | - | - | - | - | 5 | - | 1 | 6 |
| Consumer Cyclical Stocks | 12 | 4 | 24 | 5 | 27 | 1 | 6 | 79 |
| Non-Cyclical Stocks | 4 | - | 2 | - | 16 | - | 5 | 27 |
| Financial | 32 | 1 | 16 | 1 | 33 | - | 4 | 87 |
| Basic Material | 6 | - | 1 | - | 23 | - | 2 | 32 |
| Oil, Gas, and Biofuels | 3 | 1 | - | - | 6 | - | 1 | 11 |
| Healthcare | 2 | - | 2 | - | 13 | - | 2 | 19 |
| Information Technology | - | 1 | - | - | 5 | - | - | 6 |
| Public Utility | 3 | - | 4 | 2 | 23 | - | 35 | 67 |
| Others | 10 | - | 6 | - | 9 | - | - | 25 |
| Total | 86 | 8 | 64 | 10 | 193 | 4 | 64 | 429 |

Source: developed by the authors.

Table 6 shows that the sectors most affected by the change in accounting practices were:

- a. **Public Utility** – was the most severely impacted by the adoption of IFRS 15. Hence, 67% of the 67 companies analyzed suffered some impact after the standard was adopted, and 78% of these verified an impact more significant than expected;
- b. **Communication** – 67% of the six companies in the communication sector verified some impact, and 17% of these verified an impact more significant than expected;
- c. **Non-cyclical stocks**– 30% of companies suffered some impact, and 63% of these verified an impact more significant than expected;
- d. **Industrial goods** - 26% of the companies verified some impact, and 44% of these verified an impact more significant than expected.

These results are in line with evidence obtained by Napier & Stadler (2020), Silva & Pierri Junior (2021), and Moraes da Silva & Gonzales (2022), who identified specific impacts in the sectors most affected by the adoption of IFRS 15, such as telecommunications.

4.3.2 Summary of the impacts

An analysis of the sample comprising 429 publicly-traded companies in the Brazilian market in 2018 regarding the impacts arising from the adoption of the new standard for recognizing contracts with customers revealed that the following impacts were the most recurrent.

4.3.2.1 Asset reclassification: Recognition of contract assets

In 2018, several companies in the electricity sector reclassified their concession assets to contractual assets. These assets consisted of infrastructure concession contracts and/or electricity transmission, which, in turn, are categorized as the company's right to consideration in exchange for goods or services transferred to customers when this right is conditioned to something other than the passage over time (e.g., the company's future performance).

As determined by CPC 47/IFRS 15, assets linked to a concession in progress recorded under the scope of ICPC 01 (R1)/IFRIC 12 – Concession Contracts must be classified as Contract Assets during the construction or transmission period and transferred to Intangible Assets only after the service or supply is completed.

According to IFRS 15, revenue is recognized when a customer obtains control of goods or services. Therefore, its recognition is conditioned to fulfilling previously identified performance obligations and no longer just by the passage of time.

Therefore, this amount, previously recognized as part of Intangible Assets, was reclassified in the balance sheet to Contract Assets, with no impact on the income statement.

Examples of companies that verified such impact: Ampla Energia e Serviços S.A.; Cia Energética Do Ceara – Coelce, CPFL Energia S.A., Cia Piratininga De Forca E Luz, Alupar Investimento S/A, Cemig Geração e Transmissão S.A., Cia Paranaense De Energia – Copel (Power Transmission Concession), Eletropaulo Metrop. Electronic São Paulo S.A., Equatorial Energia S.A., Cia Paulista de Forca e Luz, Rede Energia Participações S.A., Cia Saneamento Basico Est São Paulo, Empresa Conc Rodov Do Norte S.A., Econorte, Energisa S.A., Centrais Elet Bras S.A. - Eletrobras, EDP Espirito Santo Distribuição De Energia S.A., Light Serviços De Eletricidade S.A., and Neoenergia S.A.

In turn, other companies suffered from reclassifying the accounting balances representing the assets linked to concessions during the development or improvement period from the financial asset of the concession to a contractual asset. Again, under IFRS 15, the right to consideration for goods and services is conditioned on meeting another performance obligation. Thus, the concession asset in accounts receivable for infrastructure implementation and other remuneration, previously classified as a financial asset, is now classified as a contractual asset. Accordingly, such revenues are recognized under the contracts signed, whose performance obligation is met over time, and the compensation amount reflects the fair value receivable when the services are effectively transferred to customers.

Examples of companies that verified such an impact include Cachoeira Paulista Transmissora Energia S.A, Cia Estadual De Distrib Ener Elet-CEEE-D, Cia Estadual Ger.Trans.Elet-Ceee-Gt, Neoenergia S.A., Transmissora Aliança De Energia Elétrica S.A., Cteep - Cia Transmissão Energia Elétrica Paulista, Cia Energética De Minas Gerais - Cemig, Cemig Distribuição S.A, and Alupar Investimento S/A.

4.3.2.2 Failure to recognize revenue due to long history of default

According to IFRS 15, the companies must recognize revenues in the amount concerning the consideration they expect to be entitled to for the transfer of goods or services agreed upon within the contract. To assess the likelihood of collection, a company shall consider only the customer's ability and intention to pay the amount when due. In this sense, many companies failed to recognize revenues related to considerations they do not expect to receive, such as contracts with customers who have a long history of default and, for various reasons, had not yet suspended the service supply. The same happened for revenues referring to the portion of products expected to be returned.

Examples of companies with such impacts include Cia Energética do Rio Gde Norte - Cosern, Camil Alimentos S.A., Cia Eletricidade Est. da Bahia - Coelba, Elektro Redes S.A., Somos Educação S.A, Eletrobrás Participações S.A. - Eletropar, Technos S.A., and Battistella Adm Participacoes S.A.

4.3.2.3 Change in the timing of revenue recognition

A company should recognize revenue when performance obligations are met, i.e., when the product or service is transferred to a customer; such transfer occurs when the customer obtains control of that asset.

Under paragraph 35 of IFRS 15, a good or service should only be recognized if it meets any of the following characteristics:

- a. the customer receives and consumes the benefits as the company simultaneously generates them;
- b. the company's performance creates or improves an asset (e.g., work in progress) that the customer controls as the asset is created or improved;
- c. the company's performance does not create an asset with an alternative use for it, or the company has an enforceable right to payment for performance completed to date.

In this sense, some companies identified that there should be a change when revenue is recognized and its recognition over time as the performance obligations are satisfied (recognition proportional to the stage of conclusion of the contracted transactions).

Examples of companies that verified this impact: Notre Dame Intermédica Participações SA, Cia Estadual Ger.Trans.Ener.Elet-Ceee-Gt, Wilson Sons Ltd., Conc Sist Anhang-Bandeirant S.A. Autoban; Ccr S.A; Conc Rod.Oeste Sp Viaoeste S.A., BK Brasil Operação e Assessoria a Restaurantes S.A., Fertilizantes Heringer S.A., and Azul S.A.

4.3.2.4 Separation in more than one performance obligation

Performance obligations are promises that goods or services will be transferred according to the agreed upon in a contract with a customer. The company must verify at the time of the contract the products or services promised to customers, and each promise must be identified as a performance obligation that is to be transferred to the customer (IFRS, 2014):

- A distinctive product or service; or
- A series of distinctive products or services that are substantially the same and are similarly transferred to the customer.

Each distinct good or service that a company promises to transfer to its customer will be a performance obligation, i.e., each will have a share of the total contract price allocated to it, and its respective revenues will be recognized separately as each is fulfilled.

Many companies did not expect the new standard to impact their financial statements. However, they were faced with the recognition of more than one performance obligation in operations that were previously recognized as a single obligation. Thus, even though not all companies verified effects on the recognition and measurement of revenues, there are some changes in the disclosure of information regarding the breakdown, balance, performance obligation, and transaction price allocated in revenues from customer contracts.

The following companies are examples of such case: Embraer S.A., Statkraft Energias Renováveis S.A., and Braskem S.A.

4.3.2.5 Variable considerations

According to IFRS 15, the companies must consider the contract terms and their usual business practices to determine the transaction price. Furthermore, the consideration established in a contract may include fixed amounts, variable amounts, or both. In most cases, the transaction price can be determined immediately; however, in transactions where there is a variable component, the companies must consider:

- Variable considerations;
- Restricted estimative of variable payments;
- The existence of a significant financing component in the contract;
- Non-monetary considerations;
- Considerations payable to the customer.

The compensation amounts in contracts may vary depending on whether there are discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items, the revenue of which must be recognized in the net form. Additionally, dependence on future events that may or may not occur is a factor that influences variations in the transaction price. Such variations may be expressed in contractual terms, be a company's typical business practices, or even indicate that the company will accept an amount lower than that determined in the contract.

For this reason, companies such as CVC and Magazine Luiza S.A. started estimating variable considerations resulting from merchandise returns.

Examples of companies that verified such an impact were CVC Brasil Operadora e Agência de Viagens S.A., Braskem S.A., Energisa S.A., EDP Espírito Santo Distribuição de Energia S.A., and J. Macedo S.A.

(i) Sales revenue reducers

Recognizing discounts, rebates, and estimated merchandise returns as elements that decrease sales revenue, negatively impacting retained earnings/losses and reducing a company's net worth.

In other cases, selling expenses were reclassified as deductions from sales revenue, as some transactions not contemplated in the main contract for the supply of products, such as commercial actions concerning extra outlets and stores opening, among others, until then recognized as selling expenses, were now classified as revenue reducing items.

The companies that verified such an impact were M.Dias Branco S.A., Ind Com de Alimentos Ultrapar Participações S.A., Whirlpool S.A., Bombril S.A., Vulcabras/Azaleia S.A., Diagnósticos da América S.A., and Duratex S.A.

Utility companies are known to have a variable consideration that depends on penalties paid when they do not comply with adequate levels of electricity supply. The understanding in these cases was that the companies should recognize the net revenue of variable consideration. Thus, in the group of revenues related to the use of the distribution system, the entities reclassified penalties from the group of accounts "Operating Expenses" as "Operating Revenue" as these reduce this gross revenue.

The companies that verified such an impact were CPFL Energia S.A., Energisa Mato Grosso-Distribuidora De Energia S/A, Energisa Mato Grosso Do Sul - Dist De Energia S.A., Cia Energética de Brasília, EDP Espírito Santo Distribuição De Energia S.A., Cia Paranaense De Energia - Copel, Eletropaulo Metrop. Elet. Sao Paulo S.A., Equatorial Energia S.A., Cia Energética Do Rio Gde Norte - Cosern, Centrais Elet De Santa Catarina S.A., Cia Eletricidade Est. Da Bahia - Coelba, Elektro Redes S.A., Centrais Elet Bras S.A. - Eletrobras, Eneva S.A, Light Serviços De Eletricidade S.A., Neoenergia S.A., Cia Paulista De Forca E Luz, and Rede Energia Participações S.A.

(ii) Compensations payable to customers

IFRS 15 provides guidelines to treat compensations payable to customers. If a payment obligation concerns the transfer of goods or products, it should be deducted from the transaction price and, consequently, from the revenue. If it refers to a separate transaction, the company should record it as usual, as other purchases made with suppliers.

In this sense, some companies, which previously recognized compensations payable to customers as a selling expense, started recording these amounts as a reduction in the transaction price and, therefore, in sales revenue. For example, when selling tour packages, CVC only recognizes the revenue corresponding to the difference between the amount paid by the customer and the transfer made to third parties (tourist service providers).

Other companies that were affected were Cosan S.A. and Cosan Limited.

(iii) Expected loyalty and discount programs

Some companies have loyalty programs and grant discounts to customers to boost sales and promote customer loyalty. According to IFRS 15/CPC 47, costs incurred in this modality must be recognized as a reduction of sales revenue, considered a variable consideration.

The companies that verified this impact were Movida Participações S.A., Natura Cosméticos S.A., and Profarma Distrib Prod Farmacêuticos S.A.

4.3.3 Transition and Disclosure

In this paper, we sought to analyze the impacts caused by IFRS 15, considering how prepared the companies were to deal with these impacts, without, however, focusing on the monetary effects, as the standard sought to consolidate several previous standards determining how to recognize revenues in a single rule with uniform implementation. In this sense, the effects on many companies resulted from greater disclosure requirements and changes in how the information provided in financial reports is presented.

In other words, several companies, such as Braskem S.A. and Cosan S.A., did not report significant impacts after adopting the standard, only a need for providing greater detail in disclosures related to contracts with customers.

The companies that verified such an impact were Wilson Sons LTD., Cosan Limited, Linx S.A., Ferreira Gomes Energia S.A., Banco Inter S.A., Omega Geração S.A., Conc Rod.Oeste Sp Viaoeste S.A., Fleury S.A., and Ferreira Gomes Energia S.A.

Regarding the transition method, Table 7 presents the method the companies chose.

Table 7
Method chosen by the companies to adopt IFRS 15

| Adoption method | No. of companies | Proportion |
|-----------------|------------------|------------|
| Comparative | 24 | 6% |
| Alternative | 109 | 25% |
| Uncertain | 39 | 9% |
| None | 257 | 60% |

Source: developed by the authors.

Note that 60% of the companies did not report any impact caused by the standard and did not use a transition method. Only 6% of the companies adopted the full retrospective method, and 25% opted for the modified retrospective. Finally, it was impossible to identify the method used by 9% of the companies.

The results reported here are consistent with previous analyses. In other words, the fact that the IFRS 15 did not cause significant impacts for most of the companies in the sample explains the 60% of those not adopting any transition method.

4.3.4 Additional test: validating the *IQNE*

To test the *IQNE* rationale and assess whether it captures the quality of the explanatory notes, we verified whether companies with a high *IQNE* presented higher quality information in their financial statements based on the analysis of the companies awarded the Transparency Trophy (Anefac–Fipecafi–Serasa Experian Transparency Trophy). Therefore, we analyzed 18 of the 25 companies awarded in 2018 (the seven winning companies not analyzed did not have an *IQNE*).

The Transparency Trophy does not consider the results or the companies' economic and financial situation, which does not interfere with the selection process. The objective is to analyze the transparency and clarity of information companies provide to the market, which generates added value for the business. Thus, the Trophy does not evaluate the companies' management but rather the quality of their financial statements. Therefore, the conclusion is that the objectives of the Transparency Trophy are highly aligned with the objectives intended in this study; hence, a comparison between the descriptive statistics of this group of companies and the sample analyzed here was considered pertinent (Table 8).

Table 8

Comparative descriptive statistics of the *IQNE* of the companies in the sample and those awarded the 2018 Transparency Trophy

| Variable | Mean | Standard-Deviation | Median | Sample (companies) |
|--|--------|----------------------|--------|--------------------|
| General <i>IQNE</i> | 3.359 | 1.746 | 3.048 | 429 |
| <i>IQNE</i> of the companies awarded the Transparency Trophy | 4.194 | 1.016 | 5 | 18 |
| t-test – Difference of Means | | | | |
| t-statistic | 3.2088 | P-value (one-tailed) | 0.002 | |
| Degrees of freedom | 21 | | | |

Source: developed by the authors.

Table 8 shows that the mean *IQNE* obtained by the companies awarded the Transparency Award in 2018 is higher than that obtained by the sample of the publicly traded companies analyzed here, with a lower standard deviation and median equal to 5. The t-test for differences of means confirms this finding. The P-value is 0.002; hence, the hypothesis that the means are equal is rejected (at a significance level of 10%, 5%, and 1%). Therefore, the *IQNE* rationale is validated, as companies with a high *IQNE* present higher quality information in their financial statements, considering that they met the criteria considered in the selection of companies for the Transparency Trophy. Thus, the *IQNE* measures the quality of accounting information.

5. Final considerations

Explanatory notes play a critical role in the process of disclosing accounting information (Healy & Papelu, 2001; Verrecchia, 2001; Salotti & Yamamoto, 2005; Murcia & Santos, 2009; Merkley, 2014; Moreno & Casasola, 2016) and, therefore, it is necessary to assess its quality of information. One of the main criticisms of explanatory notes is that they are becoming increasingly complex and sizeable and often present useless or irrelevant information (Cheung & Lau, 2016; Morunga & Bradbury, 2012; Richards & Staden, 2015, Lourenço, 2014, Flores, Santos, & Carvalho, 2015).

Given this context, this study's objective was to assess the quality of the explanatory notes in the transition to IFRS 15 - Revenue from Contracts with Customers, comparing the information that was disclosed before its adoption (2017) with the effects that were effectively reported after the first year in which the standard was implemented (2018).

In a sample comprising 429 publicly traded Brazilian companies, in 2017, more than half of the companies did not expect any impact from adopting IFRS 15, and the proportion of companies that did not verify impacts arising from adopting the standard in 2018 remained very similar. Most companies that verified some impact in 2018 just reclassified accounts for a better presentation or increased the information disclosed in explanatory notes. Additionally, the companies not disclosing the expected effects of IFRS 15 in 2017 continued not reporting any effects in 2018, possibly due to the irrelevance or immateriality of values.

Although, in general, the new standard did not produce material effects for most companies, it brought significant changes for some companies and sectors. Specifically, the public utility, communication, non-cyclical stocks, industrial goods, and civil construction sectors were the most affected by the reclassification of assets, liabilities, revenues, and expenses; changes in the timing of revenue recognition and the number of performance obligations in each transaction, and identification of variable considerations.

Regarding the Explanatory Note Quality Index (*IQNE*), on average, companies presented good quality information disclosed in the explanatory notes for the transition to IFRS 15; the mean index was 3.359, and 45% of the companies obtained the highest index (5).

This study is relevant to discuss how companies deal with the adoption of a new accounting standard, mainly regarding its preparation and the analysis of the effects that effectively occurred due to such a change. Because it is a standard that covers the revenue recognition process of all segments, adopting IFRS 15 potentially impacted many companies, to a greater or lesser extent, as it involves changes in the most critical component of the revenue arising from their respective operating activities.

In this sense, the information provided by the companies about the implementation of IFRS 15 needed to be the most accurate. Therefore, this study is relevant to the academic literature as it analyzes the quality of accounting information disclosed to understand the companies' commitment toward third parties necessary for their existence and continuity.

In addition to contributing to academia and users of accounting information in general, this study's results are expected to be beneficial for regulatory bodies, such as the Iasb, as it provides important evidence on the adoption of IFRS 15, which can be relevant during the Post-Implementation Review (PIR) process.

This study's limitations include the fact that comparisons considered information disclosed by the companies in 2017 and 2018, in addition to the classifications and categorizations performed when developing the *IQNE*, which partially depended on the authors' judgment. Nonetheless, such limitations do not invalidate the results, and this paper contributes to the discussion on the Quality of Explanatory Notes based on an important standard that potentially impacts many segments and companies.

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