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Research Article

Revenue recognition disclosure quality in the financial statements of Dutch construction companies

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Abstract

This study focuses on the revenue recognition disclosure quality of Dutch construction companies for a sample of both IFRS and Dutch GAAP applying companies. Attention is paid to the quality of the disclosures of significant judgements and estimates for IFRS issuers before and after the implementation of IFRS 15. Furthermore, a baseline measurement on the revenue recognition disclosures required by Dutch Accounting Standards ('DAS') 221 and 270 has been performed on the Dutch GAAP sample. We discuss also the forthcoming changes in these standards which will become effective for financial reporting years starting as per 1 January 2022. This study finds that overall the quality of disclosure of significant judgements and estimates related to the revenue recognition improved after the implementation of IFRS 15. Also, IFRS issuers provide relatively more useful disclosures than DAS issuers.

Relevance to practice

The outcome of this study can be relevant for, amongst others, issuers of financial statements and financial reporting standard setters. Insights, *including best practices*, are provided in the quality of revenue recognition disclosures for Dutch construction companies. Attention items are provided to issuers of financial statements and recommendations are formulated to standard setters.

Keywords

Revenue recognition, IFRS 15, DAS 221, DAS 270, construction companies

1. Introduction

As per 1 January 2018, the accounting principles of IFRS 15 *Revenue from contracts with customers* became effective. Almost three years later, in December 2020, the Dutch Accounting Standards Board ('DASB') issued the revised Dutch Accounting Standards ('DAS') 221 and DAS 270. These revised standards are effective for reporting years starting on or after 1 January 2022. The DASB explained the reasons for the amendments in an introductory section of a separately issued 'DASB-statement' (Statement 2020-15[1]). The DASB found that there was a need in practice for further guidance regarding accounting for revenue under Dutch GAAP. As part of their analysis the DASB specifically considered the accounting principles of IFRS 15 but did deliberately not choose to fully adopt the principles of IFRS 15 due to the significant implementation costs and the target group of companies applying DAS. Nonetheless, many principles underlying the amendments of DAS 221/270 can be related to stipulations in IFRS 15. This is also clear from the examples in Appendix 1 of DAS 270 showing many similarities with the examples added to IFRS 15. However, the DASB emphasizes that IFRS 15 (including additional guidance for the application of IFRS 15) is not leading in the interpretations of the amendments in DAS 221/270. This means that if DAS 221/270 do not contain a specific principle for a certain situation, there is no requirement to automatically fall back on IFRS 15 including IFRIC interpretations and agenda decisions.

An important underlying conceptual basis for revenue recognition under DAS is the transfer of risks and rewards, in contrast to IFRS 15 which is based on the concept of the transfer of control. Under DAS the underlying concept of risks and rewards remains unchanged by the amendments and hence remains an important difference between IFRS and DAS. Furthermore, the DASB decided to maintain two separate standards for accounting for revenue. DAS 221 provides guidance for construction contracts with customers (DAS 221) and more generic guidance on revenue recognition can be found in DAS 270 (The Income Statement), especially section 1.

In this study attention is paid to the developments in quality of revenue recognition disclosures resulting from the introduction of IFRS 15 for IFRS issuers and implications for DAS issuers of the amendments of DAS 221 and DAS 270. A sample consisting of Dutch construction companies was used for this research. The reason for selecting a Dutch GAAP applying sample, despite the fact that revised DAS 221 and 270 are not effective yet for reporting year 2021, is that the revised standards have already been published in December 2020. Therewith this research provides a baseline measurement on the revenue recognition disclosures under the existing DAS. Further, it may be interesting to see whether the revisions in the standards are already taken into account in the preparation of financial statements over reporting year 2021, also considering the observation by the DASB that Dutch practice needed further guidance in this area. Moreover, it is important to note that early application of the revised standards is explicitly allowed by the DASB.

As has been observed in an earlier research regarding the introduction of IFRS 15 (van der Kuij-Groenberg and Pronk 2019), the construction industry is one of the sectors significantly impacted by the introduction of IFRS 15. Furthermore, construction companies frequently enter into complex contractual arrangements (e.g. contracts with multiple performance obligations and variable considerations) which require judgements in the application of the standard. These judgements in the application must be disclosed under IFRS 15. We assess the quality of these disclosure and evaluate whether improvements can be identified in the disclosure of significant judgements applied in the revenue recognition accounting before and after the introduction of IFRS 15. Subsequently, for the Dutch GAAP applying sample we analyzed the disclosure quality and accounting policies adopted under the existing (2021) DAS and we provide an outlook on the expected impact of several changes by the revised (2022) standards. Furthermore we give some reflections on the disclosure requirements under the revised standards.

This study contributes to earlier studies on IFRS 15 published in this journal (Pronk and Roozen 2018; van der Kuij-Groenberg and Pronk 2019; Van Duuren and ter Hoeven 2020) in several manners. This study provides insights in the expected impact of revisions of DAS 221 on Dutch GAAP applying construction companies. Furthermore a ‘post-implementation review’[2] has been performed on disclosures of significant judgements and estimates in the revenue recognition accounting for IFRS financial statements. The outcomes of the empirical study are translated in recommendations for, amongst others, standard setters, issuers of financial statements and their auditors.

The article is structured as follows; section 2 covers the developments in the revenue recognition accounting standards under DAS and IFRS; in section 3 the sample is described and descriptive analyses are performed; in section 4 an empirical research on disclosures of significant judgements under IFRS and DAS is performed. Section 5 focuses on presentation requirements and the expected implication of the amendments in DAS 221 and DAS 270.

Concluding remarks and recommendations are provided in section 6.

2. Revenue recognition accounting

2.1. Implementation IFRS 15

IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle is that an entity recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Whereas IAS 18, as predecessor standard superseded by IFRS 15, provided separate revenue recognition criteria for goods and services, this distinction is removed under IFRS 15. The new standard focuses instead on the identification of performance obligations and distinguishes between performance obligations that are satisfied ‘at a point in time’ and those that are satisfied ‘over time’, which is determined by the manner in which control of goods or services passes to the customer.

Specific topics on which more prescriptive requirements have been introduced include:

- the identification of a contract with a customer;
- the identification of distinct performance obligations and the allocation of the transaction price between those obligations;
- accounting for variable consideration and significant financing components;
- recognition of revenue arising from licences; and
- presentation and disclosure of revenue from contracts with customers, and other balance sheet items related to revenue.

Van der Kuij-Groenberg and Pronk (2019) observed in a sample of 66 European listed companies that the transition effects from IAS 18 to IFRS 15 in the reporting year 2018 were not material for the majority of companies. The authors also observed that IFRS 15 led to a further disaggregation of revenue compared to the disaggregation that already has to be made according to IFRS 8 *Operating*

Segments. This finding has been confirmed by Van Duuren and Ter Hoeven (2020) in a sample of 25 large European construction companies. In this latter research it was also found that the quality of disclosures did generally not improve in the second year of application of IFRS 15 (reporting year 2019) compared to the first year (reporting year 2018). In this regard it was concluded by the authors that learning effects of continuing application of IFRS 15 were not apparent in terms of disclosure quality.

2.2. DAS 221 and DAS 270

As mentioned in section 1, the DASB added guidance based on IFRS 15 to the current chapter structure in DAS (RJ 221/270). Examples of these additions to DAS 221 and 270 are:

- the identification of distinct performance obligations and the allocation of the transaction price between those obligations;
- accounting for variable consideration and significant financing components;
- recognition of revenue arising from licences;
- guarantees;
- agent/principal considerations;
- payments to customers;
- customer options for additional services.

Despite this extension of guidance, IFRS 15 contains still more specific guidance in certain areas like significant judgements, performance obligations, contract balances and assets recognized from the costs to obtain or fulfill contracts with customers.

As said before, the DASB emphasizes that IFRS 15 is not leading in interpretation in case DAS 221/270 lacks specific guidance. In other words, it is not mandatory to fall back on IFRS 15 in case DASs contain no specific guidance. In that specific case the general 'fall back option' of DAS 110.110 applies. This means specifically that the management board of the legal entity has to select a policy that provides relevant and reliable information for decisions made by the users of the financial statements.

Also it is important to note that many differences remain between IFRS 15 and DAS 221/270. In the introduction section we have already pointed to differences in basis concepts (control versus risk and rewards) and in how the guidance is structured (one standard versus two chapters). In the context of our industry (construction) with long duration contracts, we especially emphasize the difference in criteria for revenue recognition over time (also called percentage of completion) and revenue recognition at a point in time (also called completed contract).

According to IFRS 15, revenue shall be recognized over time when one of the following criteria is met:

- the customer simultaneously receives and consumes all of the benefits provided by the entity as the entity performs;
- the entity's performance creates or enhances an asset that the customer controls as the asset is created; or
- the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

With regard to DAS, the scope of DAS 221 is limited to contracts with customers for the construction of assets (or a combination of assets) that typically takes more than one reporting period to complete.

If in scope of DAS 221, revenue shall be recognized by reference to the stage of completion if the outcome of the transaction can be estimated reliably. This basically means that being in scope of DAS 221 is already enough to justify an over-time revenue recognition pattern, while under IFRS one of the three criteria *should be met* in order to account for revenue over time. If the criteria are not met revenue *should* be recognized at a point in time, being the moment control of the good or service is transferred to the customer.

In terms of disclosures, two requirements have been added to DAS 221. The first is the disclosure of the total amount of the capitalized costs of obtaining a contract. And the second is related to disclosing contingent income and expenses related to contracts with customers, whereby DAS 221 refers to the disclosure requirements in DAS 252 *Provisions*. Contingent income and expenses can relate to performance bonuses or penalties that are not probable enough to be part of recognized contract income or expenses yet. Furthermore, disclosure requirements about identification of performance obligations and the method of measurement and allocation of revenue between performance obligations is added to DAS 270. However, it is not clear whether these added disclosure requirements also apply if the contract with the customer is scoped within DAS 221. We believe that the division over two different chapters (instead of having all the requirements in one standard like IFRS 15) creates unclarity in what to disclose for contracts that are in the scope of DAS 221. A reference to the disclosure requirements in DAS 270 is missing. We will discuss this further in the final section of this article.

Regarding the transition to revised DAS 221/270 it is important to note that there are transition options available for Dutch GAAP applying companies. First of all it is possible to early adopt the revisions of DAS 221/270. This is in line with IFRS 15 that also allowed early adoption.

The transitional provisions of DAS 121 allow furthermore for the following three options[3]:

- *Prospective application.* This means that the revisions only apply to contracts entered into or modified after the beginning of the financial period in which the revised standard was first applied[4];
- *Partially retrospective.* This means that the revisions only apply to contracts entered into or modified as from a date specified by the company itself preceding

January 1, 2022. This effectively provides companies the practical ability to re-assess contractual arrangements for a limited previous period but not having to re-assess contracts from infinite past[5].

- *Fully retrospective.* This means companies will have to determine the cumulative effect of applying the revisions as of the beginning of the first comparative period presented and restate the comparing figures in the year of adoption of the revised standard. It goes without saying that the transition option chosen should be disclosed.

We conclude with the observation that DAS still allows for the so-called IFRS 15 carve-in option. This means that entities are still allowed to apply IFRS 15 instead of DAS 221/270, provided that IFRS 15 is applied in full and consistently. This application of IFRS 15 should also be disclosed.

3. Sample

The sample of this study consists of Dutch companies within the construction industry[6] making use of either IFRS or Dutch GAAP. The sample was determined based on public information derived from the Dutch Chamber of Commerce. We have applied selection criteria which are intended to arrive at a population of construction companies in the Netherlands for which the provisions in either IFRS 15 or DAS 221 are of particular relevance. The applied selection criteria entail: companies need to have a relevant portion of revenue generated *over time*[7]; and companies need to have a relevant portion of their activities within the construction industry. In determining our final sample we rated companies from largest to smallest (based on total revenue). From the initial population of 100 companies, 16 companies for which no 2021 annual report was available on 1 August 2022 were omitted. Furthermore, we removed:

- 40 companies which had a group relationship with other companies in the sample;
- 16 companies which did not have a relevant portion of revenue recognized over time or no relevant activity within the construction industry.

Finally, we arrived at a population of 20 Dutch GAAP financial statements and 8 IFRS financial statements. Our final sample has been included in Appendix 1.

As explained in our introduction, this study – amongst others – investigates the quality of disclosure on significant judgements and estimates regarding the revenue recognition accounting before and after the introduction of IFRS 15. In order to achieve this, the sample includes the latest available IFRS financial statements (year 2021) and the last but one IFRS annual report before IFRS 15 became effective (year 2016). The effective date of IFRS 15 is the start of the reporting year 2018. We have not chosen 2017 as benchmark reporting year due to formal or informal (already applying some principles of IFRS 15 without formally adopting the entire standard) early adoption of IFRS 15 in reporting year 2017.

Table 1 and Table 2 depict the descriptive statistics of the financial statements included in our sample.

Table 1. Some key figures of IFRS financial statements examined.[8]

	2021		2016	
	Revenues (× EUR 1.000)	Balance sheet (× EUR 1.000)	Revenues (× EUR 1.000)	Balance sheet (× EUR 1.000)
Average	2,639,219	2,176,063	2,007,735	2,095,209
Min	262,076	114,109	136,863	78,462
Max	7,315,281	4,495,940	6,976,090	5,564,005
Stand. deviation	2,683,579	1,982,292	2,528,169	2,204,079
N	8	8	8	8

Table 2. Some key figures of Dutch GAAP 2021 financial statements examined.

	Revenues (× EUR 1.000)	Balance sheet (× EUR 1.000)
Average	690,356	414,854
Min	247,038	45,107
Max	2,191,811	2,641,083
Stand. deviation	548,517	595,179
N	20	20

Not surprisingly, the non-listed Dutch GAAP companies are on average significantly smaller than the IFRS based companies in terms of revenue and balance sheet total. However, despite the smaller size all Dutch GAAP companies fall definitely in the scope of the large entity ('grote rechtspersonen') accounting regime and have to comply with applicable Dutch GAAP for large entities.

4. Empirical research

4.1. Early adoption and disclosures on revised standards

In this section we provide an analysis on information included in the 2021 financial statements of Dutch GAAP issuers about the revisions in standard 221 (and 270). We investigated whether companies early adopted the amendments or whether companies disclosed known or reasonably estimable information relevant to assessing the possible impact of the application of the revised standard in the subsequent reporting period. Irrespective to IFRS, DAS has no specific disclosure requirements regarding future standards and changes of standards not yet effective.[9] This means companies are not required to disclose information on DAS 221 (and DAS 270) in their 2021 financial statement regarding the expected impact of the revised standards (e.g. estimated impact on results or equity). For the purpose of this research we however deem the disclosure of the expected impact of the revisions in the standards in the 2021 financial statements to be a best practice. Furthermore, as part of the transitional provisions, it is allowed to early adopt the revised DAS 221/270 and it is interesting to see whether companies made use of this possibility.

Table 3 shows the result of our analysis. None of the companies made use of the carve-in option to apply IFRS 15 instead of DAS 221/270. Only one company (Nijs & Zonen Holding B.V.) early adopted the revised standards. Only one other company (van Oord N.V.) made reference to the future revisions of the standards and explained it is currently assessing the impact of the revised standards. Despite the lack of specific disclosure requirements regarding future changes of standards in DAS, we consider it best practice to make early reference to the revisions in the 2021 financial statements. None of the companies studied provided information relevant to assessing the possible impact of the application of the revised standards.

Table 3. Early adoption and disclosures of DAS 221/270.

	N	%
Early adoption	1	5
Not early adopted	19	95
Total	**20**	**100**
Revision of DAS 270 and DAS 221 disclosed in FS	2	10
Revision of DAS 270 and DAS 221 not disclosed in FS	18	90
Total	**20**	**100**

Nijs & Zonen Holding B.V. as early adopter disclosed this fact and specifically addressed how changes in the presentation requirements affected their solvency. This practice is further illustrated in paragraph 4.3 of this study. From the financial statements of Nijs & Zonen Holding B.V. it remains unclear which transitional provision was chosen (full or partial retrospective application). This is relevant because one of the key implications of the revisions of DAS 221 are the changes in balance sheet and profit or loss presentation affecting accounting solvency figures. We refer further to paragraph 4.3.

of significant judgements and estimated under the existing DAS and we provide a reflection on the forthcoming changes in the disclosure requirements.

With the implementation of IFRS 15, the IASB objectives of the disclosure requirements regarding revenue recognition are stipulated in IFRS 15.110:

'The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.'

In this study specific attention is paid to the disclosure requirements regarding significant judgements made in the application of IFRS 15. This focus area was chosen because we observe (in practice) that particularly significant judgements (and estimates) are made in the areas of the timing of satisfaction of performance obligations and of the determination of the transaction price. This is relevant within the sector (construction companies), because it is not uncommon that contractual arrangements include significant variable considerations (such as related to contractual completion dates with accompanying bonus and malus agreements for earlier or later completion of the project). Also the estimation of progress is usually accompanied with significant uncertainties. In this regard, IFRS 15 also has an overlap with the disclosures of significant judgements and significant estimates most relevant for the amounts recognized in the financial statements based on IAS 1.[10]

In our research, we have investigated the information provided by companies on significant judgements and estimates applied in the area of revenue recognition. The information disclosed prior to the implementation of IFRS 15 (reporting year 2016) is compared with the reporting year 2021 (when IFRS 15 was applied). The research shows insights into the quality of disclosure of significant

Figure 1. Nijs en Zonen Holding B.V (2021), p 24 (for translation: see Appendix 2).

I b: Wijziging RJ De wijziging in de Richtlijnen voor de Jaarverslaggeving (RJ) 221, van toepassing op verslaggeving vanaf 2022, is in de verslaggeving 2021 reeds verwerkt. Hierin is bepaald dat de debet- en creditstanden van individuele projecten binnen de post Onderhanden werken en projecten niet meer mogen worden gesaldeerd, maar separaat als actief of verplichting de balans verwerkt dient te worden. Het effect op het balanstotaal is per 31 december 2021 € 20.241.676 en per 31 december 2020 € 21.741.096. Dit leidt per 31 december 2021 tot een toename van het balanstotaal van € 78,8 miljoen naar € 99,0 miljoen en derhalve een afname van het solvabiliteitspercentage van 37,0% naar 29,4% in het boekjaar 2021. De vergelijkende cijfers over 2020 zijn dienovereenkomstig aangepast, hetgeen tevens leidt tot een toename van het balanstotaal van € 106,2 miljoen naar € 127,9 miljoen en derhalve een afname van het solvabiliteitspercentage van 32,4% naar 26,9%. Ter verduidelijking van het effect op de solvabiliteit is zowel het percentage met als zonder toepassing van de nieuwe Richtlijn vermeld.

4.2. Significant judgements and estimates related to the amount and timing of revenue recognition

In this section we provide a detailed analysis on the disclosure of significant judgements and estimates related to the amount and timing of revenue recognition and improvements in this area before and after the application of IFRS 15 (IFRS population). With regard to the Dutch GAAP population we examine the quality of disclosures judgements and estimates related to the amount and timing of revenue recognition. In assessing the disclosure quality we performed a qualitative assessment in which companies with predominantly disclose significant judgements and estimates in a boilerplate manner (i.e. mere repeating of information included in the standards) are differentiated from companies which provide entity-specific information. The main criteria applied in this differentiation is whether or not companies describe factors and uncertainties which are entity-specific in disclosing significant judgements and estimates regarding the revenue recognition.[11]

The results (Table 4) show that the quality of significant judgements and estimates regarding revenue disclosures overall increased. In 2016 only one company (13%) disclosed significant judgements and estimates that we considered as more relevant (non-boilerplate) information. In 2021 this number improved to four companies (50%). In this assessment the disclosure of policies including adequate explanations on how these policies affect the nature, timing and uncertainty related to the recognition of revenue are denoted as more relevant (non-boilerplate disclosures). The mere disclosure of (a summary of) the accounting policies prescribed by the standard is regarded as boilerplate information.[12]

Table 4. Disclosure of significant judgements and estimates related to amount and timing of revenue recognition (IFRS).

	IFRS 2016		IFRS 2021		DAS	
	N	%	N	%	N	%
Significant judgements and estimates disclosed	1	13	4	50	4	20
Significant judgements and estimates not (clearly) disclosed or predominantly boilerplate disclosures	7	87	4	50	16	80
Total	**8**	**100**	**8**	**100**	**20**	**100**

For example, the disclosure of BAM, as shown in Figure 2 (2016) and Figure 3 (2021), show that (much) more information is provided to users to understand the estimations (and judgements) applied in the accounting for revenue. In the 2021 financial statements much more background is provided on how the company has evaluated and supported estimations regarding the recognition of revenue. Furthermore, information is provided on how individual significant projects have affected the recognition of revenue and how these may affect future revenue recognition.

The disclosure of significant judgements and estimates is also a requirement under Dutch GAAP.[13] We found that 20% of the Dutch GAAP companies disclose judgements and estimates regarding the revenue recognition which can be considered to provide more relevant information. The vast majority (80%) of the companies provide no or 'boilerplate' disclosures on judgements and estimates used in the recognition of revenue. Despite the fact that the results are in line with the low percentages found for the IFRS population prior to the implementation of IFRS 15 (14%), we find this a remarkable finding given that construction companies frequently enter into complex contracts and inherent estimation uncertainties are expected to (significantly) impact the revenue recognition. The most evitable explanation is that DAS 221 does not provide for specific disclosures on judgements (and estimations) in the application of the standard and the determination of the nature, timing and uncertainty of revenue recognized. The overarching general disclosure requirements on estimates and judgements as outlined in DAS 110.129 are perhaps too generic or underemphasized. The disclosure of Edge Real Estate B.V. (Figure 4) provides relatively more information on estimation and risk as part of the project valuation.

Although some (four) companies provided information which give relatively more insights in judgements and estimates applied in the recognition of revenue, none of the Dutch GAAP companies provided quantitative information on the interaction between estimation uncertainties and the amounts of revenue recognized or book values of related balance sheet accounts.

Interestingly, there are however very few additional disclosure requirements introduced in the revised standard 221 (irrespective to the additional disclosure requirements introduced by IFRS 15) which means that limited improvements may be expected with the introduction of the revised standard 221. In the revised standard more requirements have been included on determining the amounts of revenue recognized and concepts such as variable considerations and performance

Figure 2. BAM (2016), p 143, p 152.

(b) Claims receivable

In the normal course of business the Group recognises amounts receivable in connection with claims for completed work due from the principal and/or insurance claims as reimbursement for certain loss events on projects. Project related claims on principals are recognised when it is probable that the claim amount will be received. Insurance claims can be recognised only if it is virtually certain that the amount recognised will be reimbursed. See paragraph 2.24.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

A variation order is an instruction by the customer for a change in the scope of a project to be performed under the contract. Regarding variation orders the following basis for valuation is applied:

- it is probable that the customer will approve the variation and the amount of revenue arising from the variation; and
- the amount of revenue can be reliably measured.

In the normal course of business the Group recognises amounts receivable in connection with claims for (un)completed work due from the principal and/or insurance claims as reimbursement for certain loss events on projects. Project related claims on the principal are recognised when:

- negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and
- the amount that is probable will be accepted by the customer can be measured reliably.

In some markets, given local circumstances and practices with our principals, historic data on receiving comparable claims is also taken into account when assessing the probability of receiving a claim.

Insurance claims can be recognised only if it is virtually certain that the amount recognised will be reimbursed.

Figure 3. Best practice BAM (2021), p 117–118, p 123.

(b) Unpriced variation orders

Variation orders are changes that are clearly instructed by the client. The group assesses that variable considerations involving unpriced variation orders are highly probably when it has a probability of at least 75%, that a significant reversal in the amount of cumulative revenue will not occur once the uncertainty related to the variable consideration is subsequently resolved. The group recognizes variable considerations in unpriced variation orders in the following circumstances:

Variation orders that have clear evidence available that the amounts meets the highly probable criterion are usually in (but not limited to) the following circumstances:

- The instruction or approval is documented. Amounts are expected to be based on costs or costs plus regular margin or contract rates
- Amounts covered by customer payments
- Amounts covered by documented settlement offers from the customer

Variation orders where the highly probably criterion is based on judgement are present in the following circumstances:

- Changes are without documented instruction of the client but the variation order is substantiated by other evidence. In some cases, the form of the contract entitles the Group to additional remuneration in case the work changes or additional work is required.
- Additional project cost, on top off direct cost from variation orders (e.g. delays or redesign / adjustments)

When variable considerations are constrained, the Group tries to resolve these with the customer first, otherwise with the help of third parties.

In the situation that meeting the highly probable criterion is based on judgement, this judgement is supported by written evidence that demonstrates the efforts by the client to reach a settlement are at an advance stage, legal opinions or court or arbitration decisions, or other evidence which supports the highly probable criterion.

(c) Claims receivable

In the normal course of business the Group recognises contract assets in connection with claims for (partly) satisfied performance obligations due from the principal and/or insurance claims as reimbursement for certain loss events on projects. Claims for satisfied performance obligations are part of the variable considerations under IFRS15. Project related claims on principals are recognised when it is highly probable that no significant reversal in the cumulative revenue recognised regarding to the claim, will occur. The Group considers both the likelihood and the magnitude of a possible revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

- the amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include the judgement or actions of third parties like the court or an arbitration committee or weather conditions;
- the uncertainty about the amount of consideration is not expected to be resolved for a long period of time;
- the entity's experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value;
- the entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances;
- the contract has a large number and broad range of possible consideration amounts.

Insurance claims can be recognised only if it is virtually certain that the amount recognised will be reimbursed. See paragraph 2.26 for further explanation regarding the recognition of variable considerations.

Several large projects are exposed to higher estimation uncertainties, given the size of these projects. These estimation uncertainties relate to unpriced variation orders and contractual claims. Constraints on variable considerations for these projects mainly relate to change orders requested by the client but not approved, contractual penalties in relation to time extension (claims) and recovery of costs in relation to design issues. The outcomes of negotiations and settlements regarding these variation orders and claims can have a broad range. Different outcomes to the assumptions applied as part of these estimates could have a significant impact on the Croups overall financial results. See Note 6.

A constructive dialogue with a client is ongoing on a major contract under construction within the large project division of Civil in the Netherlands. Given the advanced stage of this dialogue the significant financial impact of the envisaged outcome has been incorporated in the results accordingly in line with the applicable IFRS on revenue recognition.

In addition, the Group is in discussion regarding the final settlement of two projects in the Middle East.

obligations have been introduced. There are, however, no disclosure requirements stipulating how companies made estimates or judgements in the application of the standard. Compared to standard 221, several additional disclosure requirements are introduced for DAS 270 mandating companies to provide more information on – amongst others – major performance obligations, the method of attribution of revenue to reporting periods – including the methodology applied to determine the degree of completion – and disaggregation of revenue to major categories. It is particularly remarkable that no[14] such additional disclosures are introduced for construction contracts as the accounting for these contracts are eminently influenced by the newly introduced concepts of e.g. variable considerations and performance obligations. We do believe this is an important area of improvement for the DAS.

Another item assessed in our analysis is the disclosure of 'project specific information' by construction companies. As an observation of this study – and also evidenced in practice – companies tend to provide generic, more boilerplate disclosures and are more reluctant to provide more relevant (and likely sensitive) information. For construction companies the disclosure of less boilerplate, more relevant information usually translates into providing more project specific information (e.g. disclosures on assessment of variable considerations or disputed amounts with the principal). We investigated to what extent construction companies provided project specific information, either qualitatively or quantitatively. The results are presented in Table 5.

Table 5. Project specific information with regard to significant judgements and estimates.

	IFRS 2016		IFRS 2021		DAS 2021	
	N	%	N	%	N	%
Yes, including quantification	1	13	1	13	0	0
Yes, without quantification	0	0	1	13	0	0
No	7	87	6	75	20	100
Total	**8**	**100**	**8**	**100**	**20**	**100**

Figure 4. Best practice Edge real estate (2021), p 42–43.

Project result estimates and risk

New developments are carefully assessed since they are measured against a combination of EDGE's own risk and reward analysis and the strict requirements placed on projects by financial parties. The financial model for EDGE's developments depends on significant external financing, which ensures a thorough review from financial institutions on EDGE's projects. EDGE is pleased to see that, over the years, the trust from our bankers is increasing along with the number of banks that support our projects. EDGE continues to build a network with financial institutions to ensure access to a wide range of senior debt providers for our developments.

Project result estimates form a considerable part in our profit and loss account and actual outcomes may deviate from these estimates, specifically for long-term development projects. The level of estimation uncertainty increases in line with the following factors:

- Agreed contracts that shift more risk towards the property developer, such as design risks that EDGE accepts.
- A project that is in an early design and implementation stage is more vulnerable to project risks. Generally, EDGE aims to minimize implementation risk through clear contracting with builders, tenants and buyers. When detailing a preliminary or final design, substantial deviations from the original design may arise. This may be because initial solutions turn out in hindsight to be unfeasible, or because the underlying conditions are better or worse than expected, or because dialogue with stakeholders is far more complicated, and therefore more expensive, than foreseen.
- The term of the contract is longer and hence the forecast of the ending of the development project involves inherently more estimation uncertainties.

EDGE trades only with creditworthy parties and has implemented control procedures to check the creditworthiness and ethical behaviour of parties. EDGE applies strict credit control and dunning and collection procedures. Due to these measures the credit risk is considered low.

The extent to which EDGE is prepared to take risks to achieve its objectives differs from project to project and from market to market. EDGE needs to take risks in order to achieve its objectives. At the same time, the Board and Business Unit management have agreed to aim for a further reduction of the overall risk of the portfolio of projects during 2022. Furthermore, EDGE aims to share risks, and with that returns, on parts of the portfolio with other investors going forward. This can, for example, be achieved through creating a country level fund for development projects, or GP/LP structures on a project by project basis.

Not surprisingly given the poor results in the judgements and estimates area, no project specific information was found in Dutch GAAP financial statements. But also in the IFRS financial statements disclosures on project specific information are rare. An improvement was noticed for one company (BAM) providing additional information in their 2021 financial statements respective to the information provided before the introduction of IFRS 15 (2016 financial statements). One company (Heijmans) stood out positively in both 2016 and 2021 (Figures 5 and 6 respectively).

Heijmans provided information in both the 2016 and 2021 financial statements about projects for which an increased estimation uncertainty is applicable including detailed information regarding the nature of the estimation uncertainty and the potential financial consequences when the uncertainty is subsequently resolved. Furthermore, the disclosures offer insights in the financial bandwidths of these construction projects which enable users to understand risks in relation to the revenue recognized. Heijmans also provides information on how constraining estimates of variable considerations were assessed and how the current valuation is supported.

4.2.1. Post-implementation review with regard to disclosures on significant judgements and estimates

As part of their processes, the IASB undertakes post-implementation reviews of each new IFRS Accounting standard.[15] The post-implementation review of IFRS 15 is forthcoming. In preparation for the post-implementation review, the EFRAG[16] decided to support an academic study on the effects of IFRS 15 for which currently input is asked from users and preparers. This study provides initial observations on the usefulness of information provided by the standard and whether the objectives of the standard were met, aimed at specific disclosure requirements considered to be the most important for users of financial statements. As set out in paragraph 4.2, this study investigated disclosures on significant judgements and estimates related to the amount and timing of revenue recognition and to what extent project specific information was provided. In this paragraph we set out the improvements identified in 2021 compared to 2016. As an overall observation we note companies generally provide more extended information on revenue recognition policies, despite these policies being more boilerplate as explained in paragraph 4.2. In our assessment we distinguished between companies for which marginal improvements were identified and companies for which a more significant and notable improvement was found. The results can be found in Table 6. One company (Heijmans) provided best practice disclosures in both 2016 and 2021. Out of the remaining seven companies at four companies marginal improvements were identified. We observed that generally disclosures on significant judgements and estimates regarding revenue recognition were extended however merely in boilerplate form. For three companies (BAM, Volker Wessels and Boskalis) a clear improvement was identified. Putting these results into perspective of the disclosure objectives of IFRS 15, we observe the objectives were met to some extent but there is still room for improvement.

Table 6. Analysis of improvement of disclosure of significant judgements and estimates (2016 vs 2021).

	IFRS 2021	
	N	%
Clear improvement	3	38
Marginal improvement	4	50
Best practice disclosure in both 2016 and 2021	1	12
Total	**8**	**100**

Figure 5. Best practice Heijmans (2016), p 187–188.

6.29 Management estimates and judgements

The accounting information in the financial statements is partly based on estimates and assumptions. The Group makes these estimates and makes assumptions about future developments, based on factors such as experience and expectations about future events that may reasonably be expected to occur given the current state of affairs. These estimates and assumptions are continually reassessed.

Revisions of estimates and assumptions, or differences between estimates and assumptions and actual outcomes, may lead to material adjustments to the carrying amounts of assets and liabilities.

Supplementary to the estimates already described in the accounting principles (section 5) and the explanatory notes (6.1 to 6.28), the key elements of estimation uncertainty are explained below.

Measurement of projects
For more information on the key assumptions used in the measurement of projects, refer to note 6.15, "Work in progress". A higher estimation uncertainty applies to certain projects. These are the Dutch National Institute for Public Health and the Environment (RIVM), executed as a joint venture, N23 Westfrisiaweg, and Wilhelminasluis Zaandam.

Dutch National Institute for Public Health and the Environment (RIVM)
It appeared that the original design for the new-build for the Dutch National Institute for Public Health and the Environment (RIVM) and the Medicines Evaluation Board (CBG) did not fully satisfy the specified vibration criteria. After the principal agreed to an extension, the StruktonHurksHeijmans consortium developed a combination of measures such that design now satisfies these criteria for the laboratory units. The construction commencement certificate was issued mid-January 2017, and work itself should begin in the spring of 2017. The measurement of the projects takes the provisionally estimated additional costs into account, as well as a part payment from the principal. For 2016, Heijmans has in net terms formed a provision of €10 million for this project. (This relates to Heijmans' share of 37.5% in the business combination.) The principal and consortium are also still discussing the financial implications. As a result, there is increased estimation uncertainty about the measurement of the project, with a spread of approximately plus €5 million and minus €10 million. Heijmans considers that the risk exposure will remain within the spread, and that the current measurement is the best estimate at this time.

N23 Westfrisiaweg
N23 Westfrisiaweg For the N23 Westfrisiaweg project, there was a difference of opinion on the execution as regards the condition of the soil and its effect on the work. In February 2017, Heijmans reached agreement with the principal, in the form of a letter of intent, on the amended execution and planning, as well as on the financial settlement of the project. In connection with this, the additional matters agreed include the expected release from the risk fund and optimisation that benefit Heijmans, and how residual risks should be dealt with. The new arrangements require formation of a loss provision of €32 million for this project. Although the risk profile has improved significantly for Heijmans, increased estimation uncertainty still applies to the current project measurement, expressed as a spread of plus €5 million to minus €7.5 million. Heijmans considers that the risk exposure will remain within the spread, and that the current measurement is the best estimate at this time. With the signing of the letter of intent, the work temporarily halted has been resumed, and the project will be delivered according to plan at the end of 2018.

Wilhelminasluis Zaandam
With the Wilhelminasluis Zaandam project, there is a difference of opinion with the principal mainly concerning the design of the lock chamber. Heijmans completed the construction of the lock bays. As for the other work, this was halted pending a new design for the lock chamber. Heijmans and the principal are not yet in agreement regarding payment of the supplementary costs for producing the new design, or regarding the related extra costs resulting from the delay to the project. An arbitration procedure has been initiated. For 2016, Heijmans has formed an additional provision of €8 million for this project, which has improved its risk profile for Heijmans. However, the nature of arbitration means there is increased estimation uncertainty concerning the measurement of the project. If Heijmans were found to be completely in the wrong, which it considers unlikely, this would result in a further loss of some €10 million. The upper limit of the spread is approximately €10 million.

Figure 6. Best practice Heijmans (2021), p 232–233.

Measurement of projects
For more information on the key assumptions used in the measurement of projects, see note 6.16, Work in progress.

A higher estimation uncertainty applies in the case of the Wintrack II project. These contracts, with an agreed price of €250 million, concerned the construction of pylons on two new high-voltage transmission lines, Eemshaven-Vierverlaten and Borssele-Rilland, to be carried out by the Heijmans Europoles BV consortium. In early September 2018, the client TenneT, dissolved ('ontbonden') or alternatively terminated ('opgezegd') the agreements.

The various parties have filed considerable claims and counterclaims with regard to the agreed price.

4.2.2. Elements of significant judgements and estimates disclosed

This study further investigated which topics were identified by management regarding the revenue recognition for which significant judgements or estimates were made in applying the accounting policies. First, the disclosure of significant judgements and estimates as part of the accounting policies was assessed. From these disclosures relevant estimates and judgements regarding the revenue recognition were identified. During the collection of the data it was observed that in most, but not in all cases, separate sections regarding significant judgements and estimates were included in the financial statements. In several cases companies included the judgements and estimates applied in the disclosure of the respective notes (as permitted by IFRS and Dutch GAAP standards). The significant judgements and estimates included in the notes of the financial statements were included in the assessment. Surprisingly, in many Dutch GAAP financial statements (9 observations; 45%) no significant judgements or estimates were disclosed as part of the significant accounting policies paragraph or (clearly) separately. This is an area which requires improvement and we believe the amendments of DAS 221/270 could be the right call to action.

In paragraph 4.2 of this study we made observations regarding the quality of the significant judgements disclosed. In Table 7, we summarized which judgements and estimates were identified by management that have the most significant effect on the amounts of revenue recognized in the financial statements.

Table 7. Disclosure of significant judgements and estimates.

Disclosure element significant judgements and estimates	Number of observations DAS	Number of observations IFRS	Total number of observations
Estimates in relation to determination of expected project result (revenues and costs)	6	6	12
Estimates in relation to discussions with principals on e.g. variation orders, claims, penalties, etc.	7	4	11
Work in progress (general)	6	3	9
Repair of damages completed projects	1	0	1
Timing of completion	3	1	4
Time value of money (discount rate)	1	0	1
Market environment and developments in laws and regulation	1	1	1

In most cases, the disclosure of significant judgements and estimates relates to estimation uncertainties in connection with the estimation of the expected project results (12 observations). Also the estimations of variable considerations is often disclosed as an area which involves significant uncertainties (11 observations). In nine other observations companies disclosed that significant judgements and estimates were made related to the work in progress however the judgements and estimates were not specified or tailored to the company specific situations. This corresponds to our earlier finding that disclosures tend to be boilerplate in many cases. With the introduction of the revised standards we urge companies to improve the informativeness of these disclosures.

5. Presentation requirements

With the introduction of the revised standard 221 two more important changes in the presentation of construction contracts will become effective. These entail changes in presentation in both the balance sheet and the profit or loss statement.

According to the existing standard 221, the DASB recommends to present separately the net debit position and net credit position of construction contracts in the balance sheet.[17] The accounting principles however also allow companies to present a net total position of their construction contracts in their balance sheet and only further disclose their net debit position and their net credit position in the notes to the financial statements.[18] As part of this research, we first analyzed the current application of the option provided by DAS 221 to present credit and debit positions of construction contracts net in the balance sheet. Table 8 presents the use of this option. The table shows that merely all (19 out of 20) companies did not separately present debit and credit positions of construction contracts in their balance sheet despite the recommendation of the DASB. The most evident explanation for this outcome is that the presentation of a net balance generally results in better financial performance metrics such as solvency ratio's. The only company (Nijs & Zonen Holding B.V.) that separated debit and credit positions of construction contracts in the balance sheet is an early adopter of DAS 221. A notable finding is that with two companies that applied the option provided by the existing DAS 221.410 (i.e. net presentation of construction contracts in the balance sheet) no information on net debit and net credit construction contract position could be derived from the disclosures.

Table 8. Net presentation of construction contracts in the balance sheet.

	N	%
Yes	1	5
No, and disclosed in notes in accordance with DAS 221.417	17	85
No, not disclosed in notes in accordance with DAS 221.417	2	10

In analyzing the adherence to the disclosures on construction contracts we further observed disparity in the information included in the notes of the Dutch GAAP population relating to information provided regarding project provisions included in the construction contracts balance. Table 9 depicts a summary of this observation. The table shows that 45% of the companies provide specific (and quantified) information how project provisions affect the construction contracts balance. The remainder 55% of the companies did not provide this information.

Table 9. Disclosure of projects' provisions DAS.

	N	%
Disclosure of amount of provision for expected projects' losses included in construction contracts balance	9	45
No disclosure on amount of provision for expected projects' losses included in construction contracts balance	11	55
No	20	100

Under the existing presentation and disclosure requirements companies are required to present project provisions as part of the construction contracts in the balance sheet.[19] A separate disclosure of the amounts of project provisions included in the construction contracts is however not explicitly requested.

Interestingly under the revised standard[20] more clarity is provided on disclosure requirements of variable consideration (contingent assets and liabilities) under reference to DAS 252, however the presentation requirements of DAS 221 remain applicable. Companies are therefore under both the existing and revised standard not required to separately disclose their project provisions. In contrast, IFRS 15 specifically requires companies to assess whether a contract with a customer is onerous through the application of IAS 37 *Provisions*. For the IFRS applying sample we observed all companies separated the projects' provisions as a separate category as part of the provisions note. In our view we consider a separate disclosure of the amount (and nature of) a project provision (or related contingent assets/liabilities) to be a best practice following the disclosure requirements of DAS 252 *Provisions*.

As mentioned earlier, one of the main changes of the revised standard 221 is that companies are no longer allowed to net all construction contracts and present the total netted amount as an asset or liability. The revised standards no longer accept the presentation as a debit amount or credit amount at the portfolio level but requires the presentation as a debit or credit balance to be assessed at the contractual level. In practice this means that merely all construction companies will have to present a separate line item under the assets (accumulating all construction contracts with a debit balance) and a separate line item under the liabilities (accumulating all construction contracts with a credit balance). Consequently this is expected to have a significant impact on balance sheet figures including financial performance metrics. In this study we further investigated the estimated impact on solvency metrics (i.e. equity-ratio and debt-to-equity ratio) which is a frequently used financial performance metric by companies. In summary, the revision in presentation requirements is expected to result in profound deterioration of the solvency positions of companies due to the separate recognition of contract assets and liabilities in the balance sheet. In particular, this may be relevant for companies restricted to covenants on their loans which might require that the company at least discusses the consequences of this accounting policy change with the lender. Table 10 summarizes the expected impact of the revised presentation requirements on equity-ratio and debt-to-equity ratio. The equity-ratio is expected to deteriorate 8% percent-point and the debt-to-equity is expected to increase from ratio 1.24 to ratio 1.64.

Table 10. Expected impact on solvency.[21]

Solvency ratio metric (N = 17)	DAS 221 (average)	DAS 221 Revised (average)
Equity-ratio	48%	40%
Debt-to-equity ratio	1.24	1.64

An example of the practical implications of the changes in the presentation requirements of DAS 221 can be found in the 2021 financial statements of Nijs & Zonen Holding B.V. The company early adopted the revisions and explicit reference is made in their disclosures on the impact of the revised presentation requirements on their solvency metrics and the communications they have had with their loan providers. Specifically the company disclosed that agreements were made with their lender to revise solvency metrics in their financing agreements. The disclosure of Nijs & Zonen Holding B.V. (Figure 7) is considered a best practice and a model disclosure for companies on how changes in solvency metrics affect financing agreements.

Figure 7. Nijs & Zonen Holding B.V. 2021, p. 6 (for translation: see Appendix 2).

Met ingang van het verslagjaar 2022 dient een wijziging plaats te vinden in de presentatie van de post Onderhanden werken en projecten in de jaarrekening. Tot en met 2021 is het toegestaan de post Onderhanden werken en projecten te salderen (debet en creditstanden). Een presentatiewijze die in de verslaggeving van De Nijs als zodanig altijd is toegepast. Vanaf 2022 mag dat niet meer. Deze stelselwijziging is opgenomen in de Richtlijnen voor de Jaarverslaggeving (Hoofdstuk 221 Onderhanden Projecten).
Het gevolg van deze nieuwe regelgeving is dat het balanstotaal van de vennootschappen zal toenemen waardoor procentueel gezien de solvabiliteit zal dalen. Dit effect is ons bekend en hierover hebben wij onze financiële partners (banken, verzekeraars, borginstellingen) geïnformeerd. De verslaggeving over 2021, vormt in 2022 de ter vergelijking op te nemen cijfers in de diverse rapportages. Om die reden is besloten de aanstaande wijziging in de verslaggeving 2022 al in de jaarrekening 2021 toe te passen.
Een analyse van de effecten (balanstotaal) heeft ons eveneens doen besluiten de solvabiliteitsdoelstelling van 30 procent bij te stellen naar 25 procent bij gewijzigde verslaggeving. Onze financiële partners zijn hierover geïnformeerd. In de overeengekomen kredietovereenkomst met de Rabobank is dit percentage ook opgenomen.
In onze verslaggeving hebben wij – zoals aangegeven – de nieuwe Richtlijn toegepast waarbij ter nadere duiding van het effect op de diverse balansen het solvabiliteitspercentage **met** en **zonder** toepassing is vermeld. De ter vergelijking opgenomen cijfers over 2020 zijn dienovereenkomstig aangepast.

Although no public information is available on details of financing arrangements by companies it is expected that companies widely have 'frozen GAAP' provisions[22] in their loan agreements. This presumption is consistent with earlier observations about Dutch companies during the introduction of IFRS 16 (Backhuijs et al. 2020). We emphasize that also the use of 'Frozen GAAP' terms may in future result in practical challenges because financial information based on outdated accounting standards needs to be prepared for covenant testing purposes. This may be particularly challenging for companies more significantly impacted by the revisions of standard 221 (e.g. due to identification of multiple performance obligations or additional guidance on variable considerations). Hence, this is an area which needs to be closely monitored by companies.

Next to the revisions in balance sheet presentation, also revisions were made with regard to the presentation in the profit or loss statement. Under the existing standard 221 companies are permitted to present revenue under a separate line item 'Change in work in progress and construction contracts' as long as the project is not completed and companies presenting the profit and loss statement by category (rather than by function). Under the revised standard this presentation is no longer permitted and companies are required to present their revenue as 'net turnover'. Table 11 depicts the use of the current option to present revenue as change in work in progress and construction contracts. Approximately 40% of the population currently applies this option and hence will have to change their presentation.

Table 11. Presentation by category as 'net turnover' or as 'change in work in progress on construction contracts'.

	N	%
Presentation as 'net turnover'	12	60
Presentation as 'change in work in progress on construction contracts'	8	40

6. Conclusion

In this study the quality of revenue recognition disclosures is investigated for a sample of construction companies applying IFRS standards. Additionally, attention is paid to the upcoming amendments of DAS 221/270. The results indicate overall that the quality of revenue recognition disclosures has (slightly) improved since the introduction of IFRS 15. Companies more often provide detailed information on significant judgements and estimates applied in the application of IFRS 15. We observe companies tend to be conservative in providing project specific information, however several best practices were identified in this field.

The study focused on disclosure of significant judgements and estimates in the application of the revenue recognition standard (either under DAS or IFRS) as this is considered to be eminently important in the accounting for revenue. Results show that construction companies reporting under IFRS disclose (much) more relevant information, likely because of the prominence given to the disclosure of estimates and judgements in IFRS 15. Interestingly the revised standard 221 does not require these disclosures. Furthermore, we believe the revised standards result in ambiguity on what information should be disclosed, specifically for construction contracts within the scope of DAS 221. Irrespective to DAS 270, the revised standard 221 does not mandate specific disclosures on newly introduced concepts such as performance obligations and variable considerations. Comparing the disclosure requirements of DAS 221 to the requirements of IFRS 15, we observe a significant discrepancy. Although we do not advocate perfect alignment with the IFRS 15 disclosure requirements, we do believe the standard can be improved by mandating disclosures on the most profound estimates and judgements impacting the nature, amount, timing and uncertainty related to the recognition of revenue such as the identification of performance obligations, method of attribution of revenue to the reporting period and estimating variable considerations. This can be partly effectuated through references to the revised disclosures in standard 270 and/or references to standard 252.

With this research we attempt to encourage standard setters to critically evaluate the disclosure requirements of the revised standards 221/270 (as part of a post-implementation review) and we encourage preparers to provide entity-specific disclosures particularly respective to significant judgements and estimates applied in the revenue recognition accounting. Also, we stimulate Dutch GAAP companies to provide detailed information on the transition impact of the revised standards in the 2022 financial statements.

Furthermore, this study addressed the expected impact of the changes in the presentation requirements of DAS 221 and DAS 270. Companies with external financing arrangements are expected to be most profoundly affected by these changes, both when agreements are made with and without 'frozen GAAP' provisions. We stress the importance of timely action on this topic.

For future research it will be interesting to examine the impact of the revisions of DAS 221/270 in the 2022 financial statements, including both the transitional impact (i.e. impact on equity, financial metrics and financing arrangements) as continuous impact on overall disclosure quality and informativeness of financial statements with regard to the recognition of revenue.

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Notes

1. RJ-Uiting 2020-15; RJ-Uiting 2020-15: Ten geleide bij Richtlijnen 221, 270, B5 en B13 (aangepast 2021).
2. In this context and for the purpose of this study we refer to 'post-implementation review' as the assessment whether disclosure quality of significant judgements and estimates regarding the revenue recognition has increased with the introduction of IFRS 15.
3. We note that the DASB provides for a wide variety of transitional provisions in order to simplify implementation for issuers and minimize implementation costs.
4. Hence, this option allows to grandfather the current accounting for contracts that were already closed before 1 January 2022.
5. I.e. a company can choose to apply DAS 221/270 revised for contracts with customers that are agreed upon at or after any date prior to 1 January 2022 if it applies DAS 221/270 for the first time in its 2022 annual report or at or after any date prior to 1 January 2021 if it early adopts DAS 221/270 in its 2021 annual report.
6. In arriving at the initial sample population we selected companies from the Dutch Chamber of Commerce based on the sector denotation 'bouwnijverheid' and we extracted the 100 largest companies from this population (based on total revenue). We deliberately chose not to use the Dutch Chamber of Commerce 'Standaard Bedrijfsindeling' coding of the main activity of the company as this would result in omitting relevant companies for our research (e.g. because the main activity is denoted as 'holding company').

7. We note that under the existing and revised DAS standards the principles adopted by IFRS 15 regarding the revenue recognition either over time or at a point in time is not adopted as such. We however deem the principle of revenue recognition over time to be an appropriate selection criterium for our sample because the recognition of revenues over time usually results in additional judgements and estimates to be made by the company (such as measuring the progress over time). In practice, companies which have significant contract asset or liability balances (or work-in-progress balances) and a relevant portion of revenue recognition over time are included in the sample.
8. The financial statement of Archirodon Group N.V. has a USD-presentation currency. Balance sheet and profit and loss figures were translated by the year closing rate and year average rate respectively.
9. IFRS requirements are set out in IAS 8.30 and IAS 8.31
10. As requested by IAS 1.122 and IAS 1.125.
11. In this respect we note this research is not specifically designed to assess whether companies are compliant (or non-compliant) with the respective standard requirements. Alternatively this research intends to assess the relevance of information provided by companies.
12. In analogy to the issued (but not yet effective) amendments to IFRS Practice Statement 2 *Making Materiality judgement*s and the amendments in IAS 1 *Presentation of Financial Statements* we considered entity-specific information more useful to users than standardized information which effectively repeats the requirements of the IFRS accounting standards.
13. Dutch GAAP requires disclosure of significant judgements and estimates in accordance with DAS 110.129. No specific disclosures on estimates or judgements are required from DAS 221 (or DAS 270).
14. In this respect we note existing DAS 221 provides yet for disclosures on the method applied for the recognition of revenue (DAS 221.414b) and the method applied to determine the degree of completion (DAS 221.414c).
15. https://www.ifrs.org/projects/post-implementation-reviews/, retrieved 07-09-2022.
16. European Financial Reporting Advisory Group.
17. DAS 221.409.
18. DAS 221.410 and DAS 221.417.
19. DAS 221.412.
20. DAS 221.419 (revised).
21. A population of 17 was applied due to two companies not disclosing net debit and net credit positions separately in accordance with DAS 221.417. One company was removed due to the early adoption of DAS 221.
22. A ‘Frozen GAAP’ provision means that covenants continue to be tested based on applicable accounting standards at the time when covenants were agreed, despite future changes in the accounting principles.

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Appendix 1

Population 1 (DAS financial statements)	Year
TBI Holdings B.V.	2021
Dura Vermeer Groep N.V.	2021
Edge real estate B.V.	2021
van Wanrooij Bouw & Ontwikkeling B.V.	2021
t Veer Rijssen B.V.	2021
Aan de Stegge Verenigde Bedrijven B.V.	2021
van Oord N.V.	2021
LOV Beheer B.V.	2021
van Gelder B.V.	2021
Trebbe Groep B.V.	2021
Joh. Mourik & Co. Holding B.V.	2021
van Wijnen Holding B.V.	2021
Janssen de Jong Groep B.V.	2021
Koopmans Bouwgroep B.V.	2021
Klokholding B.V.	2021
Wigema B.V.	2021
De Vries en Verburg Groep B.V.	2021
P.G. Kuijpers & Zonen B.V.	2021
M.J. de Nijs en Zonen Holding B.V.	2021
Van Dorp installatiebedrijven B.V.	2021

Population 2 (IFRS)	Years
Koninklijke BAM Groep N.V.	2016, 2021
Koninklijke VolkerWessels B.V.	2016, 2021
Koninklijke Boskalis Westminster N.V.	2016, 2021
Heijmans N.V.	2016, 2021
Ballast Nedam N.V.	2016, 2021
Archirodon Group N.V.	2016, 2021
SPIE Nederland B.V.	2016, 2021
Batenburg Techniek B.V.	2016, 2021

Appendix 2. Translation of Dutch figures (done by authors)

Figure 1:

'The revisions in DAS 221, applicable as from 2022, have been early adopted in the 2021 financial statements. The revisions stipulate that debit and credit positions of individual projects as part of the balance sheet account construction contracts may no longer be netted, but are required to be separated as net debit and net credit positions in the balance sheet. The balance sheet effect as per 31 December 2021 amounts to €20.421.676 and €21.741.096 as per 31 December 2020. This results in an increase in the total balance sheet amount from € 78.8 million to € 99.0 million and hence a decrease in the solvency from 37.0% to 29.4% for the financial year 2021. The comparative figures for 2021 have been adjusted accordingly, which resulted in an increase of the total balance sheet amount from € 106.2 million to € 127.9 million and hence a decrease in the solvency ratio from 32.4% to 26.9%. To clarify the impact of the revisions on the solvency, both the solvency percentage with and without the application of the revised standard are disclosed.'

Figure 7:

'With effect from financial year 2022, the presentation of the work in progress account balance changed. Until financial year 2021 it is permitted to present a net work in progress balance sheet position (netting of debit and credit positions). This way of presenting has always been applied by De Nijs. As from 2022 this presentation is no longer allowed. This policy change is included in the Dutch Accounting Standards (DAS 221). As a result of this revised standard the total balance sheet amount will increase and hence the solvency ratio will decline. We are aware of this effect and we have informed our financial partners (banks, insurers, guarantors). As the 2021 financial figures will be included in the 2022 financial statements as comparative figures, we have chosen to early adopt the revisions for the 2021 annual report. Based on an analysis (effect on total balance sheet) we have adjusted our solvency targets from 30% to 25%. Our financial partners are informed about this adjustment. The revised percentage is included in our financing arrangements with the Rabobank. We have early adopted the revised standard for the 2021 financial year to clarify the impact of the revisions on the solvency, both the solvency ratio with and without the application of the revised standard are disclosed. The comparative figures for 2020 have been adjusted accordingly'.