

AN ANALYSIS OF COMPLIANCE OF SELECTED NAMIBIAN COMPANIES
WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ON
REVENUE

A THESIS SUBMITTED IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE DEGREE OF

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Abstract

This thesis explores whether or not revenue recognition, measurement and disclosure practices of companies in Namibia comply with International Accounting Standards on Revenue (IAS 18 Revenue). The research problem for this study is derived from the fact that when financial statement users are analysing the financial health of a firm rely on the accuracy and reliability of financial statements issued by a firm. It is compliance with IAS 18, which enhances the reliability of financial statements. This study investigated the recognition, measurement and disclosure practices by selected private and public limited companies in Namibia. The thesis is based on a sample of fifty companies, using a qualitative approach. Primary data for this study were collected from a sample of fifty companies through a questionnaire. Secondary data were collected through content analysis of published financial statements. Survey data was analysed by grouping and coding answers and comparing them with the standards. Tables, frequencies, charts, graphs and narratives were used to present the findings. Thirty-six questionnaires were returned, achieving a response rate of seventy two (72) percent. The study found that seventy (70) percent of the selected companies are not accurately recognizing, measuring or presenting revenue in accordance with IAS 18 Revenue. The study concludes that both private and public companies in Namibia are not in full compliance with IAS 18 Revenue. Based on the findings of this study, it is recommended that further quantitative studies are undertaken using larger samples and that accountancy professional bodies should improve in the area of Continuing Professional Development (CPD) requirements.

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Dedication

I wish to dedicate this thesis to my late father, Mr. Gideon Bandabwe Milijala as well as my mother, Mrs. Margaret “MaChuma” Milijala for instilling a high sense of academic responsibility in me at a very tender age. I remember that night before my first day in grade one when you were teaching me how to write. You made me write on chicken feed because you could not afford to buy a small book for me.

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Declarations

I, Emmanuel Milijala, hereby declare that this research is a true reflection of my own research and that this work, or part thereof, has not been submitted for a degree in any other institution of higher learning. No part of this thesis may be reproduced, stored in any retrieval system, or transmitted in any form, or by means (e.g. electronic, mechanical, photocopying, recorded or otherwise) without the prior permission of the author or the University of Namibia on that I, Emmanuel Milijala, grant the University of Namibia the right to reproduce this thesis in whole or in part, in any manner or format, which the University may deem fit, for any person or institution requiring it for study and research, providing that the University of Namibia shall waive this right if the whole thesis has been or is being published in a manner satisfactory to the University.

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Emmanuel Milijala

31 August 2016

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ACRONYMS

ACCA	the Association of Chartered Certified Accountants
CPD	Continuing Professional Development
CLP	Customer Loyalty Programme
EPS	Earnings Per Share
EY	Ernst & Young
FASB	Financial Accounting Standards Boards
GAAP	Generally Acceptable Accounting Practice
IAS	International Accounting Standards
IASB	International Accounting Standard Board
ICAEW	Institute of Chartered Accountants in England and Wales
ICAN	Institute of Chartered Accountants in Namibia
IFRIC	International Financial Reporting Interpretation Committee
IFRS	International Financial Reporting Standard
PAAB	Public Accountants and Auditors Board of Namibia
PWC	PricewaterhouseCoopers
SAICA	South Africa Institute of Chartered Accountants
UNAM	University of Namibia

Chapter One

Introduction and Background

1 Introduction

1.1 Background

International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) including IAS 18 have, in the past decade been revised. The revision of IFRSs has led to some to a stricter financial reporting regime. Further, the changes have caused some of the international financial reporting standards to be complex. IAS 18 has not been spared from these complexities and controversies.

Islam (2012) contends that revenue recognition has become a topical issue in modern day accounting. This is partly because of the manner in which revenue should be measured, recognised and reported in the annual financial statements. A mere mention of revenue recognition and IAS 18 may bring uncomfortable thoughts to some of the preparers of financial statements. IAS 18 is an area that may not have been easy for some companies in the past decade. Fyhrlund, Hedman, Sjogren, & Strand (2013) observed that the revenue figure in the financial statements is normally surrounded by numerous challenges regarding when to recognize revenue and the amount that should be recorded. They note that there are varied revenue recognition requirements that may lead to a lack of uniformity. The lack of uniformity is found between countries because some countries use IFRS while other countries apply national Generally Accepted Accounting Practice (GAAP). In addition to these international differences, there are also industry practices and individual company

practices. Some companies apply both international financial reporting standards (IFRS) and national GAAP. In a study to determine the level of costs and benefits of IFRS implementation in the United Kingdom and Italy, it was observed that the European Union had varied social, economic, legal and political backgrounds and different financial reporting objectives (Fox, Hannah, Helliard, & Veneziani, 2013). The legal and accounting provisions combined with the social and political backgrounds influence the nature of corporate accounting process and disclosure practices (Fox, et al 2013).

The accounting field has seen a proliferation of more complex sales transactions including the use of such terms as free credit periods and free maintenance and service contracts (Stainbank, Oakes, & Razak, 2012; Vandiar, 2013). They contend that the price of such free offers is normally hidden in the selling price of the goods or services being offered in the transaction. The proliferations cited by Stainbank et al. (2012) are common to Namibia as well. Stainbank et al. (2012) argue that challenges such as payments for warranties, service contracts and sale of goods subject to the right of a customer to return them within a certain period of time, as well as the use of fair value and discounting techniques, are quite common in the retail sector, particularly in the sale of motor vehicles, plant and machinery. The above-mentioned challenges have an impact on the measurement and recognition of revenue.

The issue of measurement and recognition is further complicated by the need to address complex transactions that require the identification of multiple components

in a single transaction, the allocation of a sale price between two or more performance obligations, reporting and valuing of revenue and the related disclosures Ernst and Young (2012). Ernst and Young (2012) state that the debate on revenue recognition has been centred on historical cost accounting principles. The approach according to Ernst and Young (2012) focused mainly on when the transactions should be recognised in the financial statements, on what amounts were involved for each transaction and how the amounts were to be classified and allocated between the accounting periods. In essence, the historical accounting basis avoids the use of valuation techniques as means of measurement. The most important accounting question that is raised here is whether the debate should centre on the allocation of the incomplete transactions between financial reporting periods, instead of just allowing these transactions to be recognised in the accounting period in which cash is received or paid. This requires the application of time value of money on revenue as a basis of measurement for recognition purposes in accordance with paragraph 9 of IAS 18 (IASB, 2014).

According to IAS 18, paragraph 13, complex revenue transactions require the identification of different components of a transaction such as the sale of goods and provision of services, as well the provision of finance services, in a single transaction (IASB, 2014). Complex transactions require discounting techniques as well as the use of fair values (IASB, 2014). Fair value measurement renders historical costing to be of not much use as a measurement basis for revenue recognition purposes.

1.2 Statement of the Problem

Compliance with international financial reporting standards refers to the level of conformance with all the requirements of the international financial reporting standards. All companies that apply IFRSs are required to adhere to the recognition, measurement, presentation and disclosure of accounting transactions as stipulated by an individual standard. According to Chatham (2008), adoption by an entity of IFRSs meant that entity has to shift from domestic accounting orientation to some level of compliance with the international accounting standards. International accounting standards are capital market focused, while to some extent domestic accounting standards may be taxation focused (Chatham, 2008).

According to IAS 18 paragraph 13, the revenue recognition criteria are applied separately to each identifiable transaction. The paragraph states that there may be a need to apply the recognition criteria to separately identifiable components of a single transaction in order to reflect the substance of a transaction (IASB, 2014).

Ernst and Young (2010) contend that while IAS 18 requires that the revenue recognition criteria is applied to separate components of a single transaction, the standard lacks clear guidance on how multiple elements should be recognised. They further contend that because of the lack of clear guidelines, entities have developed their own policies leading to inconsistencies in the application of the revenue recognition criteria.

The research problem for this study is derived from the fact that financial statement users rely heavily on the reliability of financial statements. It is compliance with IAS 18, which enhances the reliability of financial statements. Islam (2012) contends that the recognition criteria for revenue has become complex. The challenge is companies elect to comply with IAS 18 or remain conservative. Secondly, the IASB has made so many strides in ensuring high quality financial reporting standards. If there is no compliance with the standards, then the efforts of the IASB to improve the standards will not produce beneficial results. Complexities in revenue recognition and measurement reveal the need to undertake research in order to investigate whether companies in Namibia are complying with the requirements of IAS 18, thereby ensuring presentation of high quality and reliable financial statements.

Compliance with an IAS requires that an entity follow mainly the recognition, measurement and disclosures requirements of each accounting standard. Recognition concerned with when a transaction should be recorded in the books of an entity. On the other hand, when an entity has decided to record a transaction, the measurement principles dictate that an appropriate amount should be determined. Secondly, the entity is required to disclose certain information in its financial statements. However, in terms of IAS 1 disclosures can go beyond the level of disclosures required by the standard if that helps to achieve fair presentation (IASB, 2014).

There is currently a dearth of published works in Namibia investigating how companies are actually complying with the requirements of IAS 18. However,

limited research has been undertaken to investigate how in practice companies are actually complying with the requirements of IAS 18 Revenue. This researcher investigates how companies in Namibia develop and apply accounting policies including the use of fair values, discounting techniques, recognising and disclosing of revenue in compliance with IAS 18.

The problem is therefore that if companies produce financial statements that do not comply with IAS 18, the companies will present unreliable financial information. Presentation of unreliable financial information may lead to investors and financiers making inappropriate financial and economic decisions. The revenue figure attracts a lot of attention from the users of financial statements. The figure determines how stakeholders judge the performance of a company.

1.3 Objectives of the Study

The researcher aimed to establish whether the current practices by companies in Namibia concerning revenue recognition, measurement and disclosure requirements comply with IAS 18. The researcher studied accounting practices by Namibian private and public companies compared to IAS 18.

The study had the following specific objectives:

- i. To review the current application of the revenue recognition criteria as per IAS 18 Revenue as adopted by the Institute of Chartered Accountants in Namibia (ICAN) and the South African Institute Chartered Accountants (SAICA).

- ii. Based on the findings of the study the researcher proposes recommendations for improvement of revenue recognition practices in Namibia.

1.4 Significance of the Study

Application of international financial reporting standards has become topical in the accounting field. The research is therefore, envisioned to supplement the body of accounting literature by the creation of awareness about the application of international accounting standards by companies in Namibia. The research offers an insight into the level of practical compliance by Namibian private and public companies with IAS 18.

One of the key learning objectives of the programme for Master of Science in Accounting and Finance is for a student to demonstrate an in-depth knowledge of international accounting standards. The study therefore will, act as a way of demonstrating the depth of understanding and application of accounting standards by the researcher through the presentation of a thesis in partial fulfilment of the Master of Science in Accounting and Finance degree of the University of Namibia. Further, the research will contribute to the body of accounting knowledge by revealing whether the actual practices by companies are in conformity with the generally accepted accounting practices in Namibia.

1.5 Limitations of the study

This study is specifically restricted to investigating revenue recognition practices in terms of provisions of IAS 18 as issued by IASB by 31 December 2013. The study

does not cover the implications of any proposed and approved changes to IAS 18 beyond 31 December 2013. Furthermore, the study was not intended to deal with reporting compliances in terms of other international financial reporting standards whether related to revenue recognition or not.

The study does not discuss other revenue streams scoped out of IAS 18. The recognition of revenue from other business activities that is specifically excluded from IAS 18 and dealt with under other standards does not form part of this study. The scoped out items indicated in the scope of IAS 18 R are discussed in paragraph 2.2 of chapter two.

The study does not deal with the IFRS GAAP on small to medium enterprises. The IFRS GAAP on small to medium enterprises is considered a separate and specialized area beyond the scope of this study.

The results of this study are based on selected Namibian companies located in Windhoek. The study may not necessarily be taken to be a representation of all private and public companies in Namibia. The researcher was not able to conduct interviews with those chief finance officers who are based outside the City of Windhoek due to time and cost limitations.

1.6 Adoption of International Financial Reporting Standard in Namibia

According to Kossentini and Othman (nd) a number of studies (Gray and Marris 2007; Shima and Yang 2012; Zengal and Mhedhbi 2012; Hope 2006; Ramanna & Seletten 2009, Chamisa 2000 and Ramanna & Seletten 2010) have been undertaken with a view to determining the level of adoption of IFRSs. The results of the above studies are mixed. The level of IFRS adoption and reasons for adoption varied between countries. According to DiMaggio and Powel (1991), as quoted in Kossentini & Othman (nd), some of the developing nations adopted the IFRSs due to institutional investors' pressures. In a similar study, Zeghal and Mhedhbi (2006) found that high literacy levels, capital markets and relations with Anglo-American cultures were some of the motivating factors for the adoption of IASs.

Ramanna and Sletten (2009) undertook a study involving 102 non-European Union countries with the main objective of determining the variations in the reasons to adopt IFRSs. The study had a number of key findings. They found that more powerful nations were less likely to adopt IFRSs, as these nations viewed the adoption of IFRSs as surrendering their accounting standards setting authority to an international body. In the same study, Ramanna & Sletten (2009) found that foreign trade and investment flow did not affect the adoption of IFRSs, but rather that the adoption of IFRSs by trading partners had an effect on the adoption of the IFRSs by countries.

Kossentini & Othman (nd) noted from the ICAN website that Namibia was following South African accounting standards that are practiced by SAICA. Namibia has been following South African GAAP because of the political and economic history of the two countries.

1.7 Summary

This chapter laid the foundation of the study by identifying the research problem, objective of the study, significance of the study, and the possible limitations of the study. The reviewed literature on how other countries have adopted IFRSs sought to establish the reasons for and the level of adoption of international financial reporting standards. This is important because, in order to understand compliance or noncompliance with IFRSs, one needs to have a background as to why there are variations in the application of the standards. International financial reporting standards are not mandatory, but rather they are persuasive except in those jurisdictions where they have been legalized.

The next chapter is devoted to an exposition of the literature review undertaken by the researcher. The approach adopted in the presentation of the literature is to discuss the revenue recognition criteria in terms of the IAS 18. After presenting the specific requirements of IAS 18, the researcher then presents a review of the literature from various empirical studies in other jurisdictions.

Chapter Two

Literature Review

2.1. Introduction

This chapter examines the conceptual framework for the study and the related literature. The purpose of chapter two is to analyse the theoretical foundation of revenue recognition in terms of IAS 18 Revenue. The chapter is organised into fifteen sections.

The scope of IAS 18 is covered in section 2.2, while key definitions are covered in section 2.3. Sections 2.4 to 2.15 constitute the rest of the chapter. The major issues covered by these sections include section 2.4 measurement of revenue, 2.5 identification of transactions, 2.6 revenue from sale of goods, 2.7 determination of fair value, 2.8 complex transactions, 2.9 customer loyalty programmes, 2.10 bill and hold sales, 2.11 lay away sales, 2.12 revenue from provision of sales, 2.13 revenue from interest, dividend and royalty, and 2.14 disclosures and presentation. The chapter concludes with a summary in section 2.15.

2.1. Scope of IAS 18 Revenue

The main objective of the standard is to prescribe the accounting treatment of revenue arising from certain types of transactions and events. The standard defines revenue as income that arises in the course of ordinary activities of an entity and is normally referred to by different names such as sales, turnover, fees, dividends, royalties and interest (IASB, 2014; Koppeschaar, et al., 2012).

The scope of IAS 18, as covered in paragraph 1 of IAS 18, states that revenue shall be recognised from the sale of goods, rendering of services and the use by others of an entity's asset yielding interests, royalties and dividends. The scope excludes certain types of revenue from IAS 18. Paragraph.6 specifically excludes the following from being recognised in terms of IAS 18:

- a) Lease agreements which are covered by IAS 17 Leases;
- b) Dividends arising from investments which are accounted for under the equity methods in terms of IAS 28 Investments in Associates and Joint ventures;
- c) Insurance contracts under IFRS 4 Insurance Contracts;
- d) Changes in fair value of financial assets and financial liabilities as dealt with in terms of IFRS 9 Financial instruments;
- e) Changes in the value of other current assets;
- f) The extraction of mineral ores;
- g) Initial recognition of agricultural produce and
- h) The initial recognition and from changes in the fair value of biological assets.

In line with the above exclusions, the study does not cover revenue recognition, measurement and disclosures requirements for the above exclusions. This study is focussed on revenue that is dealt with in terms of IAS18 and related interpretations only.

The standard further states that the key issue in accounting is when to recognise revenue. According to IAS 18, an entity shall recognise revenue when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. The timing of recognition and measurement of revenue is the key issue in IAS 18. The standard is therefore not that concerned with the realisation of revenue but rather with when revenue should be recorded in the books of accounts of an entity.

2.2. Key Definitions

In this subsection, the researcher provides definitions of the key terms that are used in this study. The definitions will enable easy understanding of the context of the research problem. These definitions are taken from the IASB official terminology.

Income is defined as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets and decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants (IASB, 2014). Income includes revenue and gains.

Revenue is defined as income or the gross inflow of economic benefits during the accounting period arising in the course of ordinary activities of an entity when those inflows result in increases in equity other than increases relating to contributions from equity participants (IASB, 2014). Revenue includes only amounts received or

receivable by an entity on its own account and not on behalf of other parties (IASB, 2014).

Fair value is defined as the price that will be received, to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (IASB, 2014).

Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the financial statements (IASB, 2014).

Recognition is defined as the process of incorporating in the financial statements those items that result in the probable inflow or outflow of economic benefits to or from an entity and the item's cost or value can be measured reliably (IASB, 2014).

2.3. Measurement of revenue

According to paragraph 9 of IAS 18, revenue is measured at fair value of the consideration received or receivable at the date of the transaction (IASB, 2014). Consideration is not restricted to cash only. It is worth taking note of the use of the words received or receivable. Transactions involving revenue are normally paid for in cash; hence, the consideration is classified as received. The standard further states that it is the agreement between the parties to a transaction that determines the amount of revenue (IASB, 2014)

It is also common practice that consideration is deferred in terms of prevailing credit terms of an entity; hence, the consideration becomes receivable. However, irrespective of whether the revenue is received or receivable, the amount of revenue from a sale transaction must be established and accounted for with certainty at the date of the transaction. The date of the sale transaction is referred to as the measurement date. The amount of revenue to be recognised should be known at the time of the transaction or event giving rise to a revenue transaction.

Paragraph 11 of IAS 18 deals with circumstances where revenue is deferred. Paragraph 11 states that where the consideration is deferred, the fair value of the sale price must be less than the nominal amount of cash received or receivable. According to PricewaterhouseCoopers LLP (2012) where there is a lag between when the goods and services are provided and receipt of consideration the time value of money must be applied. The difference between the nominal amount and the present value of the consideration is treated as interest income.

The valuation of revenue will involve the use of discounting techniques where the seller is providing an interest-free period (Islam, 2012). Paragraph 11 of IAS 18 states that where the consideration is deferred, and it can clearly be identified as an arrangement involving a financing transaction, the fair value of the consideration shall be determined by discounting all future receipts by applying an imputed rate of interest (IASB, 2014).

A review of various works of literature indicates that there are fewer controversies on the measurement of a simple and straightforward sale transaction as entities would have price lists for individual products (Al-Shammari, Tarca, & Brown, 2008; Ernst & Young, 2012; Dobler & Hettich, 2006). PricewaterhouseCoopers LLP (2012) notes that where there is a cash sale the cash price becomes the fair value of the transaction at the measurement date. The other possible challenge that entities may face in terms of the fair value determination at the transaction date is when entities use the same cash price for both cash transactions and extended credit terms. In that case, there will be no compliance with the IAS 18.

Controversies seem to emanate from the use of fair values in multiple item sale transaction. A number of studies have examined the history and shift towards the use of fair value as a possible measurement base rather than a measurement technique (Hitz, 2007; Power, 2010; Biondi, 2011; Durocher & Gendron, 2014).

Based on the definition of fair value by IASB, it is argued that the concept of fair value is based on a specific hypothetical market price under some idealised conditions (Hitz, 2007). Hitz (2007) further argued that fair value is premised on a refutable notion that that the market prices or current market data are more informative than internal sources. Some of the questions around which the debate on fair value accounting include but are not limited to the following:

- Does fair value represent useful information and is there any theoretical background for its promotion by setters?

- What are the basic properties of fair value income and its contribution to the decision-usefulness objective? (Hitz, 2007)

These questions should be viewed in the context of revenue recognition and measurement requirements. The debate on the use and application of fair value is not new in accounting (Power, 2010).

According to Power (2010), the debate on the use of fair value dates back to the 1930s while the ad hoc debate started in the 1980s. Power (2010), notes that fair value was mainly applied to acquisitions as entry values for acquired assets. It is further noted by Power (2010) that, fair valuation is not a single measurement methodology, but rather, it includes a number of approaches. Fair valuation is also used to estimate exit prices. The fair value revolution has brought all the criticism against traditional accounting principles. Biondi (2011) observes that the current shift towards fair value has generated a lot of debate around the use of the fair value approach in accounting.

In a separate study in Canada on the use of fair value accounting, Durocher and Gendron (2014) found that there were at least three divergent views on fair value. The views were designated as adherences (Durocher & Gendron, 2014). The views represent the perceptions of the accounting profession towards fair value in Canada. The above groups were classified as active, flexible and dissident adherence.

The first group, known as active adherence, tends to support the application and use of fair value accounting. The group further argues that should there be any shortcomings in the fair value use; the shortcomings can be addressed through the accounting system (Durocher & Gendron, 2014).

The second group of practitioners is the flexible adherence. This group according to Durocher & Gendron (2014) are those practitioners who have regard for the standard setters; hence, they tend to fully comply with the principles of fair value. The flexible adherence group is viewed as involved with the application of any changes introduced to the fair value accounting, rather than finding ways to resolve challenges concerning the fair value accounting.

The third view takes a dissident approach to the use of fair value. This group is classified as the dissident adherence. The main concern of this group of accounting practitioners is the production of accounting numbers that are devoid of any truth (Durocher & Gendron, 2014). The dissident adherence group views the use of fair value accounting as the production of illegible and inaccurate financial statements (Durocher & Gendron, 2014).

2.4. Identification of transactions

The identification of separate components of a single transaction involving revenue recognition is the most critical requirement of IAS 18. This requirement is covered in paragraph 13 of IAS 18. The IASB argues that there may be circumstances where

it may be necessary to apply recognition criteria to separately identifiable components of a single transaction (IASB, 2014). The IASB argues that this may be necessary in order to reflect the substance of the transaction.

According to IAS 18, the IASB states that where the amount of revenue from a sale of goods includes an identifiable amount for subsequent servicing, that amount should be deferred and recognised as revenue over the period during which the service is provided. It therefore means that the recognition criteria would be applied to two or more components of transaction that are linked together in order to make commercial sense of the whole transaction.

Fyhrlund, Hedman, Sjogren, and Strand (2013) contend that IAS 18 requires companies to make a decision before measuring the amount of revenue. The decision is whether there are identifiable amounts for different components. There is always a challenge in deciding when to allocate the value of the transaction price proportionally to the sale of goods and the provision of a service. The company may not be exactly sure of the actual amount of the service that the company will offer in future, and how the quantity of the future service should be determined. It is therefore, argued that where a transaction may not be easy to separate, the revenue must be recognised immediately as revenue from the sale of goods (Fyhrlund, et al., 2013).

Paragraph 13 of IAS 18 requires that in certain circumstances the recognition criteria should be applied separately to identifiable components of a single transaction. Ernst & Young (2010) contend that there is little guidance provided by IAS 18 for dealing with multiple element transactions. IAS 18 does not give clear guidance as to when and under what circumstances transactions should be split, and where the split is done, how the revenue should be divided between the elements giving rise to the total revenue of that specific transaction (Ernst & Young, 2010). According to Ernst and Young (2010), companies have therefore followed the use of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to develop accounting policies in order to address this lack of guidance. Furthermore, IAS 8.12 requires companies to follow the most recent pronouncements from other standard setting bodies as long as the pronouncements are not in conflict with IFRSs. Ernst and Young (2010) observed that most companies are now following the Financial Accounting Standards Board's Generally Accepted Accounting Practices to address this lack of clear guidance by IAS 18. Ernst and Young (2010) argue that this also led to the development of IFRIC 13 Customer Loyalty Programmes.

A number of observations come out of the above literature. The question that comes from the above literature is, "Do companies go through all these steps to ensure full compliance with IAS 18?" The other observation relates to the reliability of the revenue figure reported in the financial statements.

The IASB has set a number of recognition criteria and measurement principles for revenue from the sale of goods, rendering of services and revenue from interest,

royalties and dividends. These criteria are grouped and discussed below under the different types of revenue that are dealt with in terms of IAS 18 (IASB, 2014).

2.5. Revenue from sale of Goods

IAS 18 paragraph 14 requires that revenue from the sale of goods be recognised when (1) the enterprise has transferred to the buyer the significant risks and rewards of ownership, (2) the seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, (3) the amount of the revenue can be measured reliably, (4) it is probable that the economic benefits associated with the transaction will flow to the entity, and (5) the costs incurred or to be incurred in respect of the transaction can be measured reliably (IASB, 2014). The recognition criteria are meant to determine when or at what point a company should record that revenue in its books. The above conditions are analysed in detail as follows:

a) The entity has transferred to the buyer significant risks and rewards of ownership of the goods

According to paragraph 15 of IAS 18, the assessment of when an entity has transferred significant risks requires an examination of circumstances of the transaction. The paragraph also suggests that in most cases the transfer of risks and rewards occurs at the same time as the transfer of the legal title, such as the case of retail sales. However, IAS 18 also contends that there are cases where the transfer of risks and rewards of ownership may take place at different times from the transfer of legal title or passing of possession.

Paragraph 16 of IAS 18 gives further details regarding what should be done where a seller continues to exercise some form of control over goods sold. According to this paragraph, should a seller retain significant risks of ownership, the transaction is not a sale of goods and that revenue is not recognised. However, according to paragraph 16 of IAS 18, an entity may retain significant risks of rewards and ownership in the following situations; when

- the entity retains the obligation for unsatisfactory performance not covered by normal warranty provisions;
- the receipt of revenue from a particular sale is dependent on the buyer's selling of goods;
- installation is conditional and installation may be a major component of the transaction that has not been completed;
- the buyer has a right to return the goods for specified reasons and the seller is not sure about the outcome of the right to return the goods.

b) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

In terms of IAS 18 paragraph 17, where an entity retains insignificant risks of ownership, the transactions is treated as generating revenue and revenue should therefore be recognised. Normally insignificant risks of ownership are retained in order to secure payment. IAS 18 further stipulates that in the case of retail sales where a refund is offered in the event that a customer is not satisfied, revenue should be recognised at the time of the sale on condition that the seller can reliably estimate

future returns and provide for a liability for such returns (IASB, 2014). Past knowledge will form part of key judgements.

c) The amount of revenue can be measured reliably

The conceptual framework lays the principle of measurement as key to any form of recognition of any element of the financial statements. Measurement is defined by paragraph 4.54 of the IASB Conceptual Framework as a process of determining the monetary amounts at which the elements of financial statements are to be recognised and carried in the financial statements (IASB, 2014). The conceptual framework gives four examples of those measurement bases (IASB, 2014).

IASB Conceptual Framework paragraph 4.55 states a number of different measurement bases are utilised by preparers to different degrees and in varying combinations when preparing financial statements. The framework states the following as some of the bases: historical costs, current cost, realisable (settlement) value and present value (IASB, 2014). The amount that should be recognised as revenue should therefore be determined using the above bases. If the amount cannot be ascertained using any of those bases or a combination of two or more of the bases, no revenue should be recognised.

d) It is probable that economic benefits associated with the transaction will follow to the entity

According to paragraph 4.40 of the IASB Conceptual Framework, the concept of probability is related to the level of uncertainty involved in a transaction. The

framework further contends that the uncertainty related to the flow of economic benefits to the entity is based on the available evidence at the time of the preparation of the financial statements (IASB, 2014). If the evidence at the time of preparation of the financial statements indicated that it is probable that any receivable owed to the entity would be paid, then that receivable should be recognised. Paragraph IAS 18.18 explains that revenue would be recognised when that element of uncertainty is removed or when consideration is received. However, the framework also extends the element of probability to that portion of receivables that are unlikely to be collected. The framework, therefore, requires a provision and an expense to be recognised.

e) The costs incurred or to be incurred can be estimated reliably

Paragraph 19 of IAS 18 brings in the element of the matching concept. IAS 18 requires that all costs that are related to a specific revenue transaction or event should be measured reliably (IASB, 2014). The standard further stipulates that if the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue will not be recognised, and that the costs incurred should be recognised as an expense. According to Stainbank et al. (2012), revenue cannot be recognised when the expenses cannot be measured reliably, and any consideration already received should be recognised as a liability or deferred income/ income received in advance.

2.6. Determination of the fair value of the sale price of components

The challenge for most entities is how to measure the revenue when there is a deferred payment or an interest-free period beyond normal credit terms. In terms of paragraph 11 of IAS 18 such an arrangement constitutes two separate transactions, namely the sale of goods or provision of services and the provision of a financing transaction (IASB, 2014). Under such circumstances, the fair value of the revenue is determined by splitting the transaction amount into a sale of goods and financing services at the date of the transaction using discounting techniques and using the effective interest rate as the discount rate. IAS 18 has been criticised for lack of clear guidance on how entities should apply the principle of separate recognition criteria (Ernst & Young, 2010). Ernst & Young (2010) further contend that the standard does not provide guidance regarding how transactions should be separated and the method of allocation of revenue to different components.

The use of fair value and discounting of the revenue figures presents a number of challenges regarding overall accounting and financial reporting as well as taxation matters. Paragraph 13 of IAS 18 requires the use of fair value to measure revenue at the date of the transaction. The use the determination of the fair value may involve the use of discounting techniques in order to calculate the present value of the revenue.

Annual financial statements should present information that adds value to decision-making processes of an entity's stakeholders. One wonders whether discounted sales figures present financial information that is relevant and faithful to the users.

Dobler and Hettich (2006) express this view. Dobler and Hettich (2006) have critically questioned the usefulness of the general-purpose financial statements that are prepared based on management judgement based on fair value accounting. It is argued that the practice of recognising revenue and expenses according to some market (hypothetical) prices, or with reference to modified sales prices, incorporates management judgement, and that the element of misleading information about the possible future performance may not be ruled out (Dobler & Hettich, 2006). If most preparers would take the views expressed by Dobler & Hettich (2006), the question that arises is whether they will endeavour to comply with IAS 18 by getting involved with such tedious work, knowing that the resulting figures may not only be irrelevant but also that the financial statements may not faithfully represent the performance of an entity.

Stainbank (2011) found that a number of respondents were quite happy to be exempted from the recognition and measurement in terms of certain accounting standards including IAS 18. Such discoveries are an indication that the problems faced by entities in applying the standard are enormous.

IAS 18 states that where the selling price in a transaction includes the sale of a product and subsequent servicing of the said product, that amount that relates to the servicing arrangement income should be deferred and recognised over the period that the service is offered. Under such a sale arrangement, an entity should clearly identify that revenue component that relates to the sale of goods separately from the servicing component.

2.7. Complex Transactions

The term complex transaction is not a term that is specifically used in IAS 18. It is a term that has been developed by authors to address transactions covered by paragraph 13 of IAS 18 that deals with the identification of a transaction. A complex transaction is best explained by way of examples in most textbooks. The key element of it is that there is more than one obligation in a single sale transaction. Sale of goods and contractual promise to offer related services, as well as the use of customer loyalty programmes by an entity, are considered complex transactions.

2.8. Customer loyalty programmes

Customer loyalty programmes are marketing tools or strategies that are used by entities to encourage their customers to buy the company's products and services. Brink (2014) defines a customer loyalty programme (CLP) as a programme where customers accumulate free points or miles based on purchases of goods or services. CLPs are dealt with in terms of IAS18 and IFRIC 13.

According to paragraph 1 of IFRIC 13, customers are awarded credits that are known as points or miles awards. Several businesses set specific conditions for the redemption of the points. IFRIC 13, which is an interpretation of IAS18, addresses the accounting for the awards. The focus of the researcher is not to deal with the whole issue of IFRIC 13, but rather to investigate how entities value revenue where there is a transaction involving the recognition of credits or points awarded in terms of IFRIC 13. The scope of IFRIC 13 states that IFRIC 13 applies to CLPs where the entity grants awards to its own clients when selling goods, providing services or use of an entity's assets by others.

IFRIC 13 was issued to address the diversity in accounting for CLPs. Some companies account for the CLP credit awards as a component of the sales transaction, while others deem the credits to be a cost of supplying future goods and services.

A number of studies were undertaken internationally and regionally on the use of CLPs and how they should be accounted for (BDO, 2014; Brink, 2014; Chapple, Moerman, & Rudkin, 2010; Venter, 2007). These studies have addressed mainly the measurement and recognition of revenue and possible weaknesses in IAS 18 and IFRIC 13. BDO (2014) discusses the main issues that IFRIC 13 is intended to rectify in terms of accounting practices. According to BDO (2014) there are two main issues that IFRIC 13 addresses. The initial problem is whether a company's obligation to supply products or services in the future (awards) should be recognised and measured by splitting the consideration paid by the customer or receivable from the

sales transaction between the awards and deferring the recognition of revenue, as well as providing for the estimated future costs of supplying the awards as required by IAS 18 paragraph 19 (BDO, 2014).

BDO (2014) further contends that IFRIC 13 attempts to address the issue of how the consideration should be allocated. If the consideration is allocated to the awards, how much should be apportioned directly to the awards, when should revenue be recognised, and if an external party avails the awards, how should revenue be measured?

According to Chapple et al. (2010), the use of CLPs has had an impact on the timing and amount of revenue that entities reported after the adoption of IFRIC 13. Chapple et al. (2010) noted that the most widely affected industry was the airline. An award involving the use of CLPs is classified as either an asset, liability, revenue or an expense for inclusion in the financial statements (Chapple et al., 2010). Chapple et al. (2010) however, contend that this classification leaves room for manipulation of the revenue figure. Ernst and Young (2010), who criticised IAS 18 for not being specific on measurement guidance, also expressed this view. Because CLPs are distinct products and services that clients pay for, entities are therefore obligated to apply the revenue deferral approach (Chapple et al., 2010). Chapple et al. (2010) contend that a proportion of the sales consideration should be allocated to a liability account, and the revenue will be recognised when the redemption of the awards takes place. Brink (2014) notes that CLPs tend to follow the revenue recognition procedures.

A CLP should be considered as a single transaction involving two identifiable parts via the sale of goods and the awarding of points that allow a customer the right to a benefit (Brink, 2014). The two transactions therefore should be accounted for separately in terms of paragraph 13 of IAS 18.

Venter (2007) also notes that an entity should split the revenue between the consent to sell the goods and the acceptance by an entity to provide a future service at discounted prices. There are two opposing views regarding the accounting treatment of revenue where an entity awards or offers points in a customer loyalty programme (Venter, 2007). The first view is that the credit awards should be accounted for as a separate component of the initial sales transaction in which the awards are granted. This is known as the multiple elements concept. The second view deals with whether or not the credits awarded to a customer in an arrangement should be treated as an expense or not. This view treats the points as a provision for a future expense. Sava (2014) notes that in Romania the deferral approach on the treatment of the awards granted by entities as part of CLPs is the preferred practice. On the date of the transactions, the full amount is debited to the customer's account while the same credit entry of this amount is separated into two distinct credits (Sava, 2014). A significant proportion of the amount is credited to the sales/revenue account while an insignificant amount is credited to a deferred income account. IAS 18 is not prescriptive on the allocation method to be applied (Venter, 2007). The deferred income represents the fair value of the points awarded.

The element of fair valuation of points or credits has an impact on the amount of revenue that should be recognised at the date of the transaction as well as at the year-end. IAS 18 paragraph 13 requires that the credit awards are fair valued. The challenges that come in here are the determination of the fair value of the awards that are used to recognise revenue.

According to Venter (2007), an entity should divide the total fair value on the total consideration based on the relative fair values. The award credits can be estimated based on the discount values that customers would receive on redemption. In terms of period end adjustments, Venter (2007) notes that entities may be confronted with a change in expected level of credit redemptions. Entities should revise their obligations in terms of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. However, this change in estimate does not affect the consideration already received.

Concluding remarks from Venter (2007) indicate that the application of paragraph 19 of IAS 18 to CLPs makes revenue recognition complex. Paragraph 19 of IAS 18 is instructive in that revenue and related costs should be matched. The award of credit points is derived from current purchases of goods and services, but the redemption is then applied to a future transaction. Awards are either goods or services granted to customers in respect of future services or goods, but are not for goods already delivered (Venter, 2007). It is against this background that the provision of paragraph 19 of IAS 18 becomes incompatible with the recognition of expenses and revenue in a CLP.

IFRIC13 therefore, did not, try to solve the problem of fair valuation of customer loyalty awards, but made it complex. The interpretation specifies that an entity shall apply paragraph 13 of IAS 18 and account for the awards as separately identifiable obligations. The initial sales consideration shall be allocated between the awards and other components of the transaction. The use of fair value should use observable inputs in terms of paragraph 61 and 62 of IFRS 13. These paragraphs are instructive that management must choose valuation techniques that are appropriate under the circumstances. The process of determining the appropriate fair valuation techniques is left to the choice of management and industry practices. The IASB in its basis of conclusion for IFRIC 13 in paragraph IFRS 13 BC 12 to 13 admits that the use of fair value makes revenue recognition more complex. The IASB further admits that initial costs of compliance including the adaptation of accounting information system to the standard are likely to present challenges to entities.

According to BDO (2014), a consensus has been reached regarding problematic issues and how revenue transactions involving the award of customer loyalty credit should be accounted for under IFRIC 13. In terms of the basis of conclusion the amount allocated to the award credits may be either equal to the fair value (the residual method), or may be a proportion of the total consideration based on the fair value of the award credits relative to other components of the transaction (the relative fair value method) (Ernst & Young, 2010). Ernst and Young (2010) further contend that the application of the residual method to a transaction composed of a significant number of elements may result in a materially different allocation of the selling price

when compared to the relative fair value method, despite the fact that the difference between the two methods is immaterial. The relative selling price method is considered to be in line with IAS 18.

The main research objective of this study was to determine whether private and public companies complied with IAS 18. Compliance in this study is taken to mean that both private and public companies in Namibia are following all the steps, techniques and methods of recording and measuring revenue in terms of the provisions of IAS18. CLPs are an integral part of revenue recognition process since their valuation determines the amount of revenue that are reported in the financial statements. Companies are required to comply with IFRIC 13 when processing transactions that involve credit awards.

The literature on the application of IFRIC 13 Customer Loyalty Programmes highlights interpretational and operational challenges that are faced by companies when recognising revenue. The situation is further compounded by a lack of prescriptive sales price allocation methods. The level of compliance and non-compliance is discussed in the data analysis section.

2.9. Bill and hold sales

Bill and hold sales are sales that involve the customer having met all the requirements of a transaction, and requesting the seller to delay delivery of the goods. Bill and hold sales occur when the buyer takes the title of the goods but

requests that the supplier holds the goods until the customer takes delivery or collects (PricewaterhouseCoopers LLP, 2012). The sale of goods as bill and hold is undertaken in terms of paragraphs 14 to 19 of IAS 18. However, the IASB lays further conditions of revenue recognition for bill and hold sales. The issue that arises is whether in the absence of delivery, revenue may be recognised in a bill and hold sale or rather inventory should continue to be recognised.

According to paragraph 1E 1 of IAS 18, revenue is recognised when the buyer takes title of the goods when specific conditions have been met in full. The standard stipulates that revenue be recognised when it is probable that the entity will make the delivery and that the goods are on hand, identifiable and the goods are ready for delivery to the buyer. The buyer is required to specifically acknowledge the deferral of the delivery of the goods, and that the usual terms of such transactions will apply.

2.10. Lay away sales

Lay away sales are not covered in the main text of IAS 18 but rather they are covered in the basis for conclusion as illustrative examples. However, it therefore implies that lay away sales are dealt with in terms of paragraphs 14 to 19 of IAS 18. Lay away sales are commonly known as lay-by sales as agreements. The buyer undertakes to settle the sales value of the goods over an agreed short period of time before taking delivery and ownership. Most retail businesses in Namibia offer such transactions over a period of approximately three months. The goods are normally removed from

the shelf, kept away and marked “lay by” so that the goods are not sold to other customers. The buyer is required to pay the total price over the agreed period.

The revenue from such sales is dealt with in terms of paragraph 18 IE3. According to the illustrative example 1E3 of IAS 18, revenue derived from such sales is recognised when the buyer takes delivery (IASB, 2014). The delivery of the goods only takes place when the buyer has paid the full amount. However, it appears that paragraph IE3 of IAS 18 allows an entity to recognise revenue when a significant amount of the deposit has been paid (IASB, 2014). According to the standard, the recognition of the revenue is based on the experience of management.

2.11. Revenue from provision of services

IAS 18 Revenue deals with the recognition criteria of revenue from the provision of services. Paragraph 20 of IAS 18 insists that certain criteria be met before the revenue from provision of services can be recognised. The criteria include the amount of revenue can be measured reliably, that it is probable that economic benefits associated with the transaction will flow to the entity, the stage of completion of the transaction can be estimated reliably at the end of the reporting period, the costs incurred for the transaction and the costs for completing the transaction can be measured reliably.

2.12. Revenue from interest, dividend and royalties

Revenue from interest, dividend and royalties is dealt with in terms of paragraph 29 of IAS 18, which sets out the recognition criteria while the basis of recognition is set out in paragraph IAS 30. The recognition criteria will be discussed from the perspective of the standard and then from the empirical studies point of view.

Paragraph 29 of IAS 18 states that revenue from interest, dividends and royalties shall be recognised when two key recognition criteria have been satisfied. The two criteria are that it is probable that the economic benefits related to the transaction will flow to the entity, and that the amount of the revenue concerned can be measured reliably (IASB, 2014). These two requirements are in line with the general recognition criteria of the elements of the financial statements laid out in the IASB Conceptual Framework. In terms of IAS 18, if these conditions are not fulfilled, an entity should not recognise revenue from interest, dividend and royalties (IASB, 2014).

Paragraph 30 of IAS 18 then addresses the issue of when the revenue from interest, dividend and royalties should be recognised and measured. According to paragraph 30 of IAS 18 interest should be recognised using the effective interest rate, while dividend revenue should be recognised when the rights of a shareholder have been established (IASB, 2014). In practice, the right is established when a shareholders' meeting approves a dividend payment. The standard further states that royalties shall

be recognised on an accrual basis in accordance with the relevant contractual arrangements (IASB, 2014).

2.13. Disclosure and presentation of revenue in the financial statements

The presentation of the revenue figure in the statement of profit or loss and other comprehensive income, and the related disclosures in the notes, is another topical issue. The challenge comes from the need to disclose as much information as possible to various stakeholders with the possibility of endangering the business or trade secrets of an entity.

The minimum disclosures (as detailed in terms of paragraph 35 of IAS 18) which any entity should disclose are its accounting policy and the methods that are used to determine the stage of completion of a transaction involving the rendering of services. However, sub-paragraph 35 (b) of IAS 18 requires that the amounts related to revenue from the sale of goods, rendering of services, dividends, interest and royalties should be disclosed separately. Sub-paragraph 35 (c) of IAS 18 is also instructive that where there has been an exchange of goods and services, such revenue should also be disclosed.

A number of quantitative research studies have attempted to investigate compliance with IAS 18 within the context of compliance with IFRSs disclosures. A literature review conducted on compliance with the IFRSs included studies from these researchers: Karim & Ahmed (2005); Al-Shammari et al., (2008); Mutawaa &

Hewaidy (2010); Demir & Bahadir (2014); Mbetu et al., (2014). The above studies reported varying results. There were differing degrees of compliance with the IFRSs. The studies on disclosure compliance reported mixed findings on the relationship between company age, size, accountants' qualifications and work experience, profitability levels, size of the audit firm, leverage levels, industry type, ownership structure (Al-Shammari et al., 2008; Demir & Bahadir, 2014; Karim, 2005; Mbetu et al., 2014).

In the Gulf Co- Operation countries, IAS 18 achieved an 89 % compliance rate when compared with other standards (Al-Shammari et al., 2008). Atsunyo (2012) found that most of the companies in Ghana achieved a 95% compliance rate, results that are consistent with similar studies (Mutawaa & Hewidy, 2010).

2.14. Gaps in the Literature

The above literature review indicates mixed results. In certain jurisdictions, companies may be facing challenges dealing with revenue recognition in practice, while it is the opposite in other jurisdictions.

The literature on compliance with IAS 18 is very limited. A number of studies on compliance with IFRSs have been carried out. These studies have examined how certain countries have been using the IASs in general without zeroing in on whether or not companies in those countries were complying with the requirements of IAS18. Other studies on IFRSs have revealed that companies were complying with the

disclosure requirements of IAS 18. There appears to be a challenge or lack of literature on the application of revenue recognition and measurement principles that ensures that the disclosures are reliable.

IAS 18 lacks clear guidelines in terms of how and what valuation techniques for measuring revenue should be applied when measuring revenue in cases involving a sale of goods and provision of ancillary services, including CLPs. Different authors have proposed a number of methods. However, the standard does not prescribe any of these methods. The standard insists that valuation should be carried out in accordance with IFRS 13 Fair Value Measurement. IAS 18 further insists that where the principles of IFRS 13 may not be applicable, the responsibility is left to management to use their knowledge in applying suitable techniques.

The literature reveals that those researchers who have made efforts to investigate revenue recognitions have not examined the actual compliance with IAS 18, but rather most of the researchers chose to investigate sections of the standard. In particular, CLPs that are covered by IFRIC 13 seem to have been researched extensively, both internationally and regionally.

Sondhi & Taub (2008) claim that despite the importance of revenue in financial reporting, the literature on revenue recognition is not well developed. The lack of authoritative literature addressing certain issues and industries has resulted in the

development of revenue recognition for some transactions being based on industry practice (Sondhi & Taub, 2008).

This study is based on the question of compliance with the requirement of IAS 18. The key issues in investigating compliance by companies are centred on measurement, recognition criteria, identification of transactions, and determination of selling prices of multiple components within a single transaction. It is the researcher's contention that while disclosures are important, that requirement is not as challenging as the process involved in preparing the information that is presented in the disclosure notes of the financial statements.

In pursuit of the objectives of this study, chapter three will address the research methodology of this study. The chapter discusses the population of the study, sample and sampling techniques. Chapter three further discusses ethical issues and data collection techniques employed by the researcher.

Chapter Three

Research Methodology

3. Methodology

3.1 Introduction

This chapter discusses the research methodology used in undertaking the study. Section 3.2 examines the research design. This chapter examines the qualitative design in section 3.2.1, while sections 3.2.1 and 3.2.2 discuss phenomenology and ethnographic approaches respectively. The other sections include sections 3.2.4 action research, 3.2.5 grounded theory, 3.2.6 case study, 3.2.7 exploratory research and 3.2.8 descriptive design. Sections 3.3 and 3.4 examine mixed method and quantitative designs respectively. Sections 3.5 to 3.11 will discuss the population of the study, sampling techniques, research instrument, procedures, data analysis and ethical considerations. Section 3.12 discusses how the ethical issues were addressed before and during the study. A summary of the chapter is provided in section 3.12.8.

3.2 Research Design

A research design is the grand plan regarding how the research will be conducted. Athanasou et al. (2012) contend that a research design is the plan for how one intends to accomplish a particular task, and that in research the plan provides a structure that informs the researcher as to which theories, methods and instruments the research is based and will use. It is therefore, the purpose of this section to provide detailed information on various research designs and how the selected design was found to be suitable for the study.

There are three broad research approaches that can be employed by researchers. The research approaches are the qualitative, quantitative and mixed research designs. Quantitative and qualitative researches differ in the way the two approaches generate their data, as well as the research process and assumptions about social life (Neuman 2011). The mixed methods approach is known as triangulation (Neuman, 2011).

The research design has a bearing on how the research questions will be handled and importantly how the data collection and analysis will be considered in the overall research process. The aim of a research design is therefore to provide credible results that approximate reality and are judged trustworthy (Athanasou et al. 2012).

3.2.1 Qualitative Design

Welman, Kruger, and Mitchell (2009) describe the qualitative design as an approach rather than a design. Qualitative research involves the use of data that is normally not quantifiable.

In terms of definition Saunders, Lewis, & Thornhill (2009) and Neuman (2011) describe a qualitative design as an umbrella term that covers a range of interpretative techniques, which seek to describe, decode, translate and achieve the meaning of naturally occurring phenomena in a normal social world. A qualitative design is therefore fundamentally a descriptive form of a research process in contrast to a quantitative research design. Saunders et al. (2009) and Neuman (2011) state

qualitative data is normally captured through coding. The qualitative design tends to take a number of philosophical approaches, which determine how the researcher will be involved in the data collection of the study. The different approaches are briefly explained below.

3.2.2 Phenomenology approach

The first major design in qualitative research is the phenomenology approach. The phenomenology method is where the researcher attempts to understand and describe how one or more of the participants experience a phenomenon (Christensen, Johnson & Turner, 2011). The phenomenological research methods require participants to focus on their phenomenon (Christensen et al., 2011). Participants should record their experience based on their past or current memory. As for data collection, in-depth interviews and open-ended questionnaires are used. The research report of this method is written in a narrative form. The phenomenological research report also includes a detailed description of the participants and the data collection method used in the study (Welman et al., 2009).

Under the phenomenological approach, the role of the researcher, importance of the context the study, aims of the research, research design and data collection of methods are critical elements of the study that the researcher needs to take care of.

Welman et al. (2009), claim that in the phenomenological research approach, a researcher does not study or observe reality but rather interprets reality. The researcher does not become part of the participants.

The second issue that the researcher has to take cognisance of under the phenomenological approach is the context of the study. The context of the study means the environment or conditions under which the study is being undertaken (Welman et al., 2009).

The third element of the phenomenological approach is the aim of the research. According to Welman et al. (2009), the aim of the phenomenologist is to understand the phenomena from the perspective of the people involved with the phenomena itself. As such, phenomenologists are not interested with the description of the phenomena but rather the concern is the experiences of the participants of the phenomena. According to Athanasou et al. (2012), the responsibility of the researcher is to understand and describe phenomena from the perspective of the participants. Wagner et al. (2012) contend that phenomenology describes a participant's experience and does not attempt to explain the experience.

3.2.3 Ethnography

The aim of the ethnographic design or approach is to achieve a holistic understanding of how members of a particular community make sense of their social reality. Athanasou et al. (2012) contend that ethnography is a process that uncovers cultural meanings and attempts to achieve the insider's perspective in a natural setting involving prolonged and repetitive collection of data.

Under this design the researcher lives in the community, makes observation and records social life, events and activities of the community. The design allows the researcher to develop field notes. The ethnographic design has about fourteen key characteristics. Some of the characteristics include its occurring in natural settings, face-to-face interactions, and its use in building cultural theories from inductive, interactive, iterative data collection and analysis (Wagner et al., 2012). The key component of the ethnographic design is the use of fieldwork notes, which account for the researcher's everyday experiences in the field (Athanasou et al., 2012).

3.2.4 Action Research

Neuman (2011) describes action research as applied research in which the primary objective is to facilitate social change or bring about a value-oriented political social goal. Neuman (2011) states that, action research combines the acquisition of new knowledge with using the current knowledge to reach a specific target.

3.2.5 Grounded Theory Design

Glasser and Strauss developed the grounded theory in 1967. Wagner et al. (2012) state that a factor that distinguishes the grounded theory from the other theories is the relationship between data collection and data analysis. Cooper and Schinler (2014) state that the grounded theory is conducted through a structured interview, with each subsequent interview being adjusted based on the findings and interpretations from each previous interview. The purpose of the adjustments is given as the development of general concepts or theories that can be used to analyse data. However, the main

objective of this research study is to investigate compliance, rather than seek the development of new theories.

3.2.6 Case Study

A case study is a research method focussed on a single participant, in which minimal constraints are placed on the participant. Graziano and Raulin (2010) and Murray and Beglar (2009) define a case study as an intensive, in-depth study method of a specific individual or specific context or situation.

Murray and Beglar (2009) contend that the case study method is best suited on a descriptive or explanatory question. However, from the above definition, the design is normally applied in several studies. A number of steps will need to be followed in a case study design. When applying the case study method, researchers must first describe and define the case study that they wish to study (Murray & Beglar, 2009). Researchers have the option to disregard current theory in the hope of uncovering something new or adopt a theoretical view from the onset of the study.

As noted above, a case study examines a specific situation as an individual research study. This study is on a specific situation, which is compliance with IAS 18. The study seeks to describe the level of compliance but not to explain the level of compliance. The research could also have been undertaken as a case study of Namibian private and public companies. However, it was a matter of preference not to undertake the research as a case study.

3.2.7 Exploratory Research

Neuman (2011) defines exploratory research as research to examine a little-understood issue or phenomenon and to develop preliminary ideas about it and move toward refined research. Neuman (2011) states that the exploratory method enables the researcher to be familiar with basic facts, settings and concerns. According to Neuman (2011), exploratory research helps to create a general mental picture of conditions, formulate and focus questions for the research, generate new ideas, conjectures, or hypotheses, determine the feasibility of conducting the research and to develop techniques of measuring and identifying future data. According to Blumberg, Cooper, & Schindler (2011), the exploratory design is appropriate for total study in areas where data is limited. There have been a number of studies on revenue recognition undertaken in other accounting jurisdictions with a different focus but in the case of Namibia, the data is very limited. There is very little information on how companies in Namibia are complying with the international financial reporting standard on revenue.

The exploratory method requires researchers to be creative, open-minded and flexible. Researchers should adopt an investigative stance and explore all sources of information available to them (Neuman, 2011). An exploratory study may be achieved by both qualitative and quantitative design, though traditionally researchers have tended to adopt the qualitative design for an exploratory study (Blumberg et al., 2011).

3.2.8 Descriptive study

Blumberg et al (2011) state that the main objective of a qualitative design that takes a descriptive approach is to describe the phenomena, estimation of the proportions of a population that have specific characteristics and discovery of associations between variables. Blumberg et al. (2011) contend that descriptive research is aimed at describing the phenomena associated with respondents, as it exists. While the descriptive approach may appear simple, it is as challenging as any other research approach that requires high research skill (Blumberg et al., 2011).

The objective of this study is not just to describe whether the private and public companies are complying with IAS 18 or not, but rather to seek more data as to the level of compliance and noncompliance and be able to formulate recommendations. It is against this background that the exploratory approach was adopted instead of the descriptive approach for this particular research study.

3.3 Mixed Methods Design

A mixed methods study is a research design that applies a mixture or combination of both qualitative and quantitative designs. The core assumption of the mixed method is that the combination of quantitative and qualitative approaches offer a more comprehensive understanding of the research problem than the single use of a qualitative or quantitative approach alone (Creswell, 2014).

Under the mixed methods design, the exploratory, convergent, explanatory and transformative approaches are also used. The approach presents data in a narrative format, and the same data is presented in a quantitative format. This is done in order to enhance the quality of the interpretation of data.

3.4 Quantitative Design

A quantitative design is a plan for how one will go about answering the research question that deals with the data, which can be quantified or expressed numerically. Formally quantitative research can be defined as a formalised, systematic, objective and nomothetic approach to research, where numerical data and statistical analysis are used to generalise the results from a sample group to a population (Creswell, 2014 and Athanasou et al., 2012). Quantitative design includes the following approaches:

3.4.1.1 Experimental research

An experimental research design is used in quantitative research. An experimental design involves a study in which the researcher controls or manipulates one or more of the variables with the aim of determining the cause and effect relationship between the variables. Experimental design, therefore, requires the researcher to manipulate an independent variable and observe the outcome on the dependent variable (Blumberg et al., 2011).

An experimental research design involves the use of various experimental groups. Experimental research designs make use of a control group and an experimental group. According to Christensen et al. (2011), participants in a control group do not receive the active treatment conditions and serve as the standard for comparison for determining whether the treatment conditions had any causal relationship, while the experimental group, also known as the treatment group, consists of participants who receive the treatment that is intended to yield an effect.

In view of the exploratory design that is adopted for this study, it was not possible to make use of the experimental design. This study made use of secondary data that is historical in nature. Furthermore, it was not possible to ask the respondents to redo the financial statements. The objective of the study was to determine past compliance levels that had already taken place in a natural setting without any form of manipulation. Hence, the experimental design was not suitable for this study.

3.4.1.2 Quasi- experimental research

Christensen et al. (2011) define a quasi-experimental design as an experimental design that does not meet all the requirements necessary for controlling the influence of extraneous variables. Quasi-experimental does not randomly assign participants to groups as is done in strong experimental design. However, quasi-experimental designs are better at controlling extraneous variables than weak experimental designs (Christensen et al., 2011).

The purpose of quasi-experimental research design is to compare groups in a naturally occurring setting (Athanasou et al., 2012). Athanasou et al. (2012) argue that quasi – experimental design tests hypotheses about the effects of treatments that can be manipulated to achieve outcomes. This study did not make use of a hypothesis. The study did not have a comparison of the level of compliance as one of the research objectives; hence this design was not suitable for this research study.

3.5 Choice of research design

. According to Athanasou et al. (2012) a qualitative design is used by a researcher interested in understanding how people interpret their experiences, how they construct their worlds and the meaning they attribute to their experiences. The researcher intended to gain a thorough understanding of how preparers of financial statements interpret their experiences with the application of IAS 18 in a real world setting with the present standards.

Sekaran and Bougie (2011) and Saunders et al. (2009) claim that an exploratory study is undertaken to better comprehend the nature of the problem where there seem to be only a few studies conducted in the area of concern. The preliminary literature reviews indicated that while a number of studies had been undertaken in other accounting jurisdictions, not much had been published in Namibia on how private and public companies were complying with the requirements of IAS 18. This researcher, therefore, adopted the exploratory approach as a tool to clarify the real issues concerning the understanding of how a number of Namibian private and

public companies are complying with the requirements of IAS 18. The study therefore, was undertaken using the mixed methods approach.

3.6 Population

Neuman (2011) defines population as the abstract idea of a group of many cases from which a researcher draws a sample and from which the results from that sample can be generalised. Graziano & Raulin (2010) also define population as a larger group to which all objects or people of interest belong. It is a requirement for a researcher to decide on the characteristics and size of a population for each study. A population is normally a group or collection of objects or people who form the core participants.

The population of this study was composed of all chief financial officers from both private and public companies registered in the Republic of Namibia. On 31 October 2014, there were sixteen thousand four hundred and ninety five (16495) registered private and public companies in Namibia. The population included all companies irrespective of the sector in which they were operating.

3.7 Sample

The most common sampling procedures that are used in research are probability and non-probability sampling. This study adopted a non-probability sampling technique. This method was chosen because the researcher used personal knowledge about the

participating companies so that the sample could be composed clearly of participants who were representative of all revenue categories as per IAS 18.

A sample of fifty (50) chief finance officers was drawn from the population for this study using the non-probability sampling technique known as purposive sampling. A number of considerations were taken into account to restrict the sample for the study to only fifty chief finance officers. As noted by Smith (2011), when selecting a sample a researcher has to examine critically the cost-benefit analysis. Smith (2011) contends that larger samples are very expensive in terms of time and money spent on data collection despite the chance of achieving better results. The researcher took a sample of only fifty chief finance officers due to limited resources in terms of cash and time.

The purposive sampling method was used to select the sample. Purposive sampling is defined as non-probability sampling techniques that produce a sample that conforms to a certain criteria (Creswell, 2014). There are two types of purposive sampling techniques namely the judgemental and quota sampling.

Judgemental sampling occurs when a researcher selects sample members to conform to some criteria (Blumberg et al., 2011). Blumberg et al. (2011) argue that the judgemental sampling method is suitable when conducting an exploratory study including where there is a need to select a biased group for screening purposes. Judgemental sampling is considered a technique that relies on the researcher's

experience, creativeness and past studies in order to generate a sample that is representative (Christensen et al., 2011).

The sampling technique allowed the researcher to cluster the participants according to revenue categories. The major revenue categories are the sale of goods, provision of services, interest, royalties and dividends. According to Wagner et al. (2012) purposive sampling is also referred to as judgemental sampling because it involves the use of personal experience or ingenuity by the researcher to find the participants who are considered to be representative of the population, using specific criteria to identify the most suitable individuals.

The researcher applied his personal knowledge of the participants in order to ensure that every revenue category that is recognised in terms of IAS 18 was fully represented in the sample. Furthermore, the researcher included all twenty seven public limited companies that are listed on the Namibian Stock Exchange (NSX). The secondary data on these companies is easily obtainable from the NSX and their respective websites.

The researcher used his personal knowledge to eliminate close corporations and state owned enterprises from the population and the sample. The close corporations were eliminated because it is not mandatory for them to produce and file annual financial statements. The second element was the reliability of their financial information.

The researcher did not include the state owned enterprises. Furthermore, the researcher anticipated some challenges in terms of obtaining the required information from state owned enterprises.

The other sampling technique that the researcher could have adopted is quota sampling. Quota sampling is another type of purposive sampling. By its very nature, quota sampling is used to improve the level of representation of participants in a sample. The researcher has to develop some further important classifications within a sample. When using quota sampling a researcher has to define more than one control dimension that have a certain pertinent distribution in the population that the researcher may estimate reliably (Blumberg et al., 2011).

In the case of this research study, the researcher would have first identified the proportion of the private and that of the public companies respectively. By way of an example, if the proportion of private companies was for example, sixty percent, then sixty percent of the chief finance officers in the sample would have been drawn from the private companies while forty percent would have been drawn from the public listed companies.

Blumberg et al. (2011) contend that the control dimension needs to be pertinent to the topic being studied. The quota sampling technique could have been applied to the various revenue categories. Since IAS 18 deals with revenue from the sale of goods, rendering of services, interest, dividend and royalties, these may be used as control

dimensions. The sample would include a proportion of each revenue category as it is in the population.

The quota sampling approach appears to be very reasonable in this case as it improves the representation that may possibly give an indication as to which company complies with IAS 18. However, the challenge that the researcher encountered on the use of the quota sampling was the element of breaking down the population into the respective revenue categories. It was against this background that the researcher did not adopt the use of the quota sampling technique despite it being the most appropriate.

3.8 Research Instrument

A questionnaire was specifically designed for this study. The questionnaire had six sections. Eleven questions with related sub questions were developed for the instrument. Admittedly, a significant amount of time was invested in developing the questionnaire. The research instrument was constructed in terms of principles advocated by Wagner et al. (2012). The questionnaire construction process involved the determination of the most appropriate questions, the length of questions, the order of questions, clarity of questions, and the background of the respondents was taken into consideration. The questionnaire was sent for editing as well as for review and approval by the supervisor.

The questionnaire was designed in line with both the research questions and the important sections of IAS 18 which determine whether an entity is complying or not.

This approach to the structure of the questionnaire was chosen as stated above since the research objective was to investigate whether private and public companies are complying with the requirements of IAS 18.

One of the key characteristics of a research instrument is the ability to enable the research to gather accurate and meaningful data. The researcher must pay attention to the wording of each question (Wagner et al, 2012). Therefore, the questionnaire for this study contained short and straightforward questions derived from the research objectives. The respondents' financial reporting backgrounds were taken into consideration in the construction of questions. The background of the respondents was that they were mostly senior and busy company officials. The questionnaire was therefore, designed in such a way that selective answers to some questions were provided to reduce the amount of time required by each respondent.

The researcher recognised the need to obtain independent or unguided responses so that similar responses are not obtained from all respondents. A few open-ended and closed questions, which required the respondents to express their own experiences with revenue recognition practices in their companies, were included. However, most of the closed questions were more evaluative in nature.

3.9 Procedure

Qualitative research designs make use of three basic data collection methods. According to Wagner et al. (2012) the use of interviews, observations and document analysis are very common with qualitative designs. The objective of an interview in

qualitative research is to gather rich and descriptive data that will help the researcher to obtain the real issues from the perspective of the participants (Wagner et al., 2012). However, in order to gain this insight, the researcher needs to create a good rapport with the interviewees. Furthermore, the researcher has to ensure that the participants are informed of the purpose of the study in advance in order to get the information from the respondents without imposing his or her own ideas, not judge or criticise the participant and ensure that he or she has obtained the respondents' informed consent (Athanasou et al., 2012).

The researcher followed these practical guidelines by conducting the interviews through self-administering the questionnaire. The researcher made several appointments with the selected chief finance officers who formed the sample of the study. A number of considerations were taken into account before and during the sample selection process. The first step in this study was the identification of companies through published financial data of different entities that fit into the different revenue categories. Blumberg et al. (2011) recommend that the researcher who undertakes an exploratory study should first search for secondary literature, in particular the organisation's documents, as it will be inefficient to discover anything with primary data.

It is public knowledge that most Namibian private and public companies are currently using the IFRSs as published by the IASB. Since the study was on compliance with IAS 18, the researcher used the published annual financial statements to identify those companies that published a statement of compliance with

IFRSs in the annual financial statements. The statement of compliance with IFRSs is published in the “basis of preparation” paragraph of notes to the financial statements. This step was adopted as part of the procedure with a view to eliminating the possibility of accidental inclusion of a company that does not use the IFRSs in the preparation and presentation of its financial statements.

The researcher then grouped the companies into revenue categories irrespective of whether an entity was a private or public company. The financial statements were reviewed for the level of disclosures therein versus those required by the standard.

This study involved collection of primary and secondary data. The primary data were collected through administering a questionnaire to the chief financial officers that were selected to form the sample for the study. The researcher then personally administered the questionnaire to the chief financial officers. The personal administering of the questionnaire to the various respondents was undertaken in order to achieve a high rate of response as well as developing a deep understanding of the participants’ responses through use of follow up question and general discussions.

Annual financial statements were as a source of secondary data. Secondary data were collected through review of various accounting policies contained in the notes to the financial statements. The data covering three reporting periods were collected using the content analysis method. The three financial reporting periods were selected in order to verify consistency of the data that was published in the financial statements.

Both the primary and secondary data was collected over a period of ninety days, beginning February 2015 into April 2015. All the data from the questionnaires were transcribed from each questionnaire into an analysis sheet. The analysis sheet was organised according to the structure of the questionnaire for ease of data analysis.

3.10 Data Analysis

Data analysis was conducted with the non-statistical methods namely narrative domain and schematic analysis as well as the use of graphs and charts. Neuman (2011) defines narrative analysis as a method for analysing qualitative data by providing explanations. The results are presented in graphs and charts and analysed using frequencies and percentages. The researcher made use of groupings, bar charts, graphs, ratios and narrations.

Primary data was obtained through interviews using a questionnaire. The secondary data for this study was obtained from published financial statements and analysed using the narrative analysis method. The approach in this paper is that full discussion on data analysis is discussed in the next chapter that deals with data analysis.

3.11 Ethical Considerations

Ethics relates to morals that guide our behaviour and relationships with others. According to Cooper and Schindler (2014) the goal of ethics is to take all the necessary steps to ensure no one is affected negatively by the research process.

Cooper and Schindler (2014), Ghauri and Gronhaug (2010) and Graziano and Raulin (2010) argue that research ethics starts from the development of the research problem formulation. They argue that the research should not cause embarrassment to others and the researcher. Research principles require that a researcher should take a number of ethical considerations into account when undertaking a research study. Such considerations should address issues of confidentiality, exposure to risks, fair treatment and the right to correct information.

Graziano & Raulin (2010) argue that researchers should protect participants against deception, dangerous procedures and invasion of privacy. They further cite the use of informed consent as the best safeguard. According Cooper & Schindler (2014) business researchers should be very honest and professional in their conduct of research studies if business communities are to trust researchers. Researchers through their research may deceive business in obtaining confidential information, which is commercially sensitive, such as customer lists, product pricing, share price, and sensitive information. Such information may cause serious commercial damage to participants if misused by researchers when it is obtained under false pretences. Participants therefore, must have the option to choose when, to participate and the amount of information to divulge.

Ghauri and Gronhaug (2010) and Graziano and Raulin (2010) stress that researchers should maintain strict confidentiality. This means that there is a need for a balance between the identification of participants and sensitive information versus objectivity in the presentation of the data and the finding of the data. Ghauri and Gronhaug

(2010) and Saunders et al. (2009) cite the following as some of the key ethical issues that any researcher should avoid:

- i. Not preserving participants' anonymity;
- ii. Exposing participants to mental stress;
- iii. Asking questions that are detrimental to their self-interests;
- iv. Use of tape recorders, videos or health hazardous equipment;
- v. Involving the participants in research without their consent;
- vi. Making use of deceptions;
- vii. Use of coercion to obtain information; and
- viii. Depriving participants of their rights.

The researcher ensured that the above-mentioned ethical considerations were addressed before and during the research process. This is particularly crucial where data collection may be delegated. Data collectors are trained to administer the questionnaire in order to ensure that a high level of professional conduct and reliability of the information is maintained. Cooper and Schindler (2014) contend that the main reason why ethical issues should be addressed before the research commences is to ensure a proper and objective framework to guide the process. This is also critical where the researcher may require the use of others to collect the data on his/her behalf. Furthermore, addressing ethical issues before the start of the process enables the researcher to identify circumstances where there are likely to be ethical challenges in terms of obtaining or accessing information (Ghauri & Gronhaug, 2010).

Failure to obtain appropriate information particularly at the advanced stage of the research may lead to embarrassment to the researcher when the project cannot be finalised (Cooper & Schindler, 2014). Non-availability of information or data may also lead the researcher to unethically generate information through unethical means in order to achieve the intended objectives or prove the hypothesis of the research study. It was therefore, necessary that ethical issues were addressed early in this study as discussed below.

3.12 Addressing ethical issues

The researcher clearly informed the participants that the purpose of the study was to fulfil the requirements of a Master of Science in Accounting and Finance degree programme through the University of Namibia, i.e. academic purposes and not commercial purposes. Furthermore, the researcher obtained documentation from the university to evidence the authenticity of the study. However, specific ethical issues were addressed as detailed below.

3.12.1 Preserving participants' anonymity

In dealing with the ethical issue, the researcher developed a coding system for the participants with a view to ensuring that their identities are protected. The researcher ensured that no data was released in a manner that reveals the identity of the participants or in a manner that is intended to damage the participants' or their employers' reputation.

3.12.2 Exposing participants to mental stress

The researcher administered a structured questionnaire to all the participants who took part in this study. The researcher made use of a questionnaire with structured questions that were divided into sections. The researcher further made use of follow up questions where appropriate in order to obtain clarity.

The researcher refrained from pressurising the respondents during the interviews. A cordial environment was used as the most appropriate approach to the study. The researcher ensured that no interview lasted for more than thirty minutes. The researcher did not use questions that seemed detrimental to the participants' privacy.

The researcher took cognisance of the fact that most of the professional accountants in business are not up to date with the developments in the accounting standards. As such, questions that seemed to embarrass the participants because of their lack of up to date knowledge of accounting were avoided.

3.12.3 Special equipment

The researcher made use of tape or voice recorders where appropriate. The purpose of the instrument was strictly for data storage and accuracy purposes. The purpose was fully explained to all participants. Furthermore, it was not envisaged that this type of research may have subjected participants to any hazardous equipment or environment.

3.12.4 Participants' consent

The researcher obtained the participants' consent to take part in the study voluntarily.

The researcher used consent forms to obtain the participants' consent to take part in the study. Where consent could not be obtained, the participants' wishes were respected; accordingly they did not participate in the study.

3.12.5 Use of deception

Deception involves telling the participants only part of the truth, or the truth is fully compromised to prevent biasing respondents or to protect sponsor confidentiality.

The respondents were fully informed of the purpose of the study. A copy of the letter from the University of Namibia was presented to each and every participant. The researcher did not use any form of deception to obtain information whatsoever.

3.12.6 Use of coercion

Coercion includes some use of force on the participants to extract any information.

The researcher did not possess any means of force that may have caused the participants to divulge any information against their will or corporate stance.

3.12.7 Deprivation of participants' rights

This involves taking away some form of entitlement from the participants if they do not take part in the study in terms of conformance to the researcher's needs. The researcher did not perceive such issues arising as there was no need for such an

action. The researcher had no such power or entitlement to withhold any rights or benefits from the participants in order to force them to participate in the study.

The researcher upheld high ethical standards during data collection and presentation of the findings. A high level of rapport was created with the participants, who also expressed their willingness to take part in future studies such as this as it encouraged them to revisit topical issues in accounting.

3.12.8 Conclusion

The chapter examined issues related to the selection of a research design, population, sampling, data collection and ethical consideration of the whole study. The chapter also examined how primary and secondary data were collected. The secondary data that the researcher gathered were mainly concerned with the disclosure that the participating companies used in their annual financial statements compared to the requirements of the standard.

Primary data were collected using a questionnaire. The researcher administered the questionnaire to the participants. The main objective of this method instead of the postal method was to ensure a high response rate. The study paid considerable attention to the above ethical issues. Observation of ethical issues assured the researcher that there was no participant dangerously exposed or disadvantaged by the study. The next chapter presents a discussion on the findings of this study. The

discussion is structured in the order that questions were organized the research instrument. The findings of the study will be presented in chapter four.

Chapter 4

Presentation of Results

4.1 Introduction

This chapter presents the findings of the study. The results of this study were obtained through conducting interviews and the administration of a questionnaire. The main objective of the questionnaire was to acquire knowledge relating to the level of compliance with IAS 18 by both private and public companies in Namibia.

Sections 4.2 to 4.5 present a discussion of the demographics of both the chief finance officers and the selected companies for the questionnaires and interviews. Further discussion on sale of goods and measurement of revenue is presented in sections 4.6 and 4.7 respectively. Findings on interest, dividend and royalty are discussed in section 4.8 of this chapter. Section 4.9 discusses findings on provision of services, section 4.10 presents findings on disclosures, section 4.11 examines secondary data, and section 4.12 explores general evaluations while section 4.13 presents the findings on possible challenges faced in the application of fair valuation. The chapter contains a discussion in section 4.14 of the challenges that the researcher encountered, general comments are presented in section 4.15, and the chapter concludes with a summary in section 4.16.

4.2 Response to the Questionnaire

A sample of fifty chief financial officers was selected from both private and public companies registered in Namibia. The sample was composed of both female and

male respondents of varying years of experience in financial reporting under the IFRSs.

The Distribution of the Response Rate

	Frequency	Percentage	Cumulative Percentage
Responses	36	72	72
Non response	11	22	94
Rejections	3	6	100
Total	50	100	

N= 36

Table 4.1 Distribution of response rates

The purpose of this table is to present information on the number of participants who responded, those who did not respond or just did not return the questionnaire and those who refused to take part in the study. Table 4.1 indicates that 50 questionnaires were administered in the study. A total of 36 participants constituting 72% of the sample responded to the questionnaire 11 participants failed to attend the interviews. Three respondents rejected answering the questionnaire. The respondents were comprised of 19 females and 17 males.

The findings of the study are therefore based on a seventy two percent-response rate. A similar study (Mbetu et al., 2014) was based on a response rate of 49.56%. In another study (Islam, 2012) primary and secondary data was collected from twelve

pharmaceutical companies only, and the results were consistent with other studies. The response rate of this study is in line with other previous studies (Al-Shammari et al., 2008; Demir & Bahadir, 2014)). However, in some cases this study achieved a higher response rate than the previous studies (Mbetu et al., 2014).

4.2.1 Demographic data

A number of variables are used in this study to present demographic information about the respondents. The data presented in the table below include information on the job titles, financial reporting and accounting policy development experience.

The job titles have been used to eliminate those who may not be responsible for the preparation and presentation of annual financial statements. The financial reporting experience of the individual participants is a key variable in determining the level of individual exposure to financial reporting practices. The accounting policy development variable is further intended to ascertain the level of involvement in designing and implementation of accounting policies. Furthermore, the variable is an indicator of the level of an individual participant's understanding and interpretation of the company's accounting practices.

Demographic Information

	Variable	Frequency	Percentage	Cumulative %
1.1	Titles			
	Chief Financial officer	3	8.33	8.33
	Group Chief Accountant	7	19.44	27.77
	Management Accountant	2	5.56	33.33
	Finance Director	6	16.67	50
	FR Manager	1	2.78	52.78
	Finance Manager	17	47.22	100
1.2	Financial Reporting Experience			
	1 year or less	3	8.33	8.33
	2-4 years	6	16.67	25
	5-10 years	10	27.78	52.78
	More than 10 years	17	47.22	100
1.3	Accounting policies Development			
	External auditor	20	55.56	55.56
	CFO	3	8.33	63.89
	Audit committee	12	33.33	97.22

	Internal auditors	1	2.78	100
1.32	Gender			
	Males	19	52.78	52.78
	Females	17	47.22	100

N = 36

Table 4.2 Demographic Information:

4.2.1.1 Titles

The above table 4.2 indicates that different companies use different job titles for the position of a chief financial officer. The titles are the generic titles used by most companies worldwide, depending on whether the position is held at group company level or just a single company. The titles as depicted in the above table are a reflection of the positions that are normally associated with the job functions of chief financial officers.

4.2.1.2 Financial reporting experience of the respondents

The financial reporting experience is categorised into four groups. Table 4.2 indicates that there were only three participants or 8.33 % who had less than one-year financial reporting experience. Six respondents or 16.67 % of the participants had between two and four years' experience in financial reporting. The last two categories centred on those participants who possessed between five and ten years' experience and those who had more than ten years' financial reporting exposure. The results for these two categories were ten or 27.78 % and 17 or 47.22 % of the participants respectively.

The above results indicate that most of the respondents or 75 % of the respondents had more than five years' experience in financial reporting. The results, therefore, show that the respondents had sufficient knowledge to interpret the questions independently and were able to deal with technical issues without any assistance.

4.2.1.3 Development of accounting policies

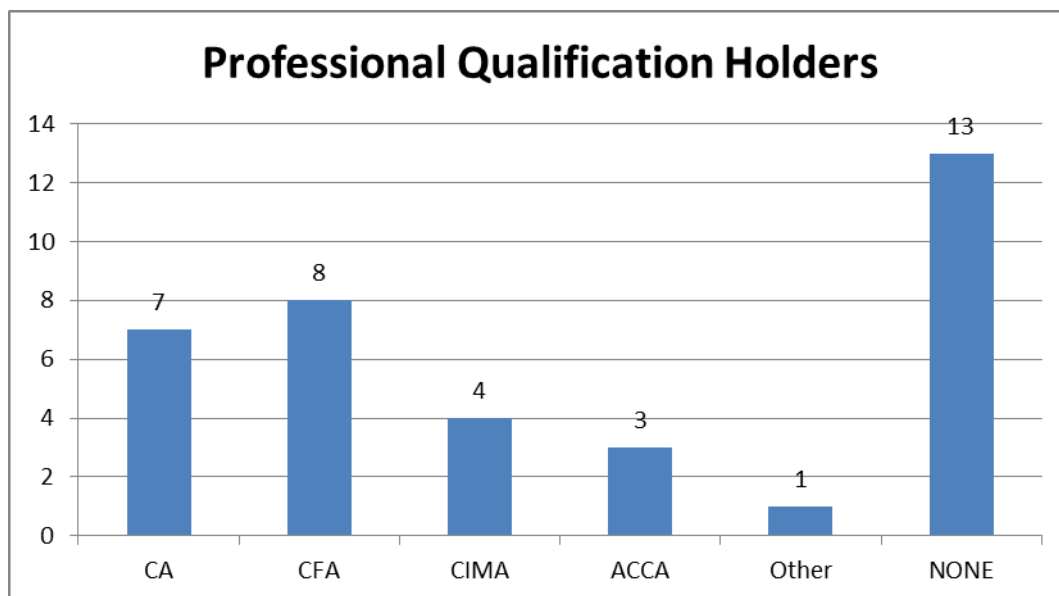
The figures presented in Table 4.2 reveal that very few chief financial officers are involved in the development of accounting policies. The results depicted in the table indicate that there are only three chief financial officers or 8.33% of the respondents who are responsible for the development of accounting policies.

Table 4.2 above indicates that 33 chief finance officers or 91.67 % of the respondents were not involved in the development of accounting policies. A total of 20 or 55.56 % of the respondents indicated that the development of accounting policies was the responsibility of the external auditor. On the other hand 12 or 33.33 % of the respondents indicated that the audit committee was responsible for the development of accounting policies. Only one respondent indicated that the responsibility for the development of accounting policies was an internal audit assignment.

4.3 Professional and Academic Qualifications

Questions 1.4 of the questionnaire requested participants to provide their level of education. These question required participants to state their professional and academic qualifications. The results of these questions are presented in figures 4.1 and 4.2 below. The results are discussed under paragraphs 4.3 (a) and 4.3 (b).

(a) Professional qualifications

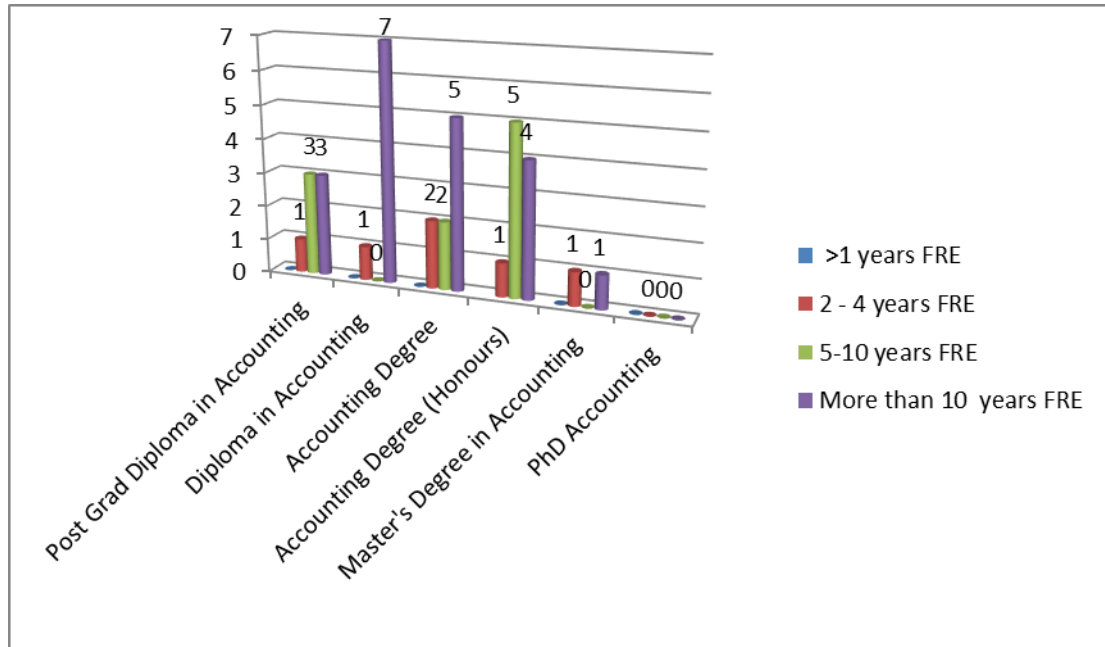


N=36

Figure 4.1: Professional qualifications

The above figure indicates that 23 participants or 63.89 % were holders of professional qualifications. A factor of note was that 15 or 41.67 % were registered public accountants. In view of the objectives of the study, the above figures indicate that the participants were capable of interpreting the standard and the instrument of the study without due influence.

(b) Academic qualifications and related financial reporting experience



N=36

Figure 4. 2 Academic qualifications and financial reporting experience

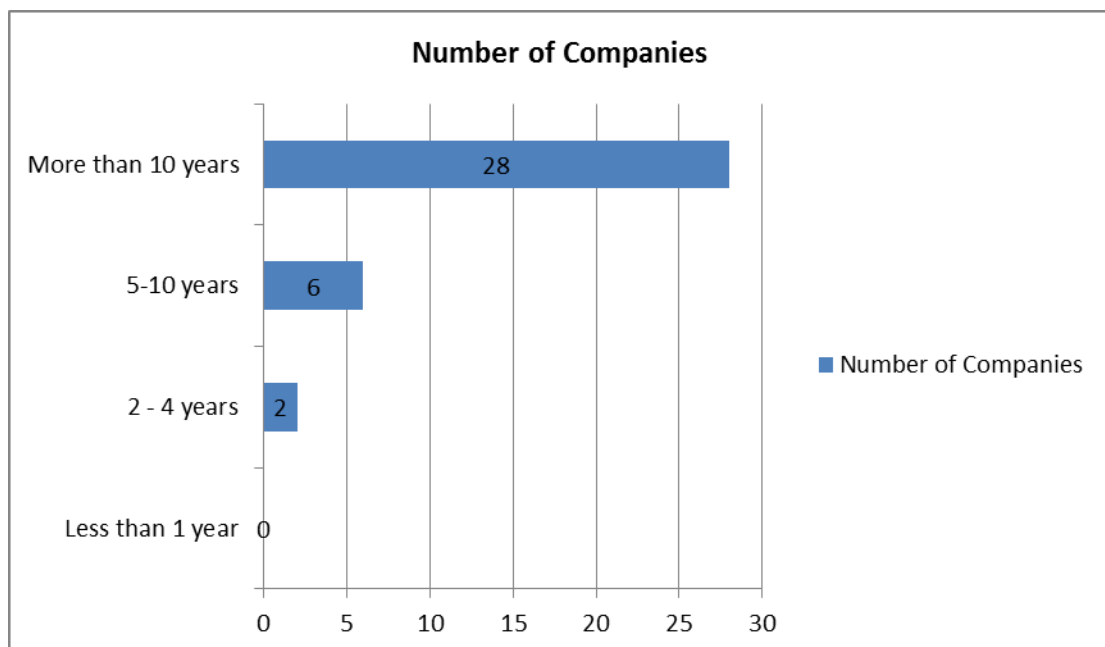
Figure 4.2 above indicates that there were no participants who had less than one year financial reporting experience. The figure reveals that six participants (16.67%) had financial reporting experience of between two and four years. There were also ten respondents (27.78 %) who had between five and ten years of financial reporting experience. The last category of those participants who had more than ten years financial reporting was composed of twenty participants (55.56 %).

The researcher believes that when undertaking a study of this magnitude, in a modern accounting environment that has become technical in terms the application of IFRSs, it is crucial to assess the level of academic and technical education of the

respondents. The data on educational and professional qualifications is aimed at improving the level of validity of the responses. The holders of such qualifications are able to interpret questions without assistance or undue influence. Furthermore, such holders are presumed to have appropriate knowledge and adequate skills to interpret international financial reporting standards.

4.4 Company Age

This paragraph presents the results of questions 2.2 of the questionnaire. The age of a company has been used as an additional criterion to determine the period that a company may have been associated with the use and application of IFRSs. It is presumed that the longer a company has been reporting using IFRSs, the better its compliance level. The selected companies were placed into four age categories as depicted in figure 4.3 below.



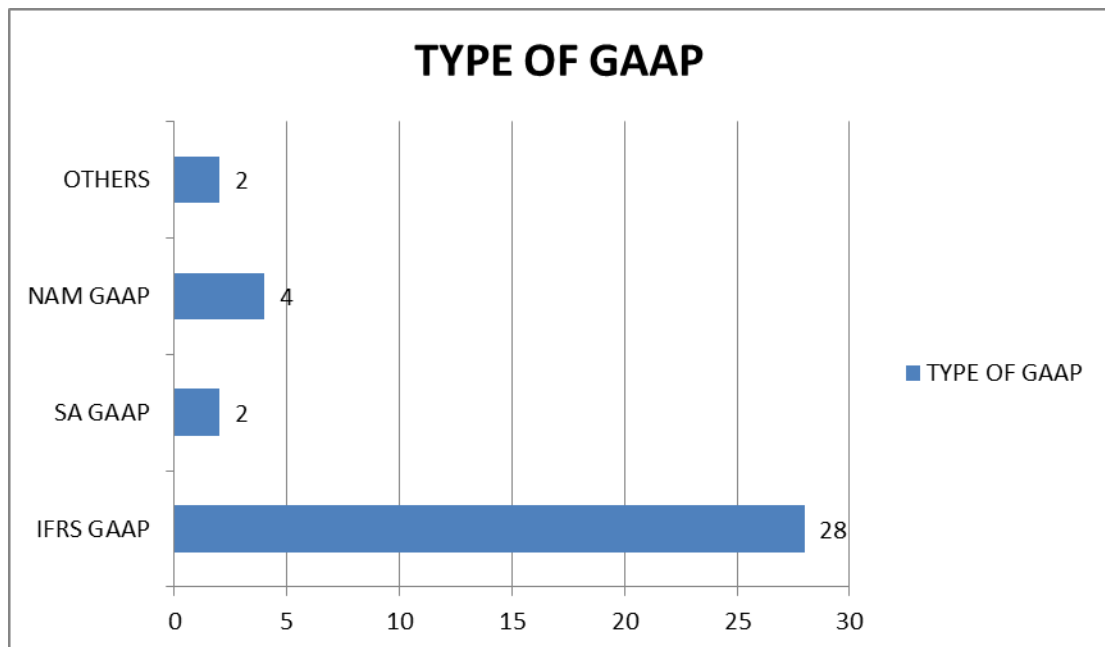
N= 36

Figure 4. 3 Company age

The above figure 4.3 indicates that 23 companies or 77.78 % of the participating companies have been in existence and involved in the use of international financial reporting standards for more than ten years. The study further reveals that six or 16.67 % of the participating companies have been in existence for more than five years but less than ten years. Only two or 5.56 % of the participating companies have less than five years of existence. It is therefore, presumed that such companies have sufficient financial reporting experience.

4.5 Application of GAAP and Accounting Standards

Question 2.3 of the questionnaire requested the participants to provide details of financial reporting framework they are using for preparation of annual financial statements. The results of this question are presented in figure 4 below.



N = 36

Figure 4.4 Generally accepted accounting practices

As indicated in Figure 4.4, all the 36 respondents answered the question. A total of 28 or 77.78 % of the participants indicated that their respective companies were applying the IFRS GAAP, four or 11.11 % of the participants indicated that NAM GAAP was applicable to them, two or 5.56 % of the participants indicated other GAAP, while the another 11.11 % indicated that they were using SA GAAP. It was observed that all the respondents who indicated that they were not applying IFRS GAAP had indicated that they had more than ten years of financial reporting experience.

The main objective of the researcher was to determine the level of compliance and the knowledge of the applicable financial reporting framework. An analysis of the above responses in Figure 4.4 indicates that seventy eight percent of the respondents indicated that their companies were applying the IFRS GAAP, while the twenty two percent indicated other financial reporting frameworks.

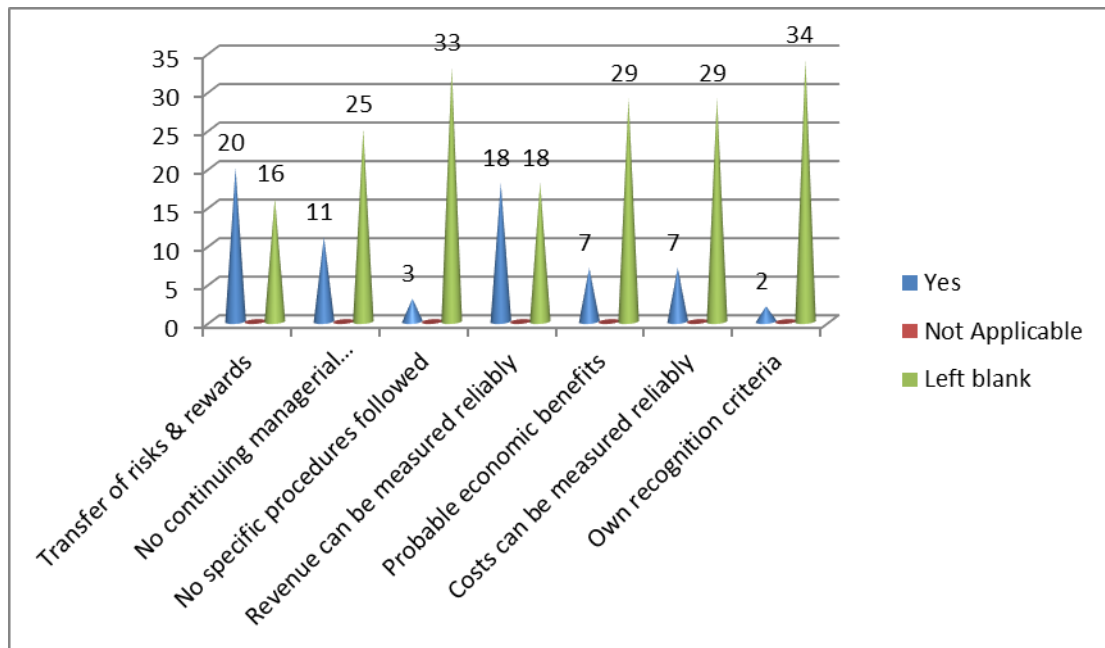
4.6 Sale of Goods: Accounting Policies

The third section of the questionnaire covered the core issues related to the sale of goods as a separate revenue category in terms of IAS 18. The section had a number of questions that were designed to extract information from the participants regarding accounting policies and measurement practices. Questions 3.1 to 3.14 were related to accounting policies on sale of goods.

An accounting policy can be defined as a general financial practice or regulation that a company follows when preparing and presenting its financial reports. At its basic level an accounting policy will explain the recognition criteria and the measurement principles that a company applies to a specific item or transaction. This section of the questionnaire had a number of questions covering recognition criteria, measurement and identification of transactional obligations. However, a large number of the questions were meant to extract information that would enable the researcher to verify whether the selected accounting policies on the sale of goods complied with IAS 18.

4.6.1 Revenue recognition criteria

The revenue recognition criteria are the core part of any accounting policy of a company that prepares its financial statements in compliance with IFRSs. The IASB requires that the five conditions of revenue recognition must be met before revenue can be recognised. The researcher developed seven options that the respondents were required to select from to indicate the recognition criteria they are using. The seven elements in the question included two requirements that were totally not part of the criteria as laid down in IAS 18. The respondents chose to select some of the recognition criteria or in some extreme cases; the respondents did not answer the question at all. The question proved to be unpopular with most respondents. The results of this question are presented in Figure 4.5 below.



N = 36

Figure 4. 5 Revenue recognition criteria

i. Transfer of risks and rewards

The first criterion on revenue recognition is that risks and rewards are transferred to the buyer. This criterion received the highest positive response amongst the criteria that were stated in the questionnaire. Twenty respondents, representing almost 56 %, confirmed that their companies were applying this criterion. However, sixteen of the respondents chose not respond to the sub question. The respondents who did not answer the question represented 44 %.

ii. No continuing managerial involvement

The second criterion in revenue recognition is that an entity should not continue to exercise managerial control of goods that the entity has sold to its customers. Of the

36 respondents, only 11 respondents (30.50%), managed to identify the issue of non-continuity of managerial control as a revenue recognition criterion. The balance of 25 respondents constituting 36.5 % left the question blank.

iii. No specific procedures

The researcher asked the respondents to indicate whether their companies had no specific procedures that they were complying with when recognising revenue from a sale of goods, provision of services and revenue from interest, dividends and royalties. Three respondents indicated that they were not applying any procedures. The respondents who did not answer the sub-question were three.

iv. Revenue can be measured reliably

The IASB Conceptual Framework requires that if an element of the financial statement is to be recognised in the financial statements, it must be measurable. An element of the financial statement must be capable of being assigned some monetary value. The participants who indicated that they were applying the criterion were 18 or 50 %. However, 50 % of the participants chose not to answer the question.

v. Flow of probable economic benefits

As stated above, the flow of economic benefits to or from an entity is a key recognition criterion. For an element of financial statements to be recognised, it must result in either an inflow or outflow of economic benefits to or from an entity. There were only seven respondents who positively indicated that revenue should be

recognised once there was a probable inflow of economic benefits. The balance of 21, representing almost 80 %, chose not to answer the question.

vi. Costs can be measured reliably

The measurement of costs in a revenue transaction is a key recognition criterion. IAS 18 does not only cover this criterion, but, it is also covered as a core principle in accounting by the IASB Conception Framework. The results for this criterion were the same as those for sub paragraph (v) above. The results indicate that seven respondents correctly indicated that the costs of a revenue transaction should be measured reliably. The balance of 29 respondents did not answer the question.

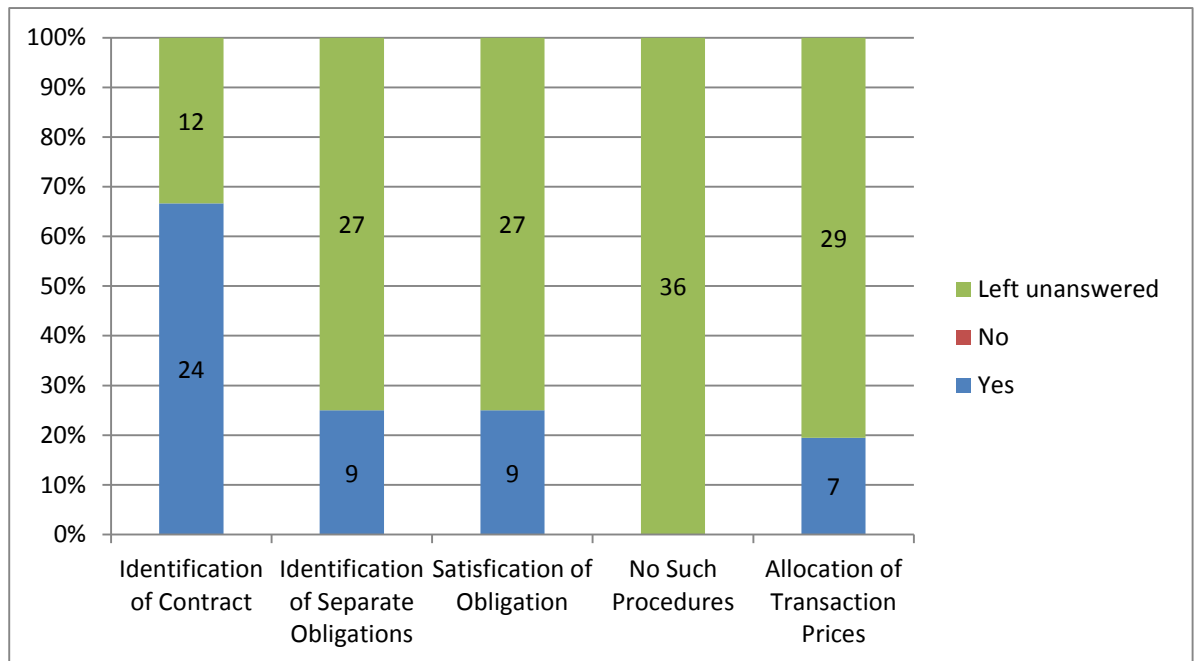
vii. Own recognition criteria

The researcher gave the respondents an option to choose whether an entity had an option to formulate its own revenue recognition or were required to adhere to IAS 18. Two respondents indicated they were applying their own recognition criteria. The remainder of 34 participants chose not to indicate the application of this question.

Having covered the recognition criteria, the second part of the section of the questionnaire continued to extract information regarding how companies are ensuring that the recognition criteria are adhered to. The procedures that are used by entities in the whole revenue recognition process are therefore of utmost importance. The recognition criteria procedures constitute the core discussion of the study.

4.6.2 Identification of the Transactions

This sub question was intended to capture information that enables assessment of how companies interpret paragraph 13 of IAS 18, which addresses the issue of identification of transactions. Paragraph 13 of IAS 18 requires companies in certain circumstances to identify separate components within a single sale transaction.



N = 36

Figure 4. 6 Recognition procedure

The above results depicted in Figure 4.6 indicate that the identification of a contract or a transaction with a customer is more popular than the other procedural steps. Sixty seven percent of the respondents who answered this sub question indicated that they were following the procedure when recognising revenue from a sale of goods. The balance comprising 34 % chose not to answer the question. Furthermore, the

identification of separate components, determination of and allocation of transaction prices and satisfaction of obligations received lower responses.

The identification of separate obligations and satisfaction of those separate obligations got similar response rates. A total of 25% of the respondents specified that they were applying these procedures when recognising revenue from sale of goods, 75% chose not to answer the question.

The last procedural step in revenue recognition is the determination and allocation of different prices to the identified individual components. The question on this procedure received the lowest response rate, seven respondents (19.44 %). The balance of 29 respondents (80.56 %) preferred not to indicate whether their companies were using the step. Overall, ten respondents did not attempt to respond to any of the questions completely. The figure represents a 28 % non-response to this section of the questionnaire.

After application of the recognition criteria to the sale of sale of goods, an entity is required to measure the amount of that revenue under different circumstances. The next section presents the questionnaire results on measurement of practices that are applied by the selected companies in Namibia in their efforts to comply with the requirements of IAS 18.

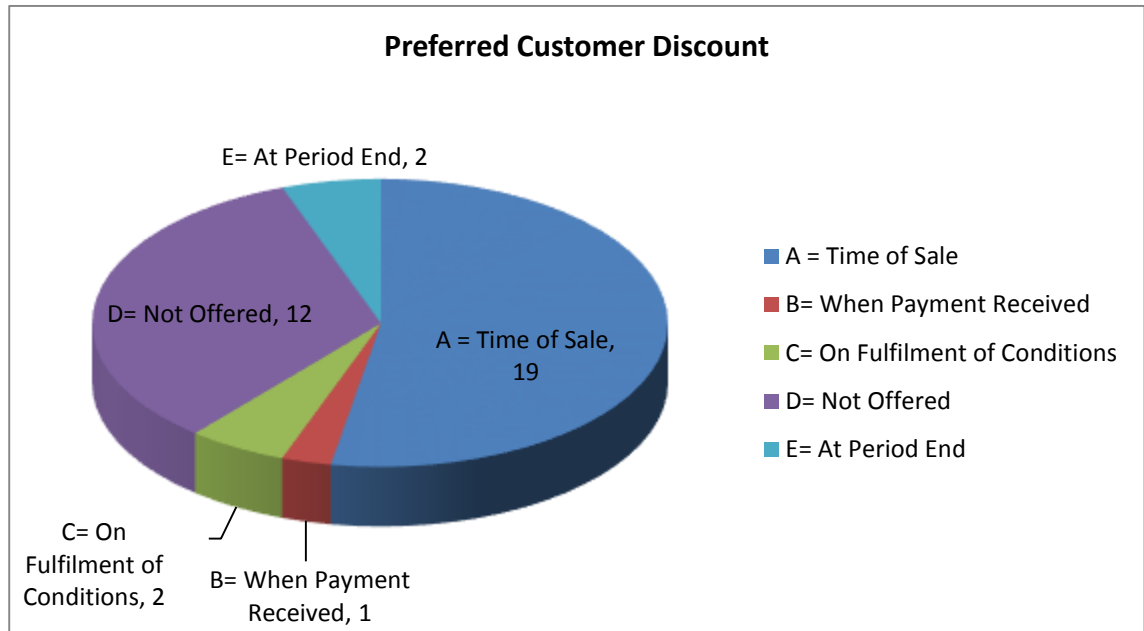
4.7 Measurement of Revenue

4.7.1 Use of discounts

A number of discounts are available to companies to offer to their customers as part of their trading policy aimed at attracting more business and early settlement of accounts by their debtors. The following are some of the discounts that are normally offered by companies; bulk, preferred customer, kickback, settlement and cash discount. The key issue with the discounts is the timing and how they are accounted for. The accounting treatment of discounts affects the measurement of revenue at the date of the transaction or at period end. The revenue amount must be reported net of any discounts offered to a buyer.

The main objective of the researcher was therefore to determine the types of discounts that the selected companies are offering. The questionnaire had items that allowed the researcher to determine the different types of discounts and how the selected companies were recognising the discounts.

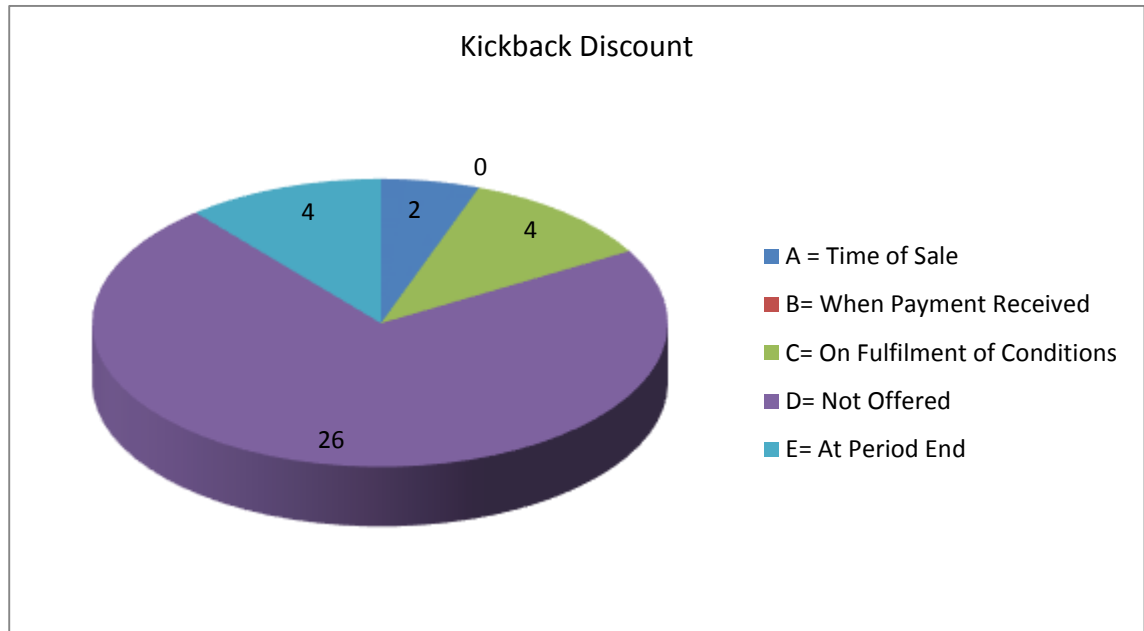
The use of discounts in determining the fair value of revenue was dealt with in question 3.4 of the questionnaire. The results of this question are presented in figures 4.7 to 4.15 below.

(a) Preferred customer discount

N = 36

Figure 4.7: Timing of Preferred Customer Discount

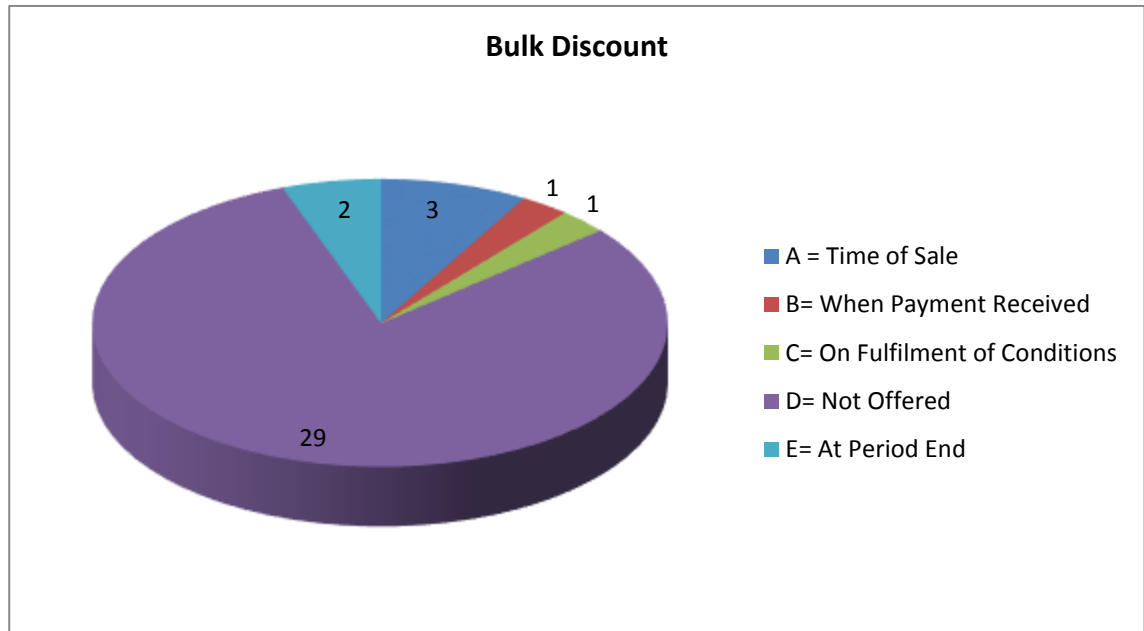
The above figure 4.7 presents the results of responses regarding how the selected companies treat preferred discount in a sale transaction. Thirty six participants answered the question. Two or 5.56 % of the respondents indicated that the preferred discount is recognised at the period end. The above figure indicates that nineteen or 52.78 % of the participants indicated that the discount is recognised at the time of sale. Another two or 5.56 % indicated that the preferred discount is recognised when certain conditions have been fulfilled. One participant indicated that the discount is offered on receipt of payment. However, 12 respondents indicated that they do not offer the preferred customer discount.

(b) Kickback discount

N = 36

Figure 4. 8: Timing of Kickback Discount

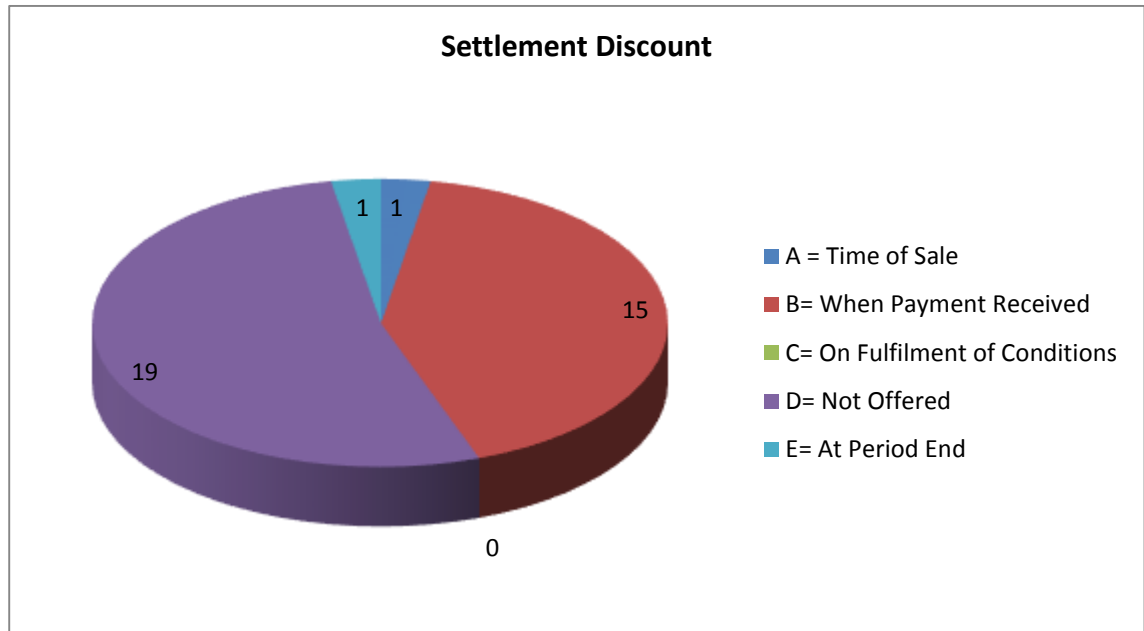
Figure 4.8 above presents the results of the chief finance officers' responses on the recognition of a kickback discount. Two or 5.56 % of the respondents indicated that the discount is recognised at the time of sale. The figure shows that there were no companies that recognise the discount on receipt of payment. The results further indicate that only four (11.11 %) recognise the discount at period end, while 26 or 72.22 % of the respondents indicated that they do not offer the discount.

(c) Bulk discount

N = 36

Figure 4. 9: Timing of bulk discount

The above figure 4.9 indicates that the bulk discount is not popular compared to other discounts. A total of 29 or 80.56 % of the respondents indicated that they do not offer the discount. Two participants (5.56%) indicated that they recognise the discount when payment is received and when conditions have been met. Three participants or 8.33% of the respondents indicated that the discount is offered at the time of sale, while only two or 5.56 % offer the discount at the end of the reporting period.

(d) Settlement discount

N = 36

Figure 4. 10: Timing of Settlement Discount

The above figure 4.10 indicates that 17 respondents (47.22 %) offer the discount while 19 (52.78 %) do not offer a settlement discount. Two or 5.56 % of the respondents recognise the discount at period end and the time of the sale transaction. However, 15 or 41.66 % of the respondents indicated that the discount is recognised on receipt of payment from the buyer.

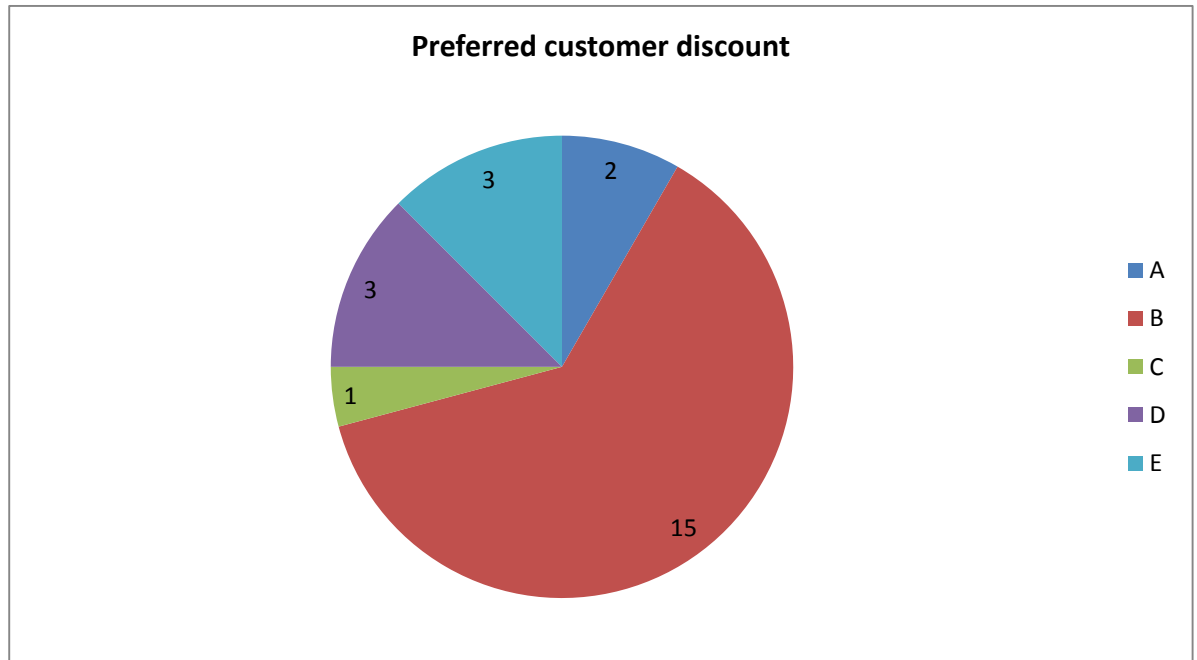
Having considered the timing of the discounts, the researcher designed questions that were aimed at determining the actual treatment of the discounts in the accounting records. The next section is dedicated to the discovery of the actual accounting journal entries that the companies were posting in their records as part of revenue

measurement. The recording of discounts affects the amount of revenue that companies report in their annual financial statements.

4.7.2 Accounting treatment of discounts

Figures 4.11 to 4.15 present the results of how the selected companies treat the various discounts in their accounting records. The accounting entries are the key to the valuation of revenue before the revenue is reported in the annual financial statements.

Key to Diagrams Data: Accounting treatment of discounts	
A	A provision for discount is created and customer is charged with the full invoice amount
B	The selling price is reduced by the discount
C	A provision for discount and discount expense credited and debited respectively
D	Revenue amount is reduced by the amount of the discount and a customer is credited
E	The customer is credited and the discount allowed expense is debited on receipt of payment.

(a) Preferred customer discount

N = 36

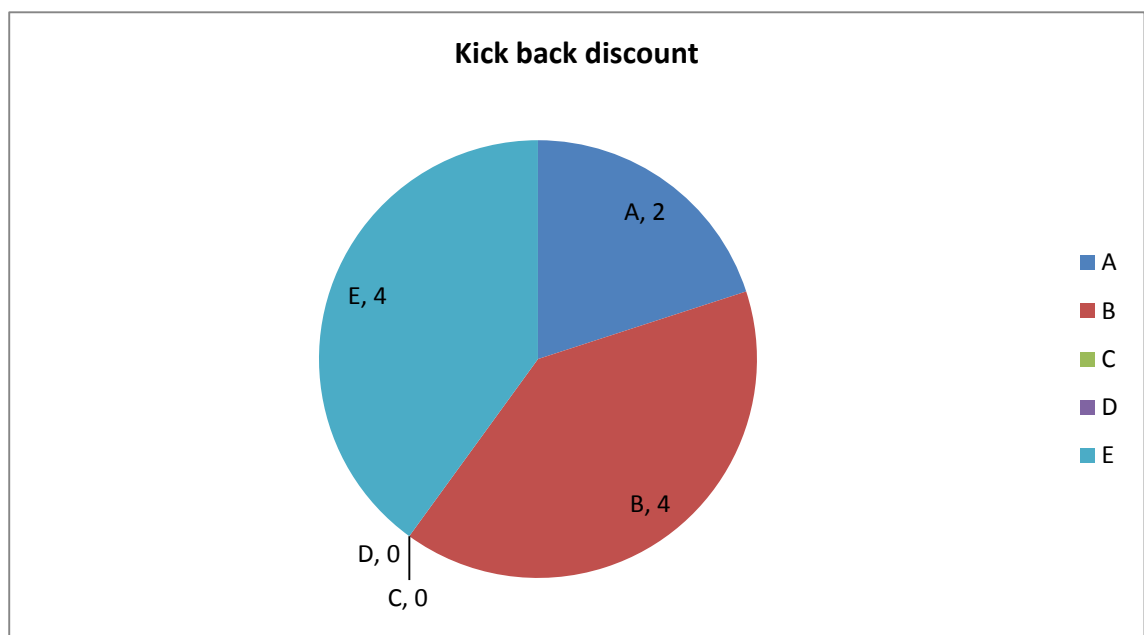
Figure 4. 11 Preferred customer discount

Figure 4.11 above presents the results of accounting journal entries on the use of preferred customer discounts. There were 24 respondents who indicated the use of preferred customer discounts. The distribution of the responses is therefore, based on the number of respondents who indicated the application of the preferred customer discounts.

The above figure 4.11 shows that two (5.56 %) of the respondents indicated that a provision for discount account is credited and the customer is debited with the full invoice amount. A greater proportion of the participants comprising of 15 respondents (41.67 %) indicated that the selling price is reduced. According to the

above figure 4.11, only one (2.78 %) respondent indicated that a provision for discount and discount expense accounts is credited and debited respectively. Three respondents (8.33%) indicated that the revenue amount is reduced by the discount amount while a provision for discount is credited. The balance of the respondents consisting of three (8.33%) respondents indicated that the customer is credited, while the discount allowed expense account is debited on receipt of payment.

(b) Kickback discount



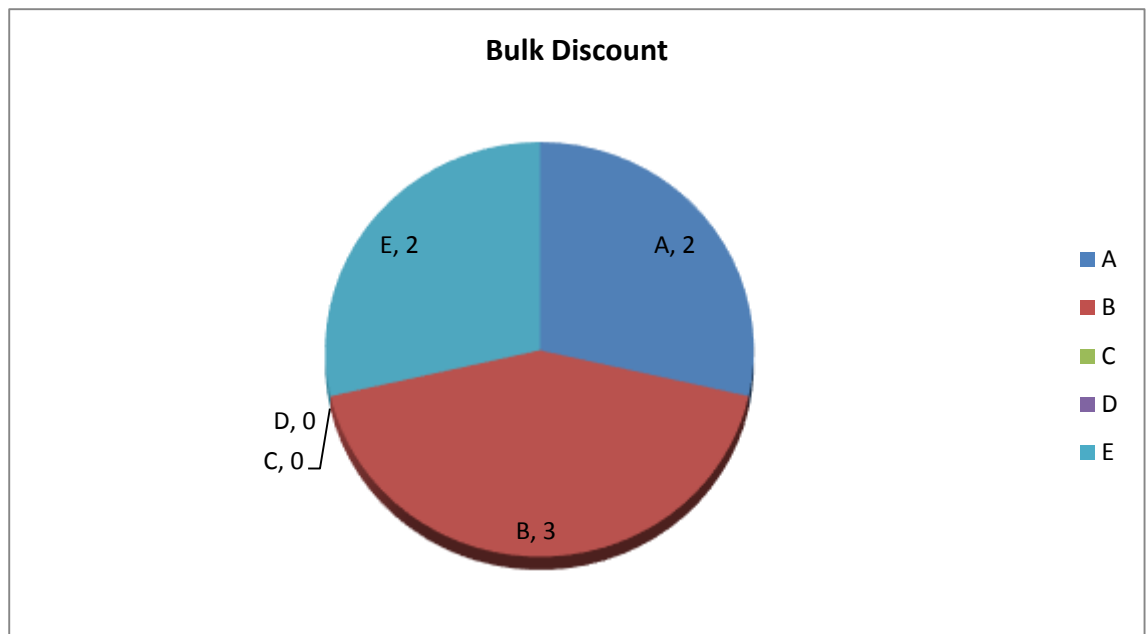
N = 36

Figure 4. 12 Kick back discount

The above figure 4.12 shows that only ten respondents or 27.78 % answered the question about the accounting treatment of kick back discount. The number of responses corresponds to the number of the participants who indicated that they were

offering kickback discounts to their customers. The results show that two (5.56 %) participants indicated that a provision is credited while the customer is charged with the full amount. Four participants (11.11 %) indicated that the selling price is reduced by the amount of the discount. The other four respondents (11.11 %) indicated that the customer is credited while the discount allowed expense is debited accordingly.

(c) Bulk discount



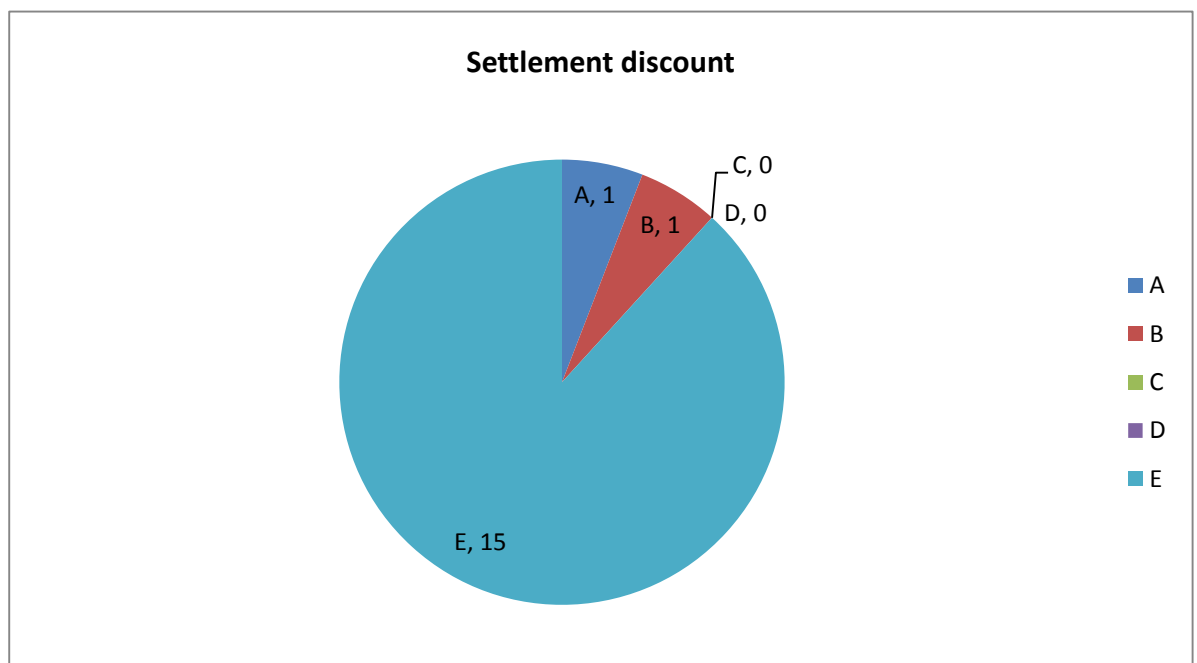
N= 36

Figure 4. 13 Bulk discount

Seven respondents answered the question on bulk discounts. The number corresponds to the number of the participants who indicated that they were offering kickback discounts to their customers. The results show that two (5.56 %)

participants indicated that a provision is credited while the customer is charged with the full amount. Three (8.33 %) participants were of the view that the selling prices is reduced by the amount of the discount. The other two (5.56%) of the respondents indicated that the customer is credited while the discount allowed expense is debited accordingly.

(d) Settlement discount when a customer takes up the discount



N = 36

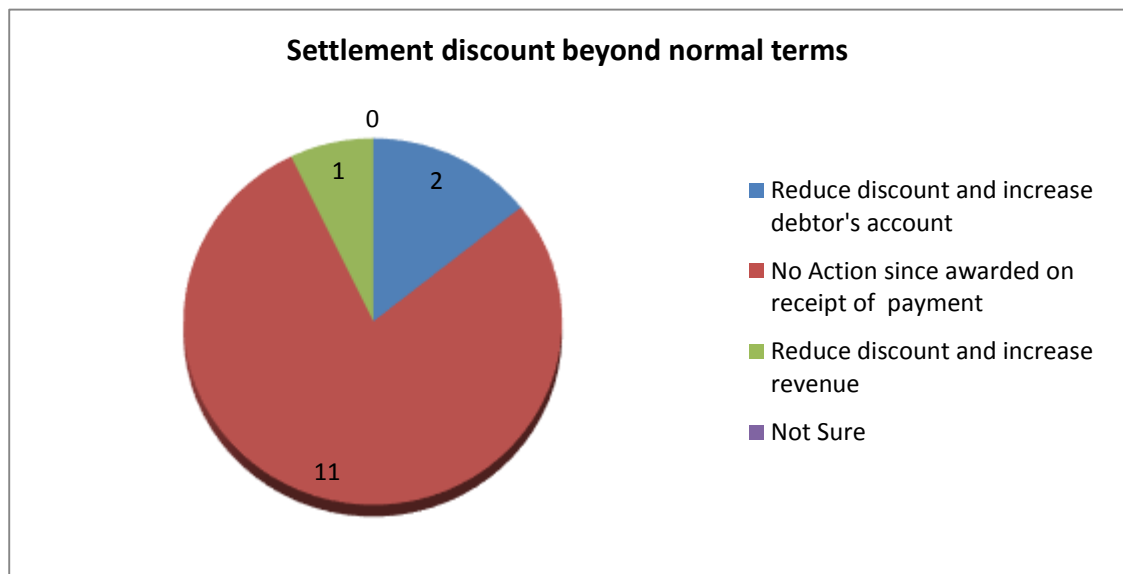
Figure 4. 14 Settlement discount

Figure 4.14 presents the results on the accounting entries that are associated with the settlement discounts. A total of 17 respondents answered the question. One respondent (2.78 %) indicated that a provision for discount is credited and the customer is charged full invoice amount. There was also one respondent (2.78 %)

who indicated that the selling price is reduced by the amount of the discount. However, a larger proportion of the respondents consisting of 15 participants (41.67 %) indicated that the customer is credited while the discount allowed expense is debited with the amount of the discount.

(e) Settlement discount beyond normal terms

The researcher designed a section question on settlement discount. The objection of the question was to determine how companies treat settlement discount where a customer does not take up the discount or settles the account beyond the normal trading terms. The results of this question are presented in figure 4.15 below.



N = 36

Figure 4. 15 Settlement discount beyond normal terms

The question on accounting treatment of settlement discount when a buyer fails to settle the account within the agreed period was answered by 14 (38.88%)

respondents out of 36 participants. The 14 respondents represent those participants who indicated that the selected companies were offering settlement discounts to their customers. The objective of the question was to determine how the companies were accounting for settlement discounts when determining the value of revenue where companies' customers fail to comply with the settlement discount terms.

The question had four options from which the participants were to choose. Two (5.56 %) respondents indicated that where customers fail to take advantage of a settlement discount, a journal entry is passed debiting the customer's accounting and crediting the discount allowed expense account. One respondent indicated that the discount must be reduced and revenue increased by the discount amount. However, eleven or 30.56 % of the respondents indicated that there is no further action that is taken because the discount is only given when payment is received.

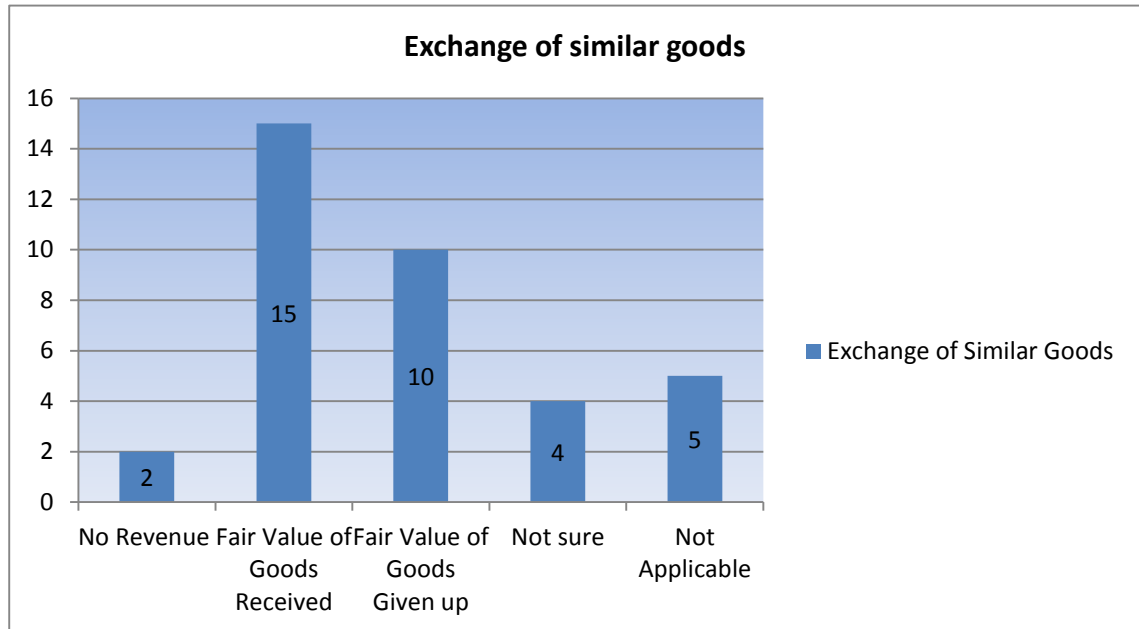
The above section examined the use of discounts in determining the fair value of revenue. The section further examined the views of the chief finance officers on the actual accounting entries of discounts. The next section will examine the fair valuation of complex transactions. A complex transaction relates to a transactions involving mainly the swap of goods or services whether of similar value or not.

4.7.3 Exchange of similar goods and similar of value

IAS 18 requires that where there is an exchange of goods of similar nature and value, no revenue should be recognised (IASB, 2014). As a question was designed to

determine how companies are recognising revenue from similar nature and value.

The results of this question are presented in figure 4.16 below.



N = 36

Figure 4. 16: Exchange of similar goods of similar value

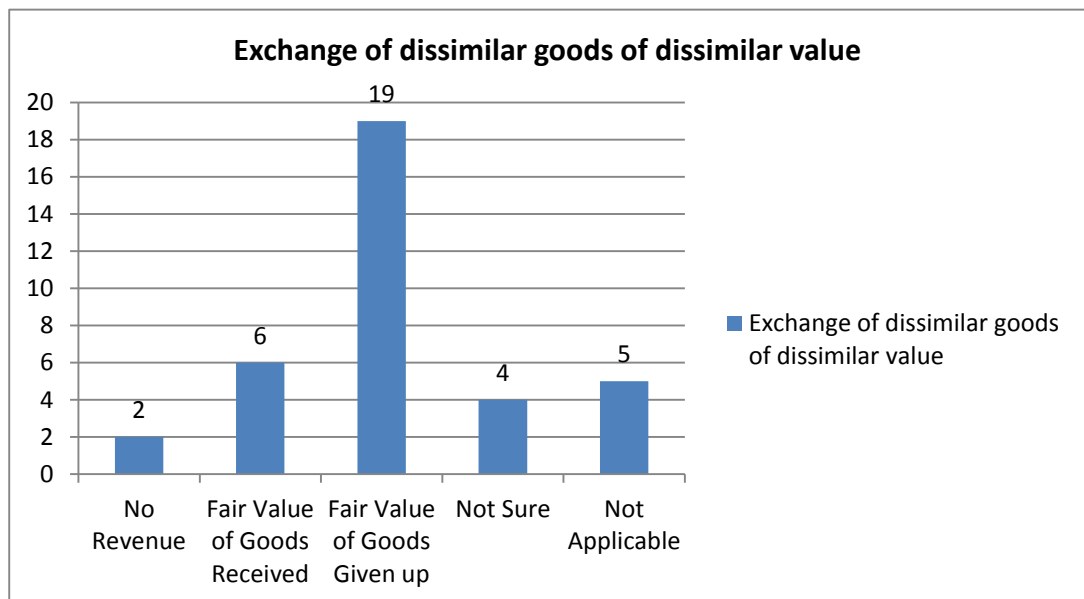
A total of 36 respondents answered the question about the accounting treatment of revenue arising from exchange of similar goods of similar value. As shown in Figure 4.16, two (5.5%) of the respondents indicated that there is no revenue to be recognised where there is an exchange of goods of similar nature and value. However, 25 respondents (69.44%) claimed that the fair value of the goods received or given up is applied as the fair value of the revenue. Fifteen (41.66%) of these respondents indicated that the fair value of goods received is used as the measurement of revenue. Ten respondents (27.78 %) indicated that the fair value of the goods given up is used as the measure of revenue.

However, nine respondents (25%) were either not sure of the treatment of the revenue or the participant did not know how such revenue is accounted for. Four (11.11 %) of the respondents indicated that they were not sure, while five (13.88 %) claimed that the measuring of revenue from exchange of goods of similar value was not applicable to their industry or company.

4.7.4 Exchange of dissimilar goods of dissimilar of value

IAS 18 requires that where there is swap or exchange of goods of dissimilar nature and value, revenue must be recognised at the fair of goods received (IASB, 2014).

The results of a question on this requirement are presented in the figure 4.17 below.



N = 36

Figure 4. 17 Exchange of dissimilar goods of dissimilar value

The objective of the question on exchange of goods of dissimilar nature and value was to establish how companies were recording revenue from transactions or events that involved the exchange of goods of dissimilar nature and dissimilar value. A total of 36 participants answered the question. The above figure 4.17 shows that two or 5.56 % of the respondents indicated that no revenue is recognised. Six or 16.67 % indicated that the fair value of goods received is used as a measurement for the value of revenue where there is a swap of goods of dissimilar nature and value. Nineteen respondents (52.78 %) indicated that the fair value of goods given up is applied as the value of revenue. The above figure 4.17 further shows that four participants (11.11 %) indicated that they were not sure about the treatment of such transactions. The balance of five (13.89 %) respondents indicated that the exchange of dissimilar goods is not associated with the selected companies.

4.7.5 Recognition of revenue where a customer has a right to return goods purchased

The researcher designed a question to determine the accounting treatment of revenue where a buyer has a right to return a product that is found to be defective or for some other reasons. IAS 18 Revenue requires that a provision for warranty is provided in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The provisions are used to determine the fair value of revenue that is reported in the financial statements.



N = 36

Figure 4. 18 Sale of goods with the customer's right to return

The above figure 4.18 presents results on the accounting treatment of revenue arising from sale of goods where a buyer has right to return a faulty product within a specified period of time. Figure 4.18 above indicates that, a total of 36 respondents answered the question. A total of 20 (55.55 %) participants indicated that there are no adjustments to the revenue figure that the companies recognise. The companies therefore, are recognising revenue immediately. Another category consisting of eight (22.22 %) participants indicated that their companies use delivery as a recognition criterion. The respondents indicated the revenue is recognized once the buyer takes delivery of the goods.

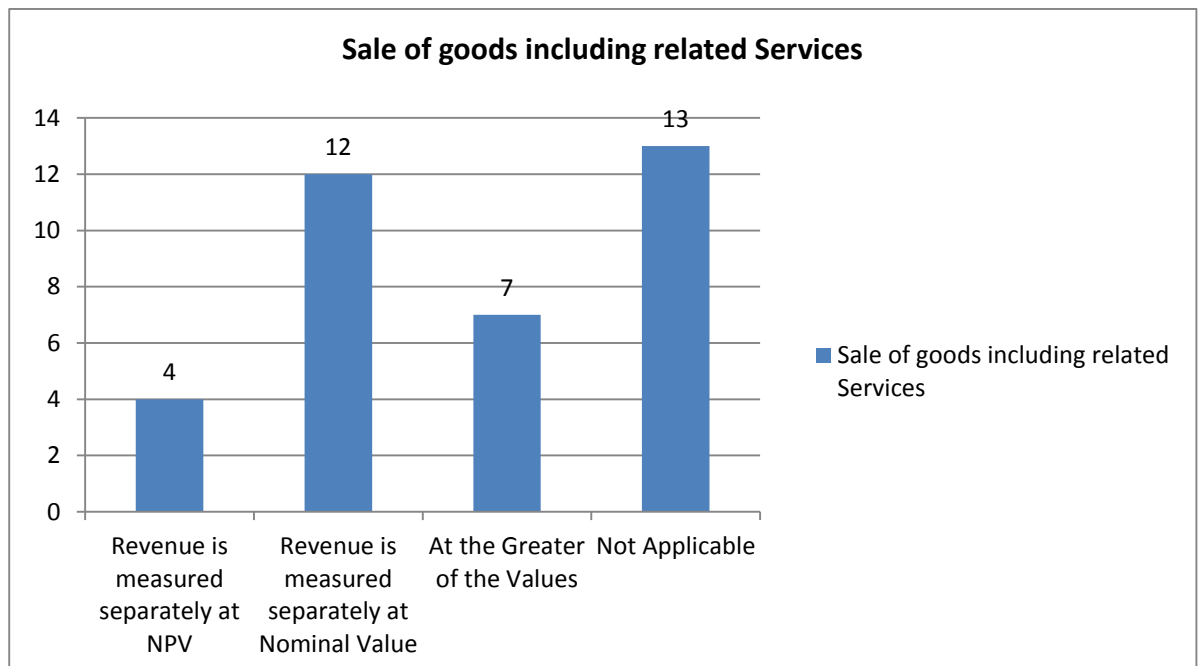
There was a third group consisting of two (5.55%) respondents. This group indicated that their companies use a rejection period as a recognition criterion. The respondents indicated that where a buyer has a right to return the goods after a specified period, revenue is only recognised after the lapse of the rejection period. The fourth group consisted of those who were not sure or claimed that such transactions were not applicable to their companies. Two (5.55 %) respondents indicated that they were not sure how such sale transactions are handled, while eight (22.22%) indicated that such sale transactions are not applicable to their companies.

It was however, observed that most of the companies simply offer replacement inventory. Most of these companies have a no cash refund policy in operation. The respondents also indicated that the rejection period is either one year or less. The idea of a replacement is based on the understanding that it is the supplier's fault; hence the product is returned to the supplier. On receipt of a faulty product, the companies then provide a replacement or repair the product. However, some of the respondents indicated that where a replacement is offered, the replacement is likely to remain in use beyond the balance of the rejection period. The selected companies are therefore not making any adjustments to the revenue.

4.7.6 Measurement of revenue where the sales price includes the price of providing future services

The researcher designed a question to determine how companies are accounting for revenue from a sales transaction involving a sale of goods and provision of a service

after the delivery of goods concerned. The results of this question are presented in figure 4.19 below.



N = 43

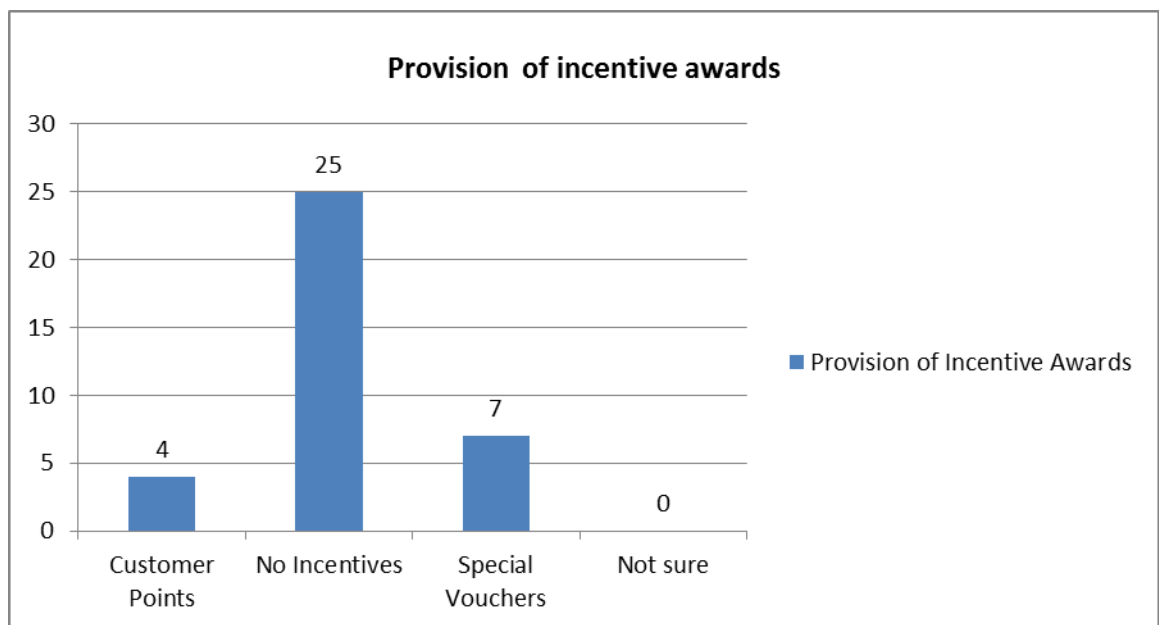
Figure 4. 19 Sale of goods including provision of related Services

A question was designed to determine how both private and public companies were measuring the value of a sale transaction in circumstances where the transaction involves more than one revenue category. All the 36 respondents answered the question. Four participants (11.11%) indicated that revenue is recorded separately for both the sale of goods and provision of service at net present value and interest. There were 12 respondents (33.33) who indicated that revenue is be measured separately in nominal terms. The other group consisting of seven (19.44 %) participants indicated that the nominal amounts of either goods or services are used.

The respondents also indicated that the greater amount is applied as an indication of the type of revenue category that is recognised at the time of the transaction. A total of 13 (36.11 %) respondents indicated that the revenue from a sale transaction involving the provision of services and sale of goods is not common in their companies or industries.

4.7.7 Provision of incentive awards

The provision of incentives was covered in question 3.12 to 3.14 of the questionnaire. The objective of these questions was to establish the different types of incentives offered in the determination of revenue. The second objective of the question was to determine how the companies are valuing unused credit awards at either the time of granting or at the period end in determination of financial statement figures.



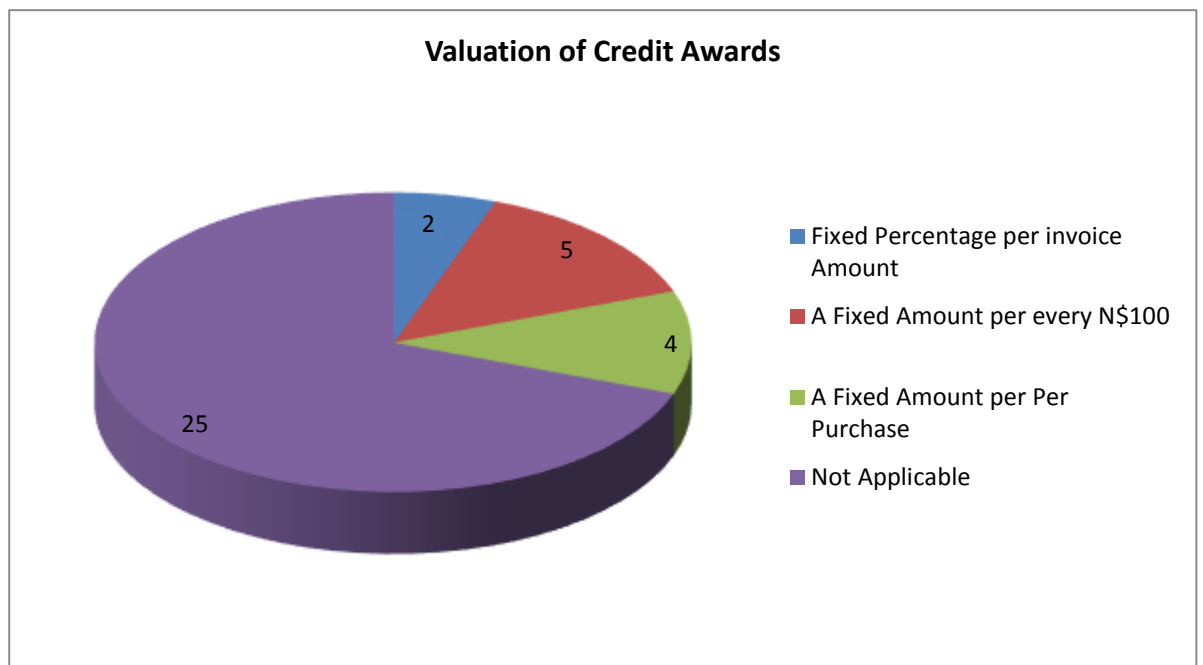
N = 36

Figure 4. 20 Provision of customer incentives

All 36 respondents answered the question on the different types of incentives that the selected companies offer. However, 25 (69.44 %) indicated that their companies do not offer any type of an incentive. Four (11.11 %) respondents indicated that their companies offer credit points, while seven respondents (19.44 %) indicated that they offer special vouchers.

4.7.8 Fair valuation of award credits (points)

IAS 18 and IFRIC 13 Customer Loyalty Programmes require that in the determination of fair value of revenue, companies must determine the fair value of credit awards. Companies are therefore required to have systematic methods for valuing the credit awards. The results of this question therefore, are presented in figure 4.21 below.



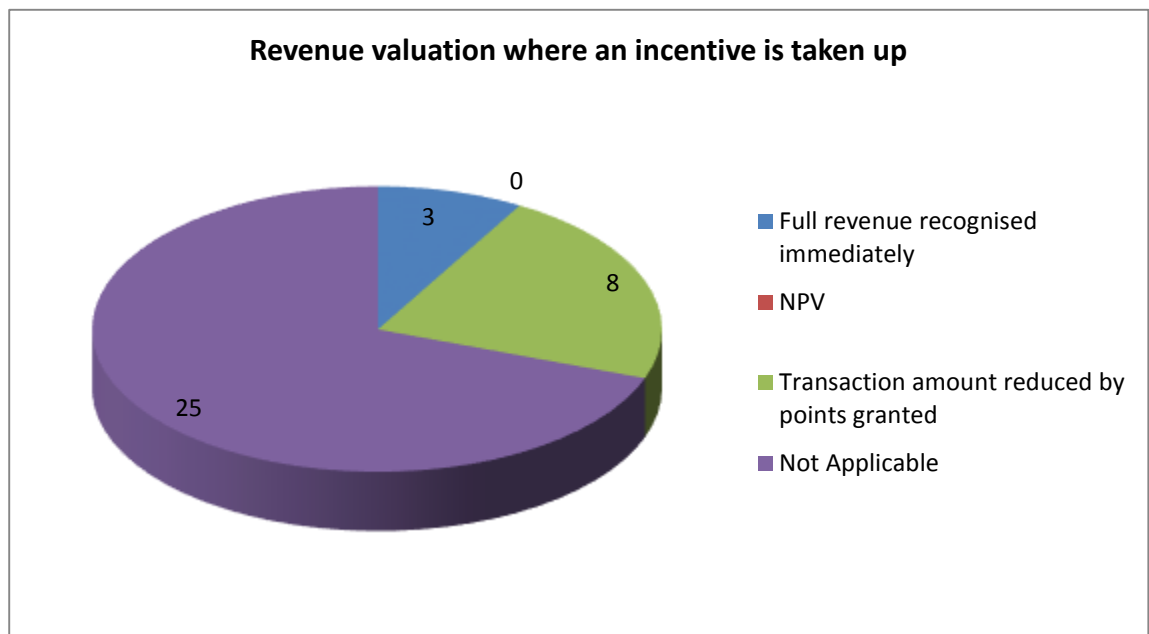
N = 36

Figure 4. 21 Valuation of customer credit awards

All 36 respondents answered the question on valuation of customer credit awards. As shown in Figure 4.21 above, two of the respondents indicated that the value of credit points is determined by using a specified percentage per invoice amount. Five (13.88 %) respondents indicated that the valuation of credit awards is calculated using a fixed amount per N\$100.00 while four participants (11.11 %) indicated that the credit awards are valued using a fixed amount per sale transaction. However, 25 respondents indicated the valuation of credit awards is not applicable to their companies since their companies do not offer the awards.

4.7.9 Revenue valuation where an incentive is taken up by a buyer

The researcher designed question 3.13 (a) to determine how companies are recognising revenue in a sale transaction where a buyer redeems the credit awards. The results of this question are presented in figure 4.22 below.



N = 36

Figure 4. 22 Revenue valuation where an incentive is taken up

This question was designed with the objective of determining how the valuation of revenue is carried out by companies when taking into consideration the value of incentives. A total of 36 of the participants answered the question. A total of 25 (69.44 %) respondents indicated that their companies do not offer any type of incentives. Three (8.33 %) participants indicated that when a customer takes an incentive, the amount recognised as revenue is be reduced by the fair value of points redeemed. There were eight participants (22.22 %) who indicated that the revenue transaction is be reduced by the fair value of the credit points granted.

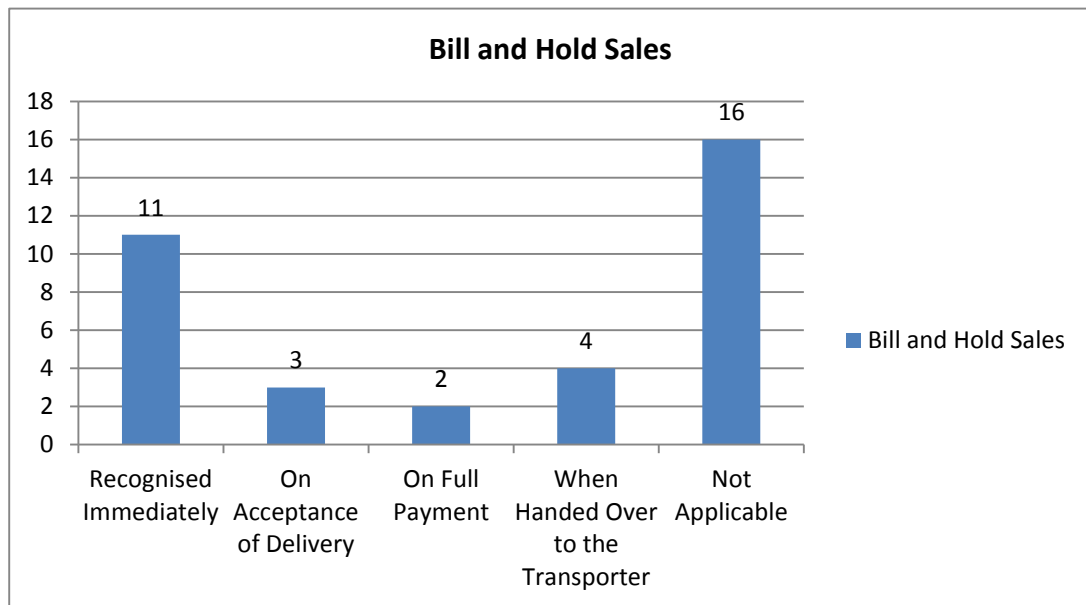
4.7.10 Treatment of unused credit awards

The researcher designed question 3.14 to determine how companies are accounting for unused credit awards. The question was answered by 36 respondents. Nine (25 %) of the respondents indicated that the credit awards not taken up by customers simply lapse and no further action is required in the accounting information system. However, two respondents were of the opinion that revenue should be increased by the value of the unused credit awards. It was observed that 25 participants (69.44%) do not offer credit awards.

4.7.11 Bill and hold sales

Question 4 was designed to determine how companies are accounting revenue from bill and hold sales. The main objective of the researcher was to determine at what stage companies recognise the revenue from bill and hold sales. The main issue with

the bill and hold sales is that companies may recognise revenue too early. The results of this question are presented in figure 4.23 below.



N = 36

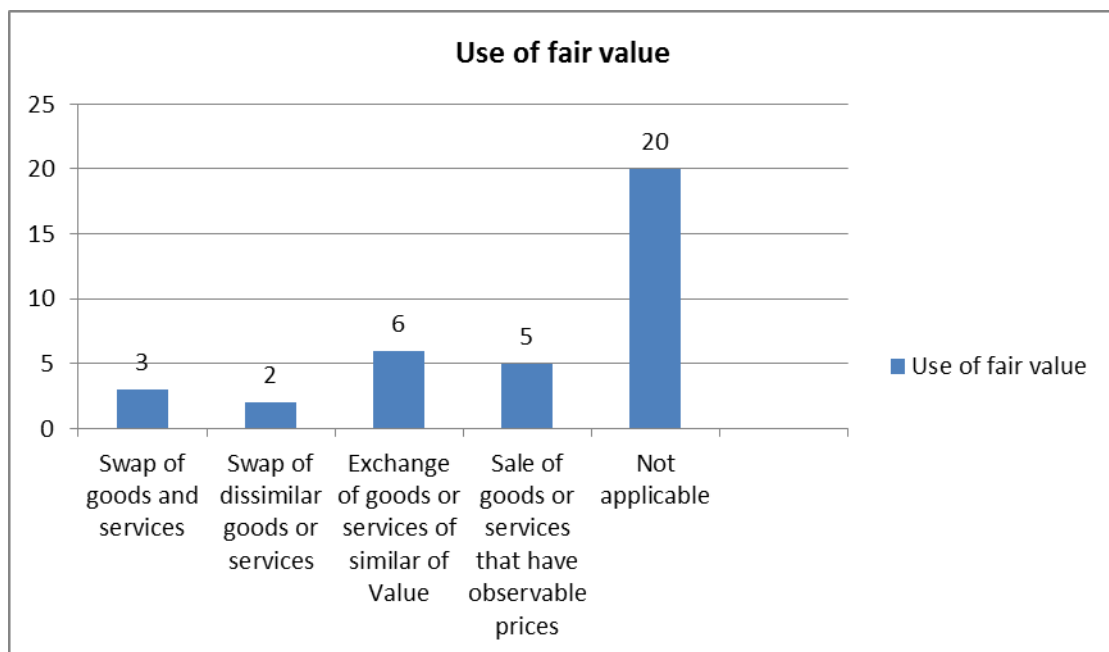
Figure 4. 23: Bill and hold sales

Question 4 on bill and hold sales was attempted by all 36 respondents who took part in the study. The results show that 11 (30.56 %) respondents indicate that their companies recognise revenue immediately, while three (8.33%) recognise revenue once the buyer accepts delivery. The results also show that two (5.56%) respondents indicated that they use full payment, with four (11.11%) respondents indicating that they use the hand over to a transporter as a criterion. The balance of sixteen respondents (44.44%) indicated that their companies are not involved in any bill and hold sales transactions.

4.7.12 Use of fair values

The researcher designed question 5 that had three sub questions. The question provided five options from which the respondents were required to select the most appropriate response. The first sub-question sought to determine when the companies employ the use of fair value measurement. The second sub-question sought to determine the measurement techniques that companies use in order to determine the amount of any fair value of their products or services. Lastly, the third sub-question was intended to extract information regarding the chief financial officers' perception of fair value. The results of this question are presented in figures 4.24 to 4.26 below. The discussion of the results is presented in sections 4.7.12 (a), 4.7.12 (b) and 4.7.12 (c) below.

(a) Fair value measurement

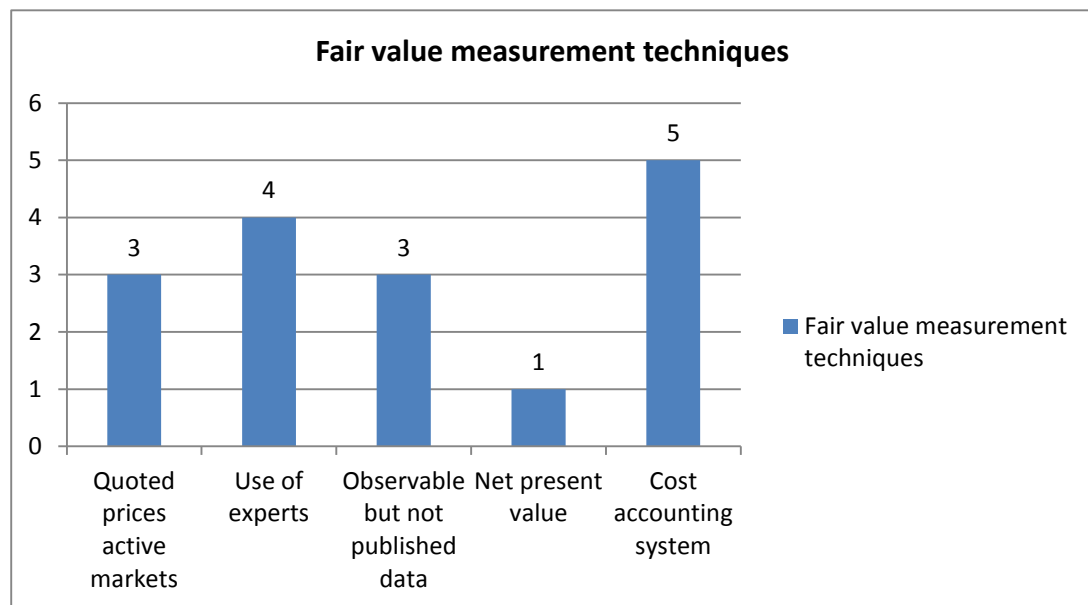


N = 36

Figure 4. 24 Use of fair values

The above figure 4.24 indicates that 16 respondents (44.44%) are exposed to the use of fair value measurement. Figure 4.24 above shows that twenty respondents (55.56 %) indicated that they are not involved with the use of fair value.

(b) Sources of fair value information



N = 36

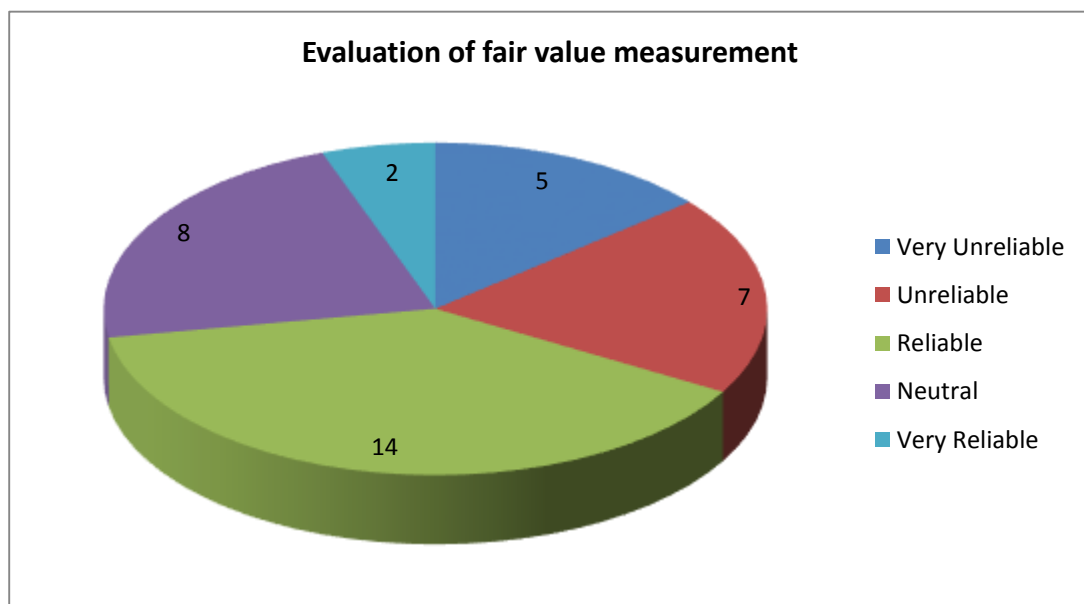
Figure 4. 25: Fair value measurement techniques

A total of 16 respondents answered the question on the different types of techniques that companies use in determining fair value. The objective of the question was to determine the different types of measurement techniques that the companies are employing in determining the fair value their goods or services. The results of the question are presented in figure 4.25 above.

Six of the respondents (16.67 %) indicated the selected companies use market prices. The respondents however, were equally divided between those who indicated the use

of quoted and unpublished prices. Four respondents (11.11 %) indicated that they employ the use of valuation experts in order to come up with fair values of the goods or services that they offer. One respondent (2.78%) indicated the use of net present value. While five respondents reported the use of a company's internal cost accounting system.

(c) Reliability of fair value measurement



N = 36

Figure 4. 26: Evaluation of fair value measurement

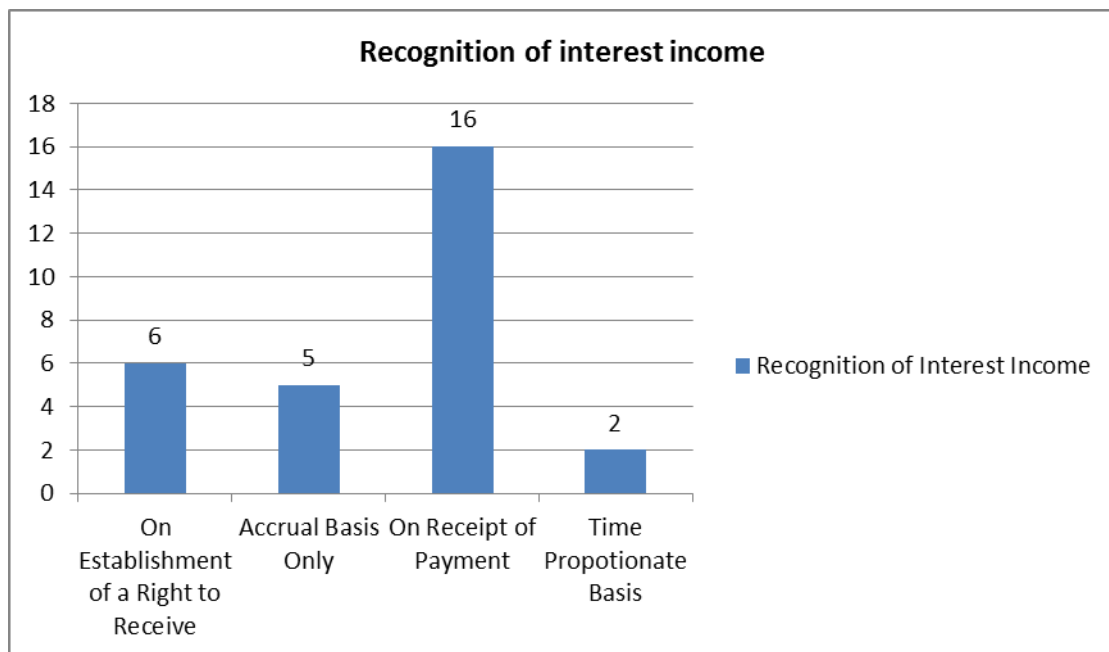
The above figure 4.26 is a graphical representation of the responses of the chief finance officers regarding the reliability of fair value measurement. A total of 16 respondents (44.44%) indicated that fair value measurement of revenue figures in the financial statements produced reliable information. Respondents representing

33.33% indicated the use of fair value in measuring revenue as reliable. The balance of eight (22.22%) chose to be neutral.

4.8 Interest, dividend and royalties

Interest, dividend and royalties may either be major or minor streams depending on the nature and type of operations of a specific company. The researcher developed question 6 with the main objective of determining the timing of interest, dividend and royalties as income. The respondents were requested to indicate at what point they are accounting for interest, dividend and royalty income. The results are presented in figures 4.27, 4.28 and 4.29 below.

(a) Interest

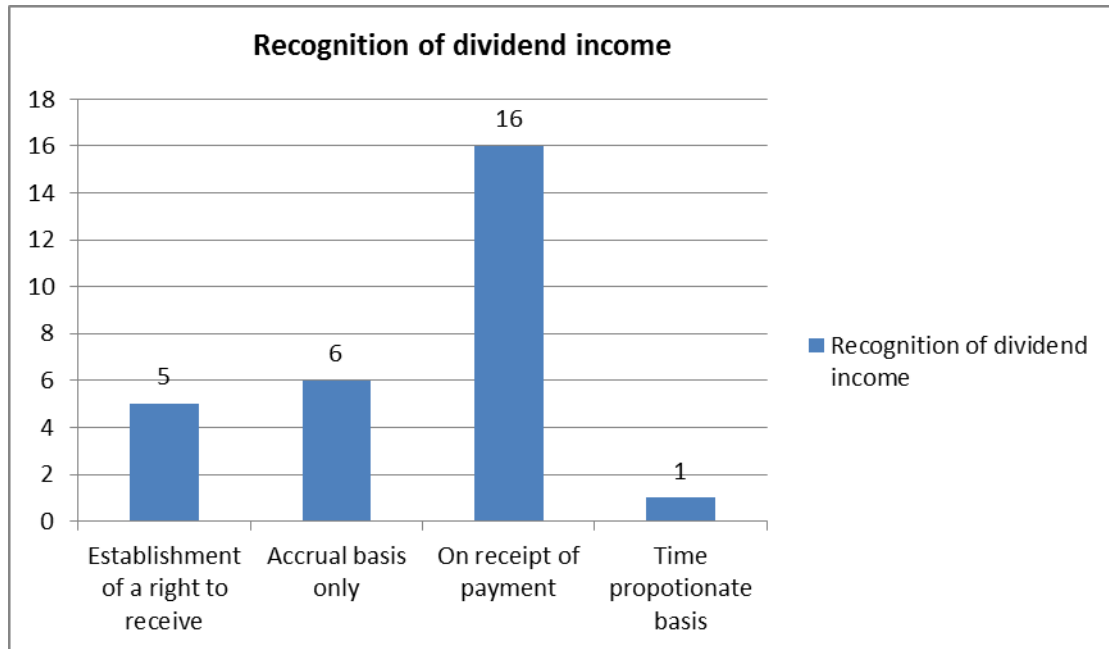


N = 36

Figure 4. 27: Interest Recognition

The main objective of the question on interest, dividend and royalty was to determine the timing of recognition. Figure 4.27 above indicates that 25 respondents answered the question. Six respondents (16.67%) indicated that interest income is recognised once the right to receive the interest has been established, five respondents (13.89%) indicated the use of accrual basis, while 16 (44.44%) indicated the use of actual receipt of payment while only two respondents (5.56 %) claimed the use of time proportionate basis as the recognition criterion. The balance of the respondents consisting of seven respondents chose not to answer the question. The next paragraph will present the findings on dividend income recognition.

(b) Dividend



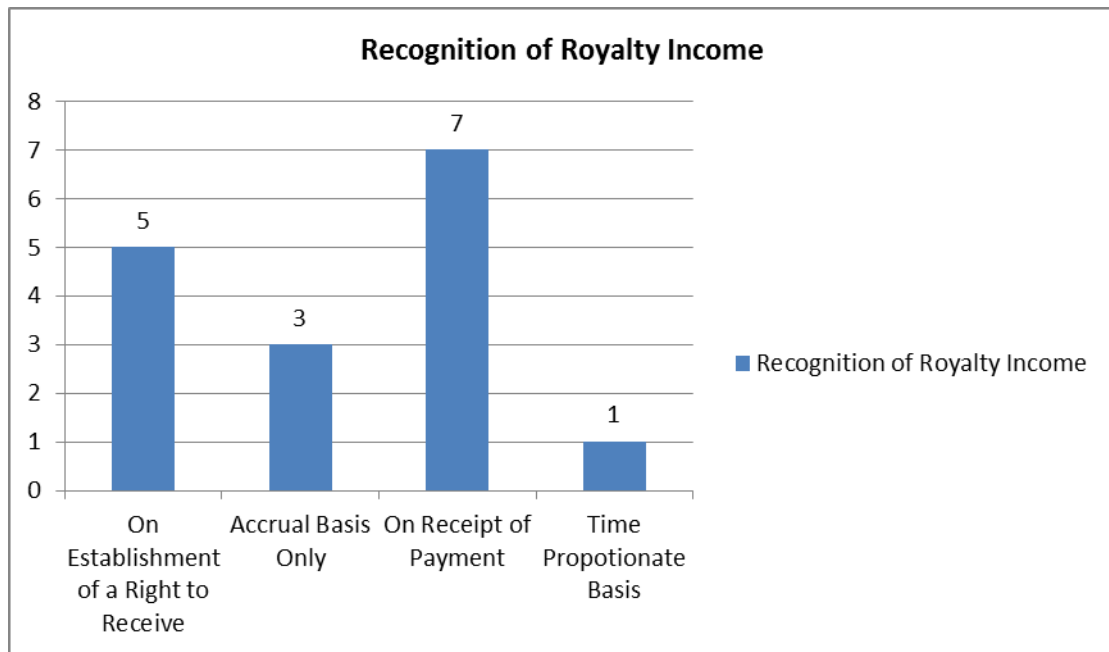
n = 36

Figure 4. 28: Dividend recognition

The above figure 4.28 shows that five or 13.89 % of the participants indicated that dividend revenue is recognised once the right to receive the dividends has been

established. Six respondents representing 16.67% of the total participants were of the view that dividend income is recognised on an accrual basis while 16 respondents (44.44 %) indicated that dividend is recognised on receipt of payment. Only one respondent (2.78 %) indicated that dividend income is recognised on a time proportionate basis. The balance consisting of seven respondents chose not to answer the question. The next paragraph will present the findings on the accounting treatment of royalty income.

(c) Royalties



n = 36

Figure 4. 29: Royalty recognition

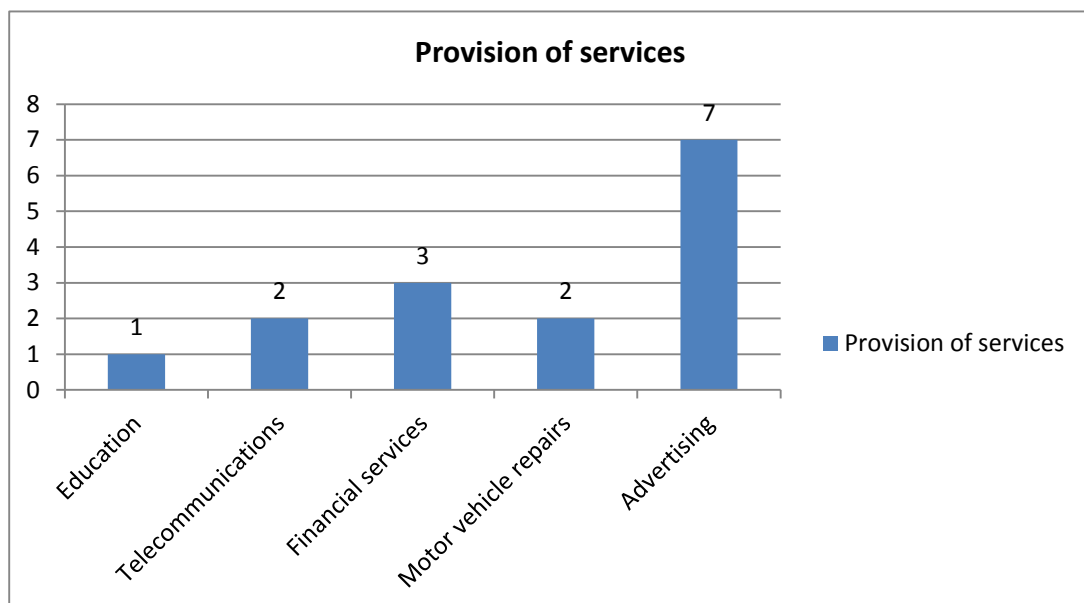
A total of 16 respondents representing 44.44 % of the participants answered the question on the recognition of royalty as revenue. As indicated in Figure 4.29, five respondents (13.89 %) indicated that royalties are accounted for once the right to receive has been established. Three respondents (8.33%) indicated the use of accrual

accounting, while seven respondents indicated that royalties are recognised on receipt of payment only. Only one participant indicated that royalties are accounted for on a time proportionate basis. The balance of respondents consisting of 55.56 % of the participants did not respond to the question.

4.9 Provision of services

The researcher designed question 7 to deal with revenue from provision of services. The first part of the question was designed to identify the services that the selected companies were offering. The second part of the question sought information on the recognition of revenue from the provision of services. The results of this question are presented in figures 4.30 and 4.31 below.

(a) Types of services

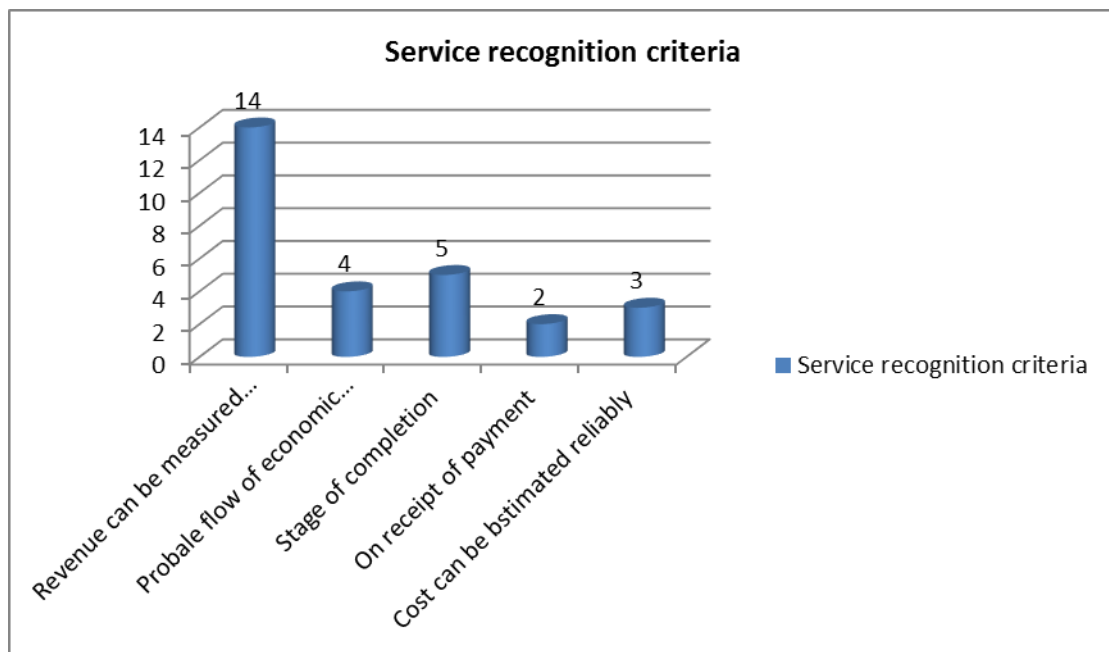


N = 36

Figure 4. 30: Provision of Services

As seen in figure 4.30 above, 15 respondents (41.67 %) indicated that they are generating revenue from the provision of services. The above figure indicates that the education sector had one respondent (2.78 %), telecommunication received two (5.56%), financial services had two (5.56 %), motor vehicle repairs got two (2.78%) and advertisement had seven respondents (19.44%). The balance of 21 respondents (58.33%) did not answer the question.

(b) Recognition criteria



N = 36

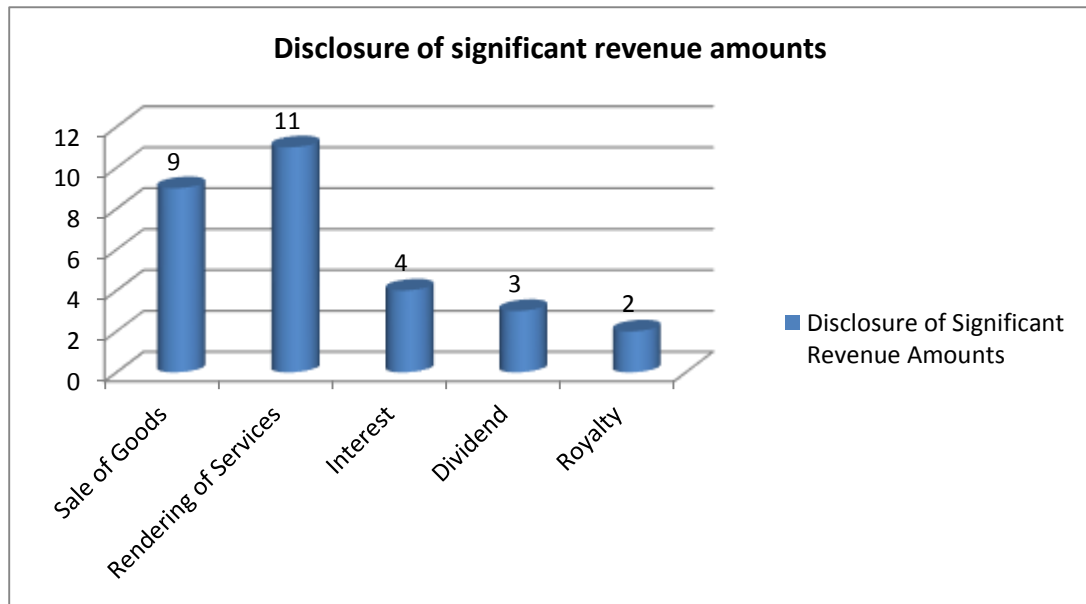
Figure 4. 31: Provision of services recognition criteria

The above figure 4.31 presents the responses of the chief finance officers of selected Namibian companies on the recognition criteria on provision of services. The questionnaire had five options from which the respondents had to choose the most appropriate. The number of respondents was the same as those who responded on the types of services that the companies were offering. The first criterion requires revenue from the provision of services to be recognised when that revenue can be

measured reliably. Fourteen (38.89%) respondents chose this criterion. The flow of economic benefits as a recognition criterion received four responses (11.11 %). The stage of completion was the second popular recognition criterion. That criterion received five respondents (13.89). However, two respondents (2.78%) indicated that the companies recognise revenue from provision of services when payment is received, while three respondents (8.33%) indicated the use of cost estimation as a recognition criterion. It was also noted that these three respondents were the only ones who selected four recognition criteria items excluding the use of receipt of payment.

4.10 Disclosures

The researcher designed question 8 of the questionnaire to discover how the selected companies are complying with the disclosure requirements of IAS 18. The question requested the participants to indicate whether the selected companies are disclosing accounting policies on the sale of goods, rendering of services, dividend, royalties and interest. The question further requested the participants to indicate whether there were circumstances when the companies would disclose significant amounts of revenue recognised from all the different categories. From the results in Figure 4.32 below, it is observed that all 36 participants indicated that selected the companies are disclosing the accounting policies.



N = 36

Figure 4. 32: Disclosure of significant revenue amounts

The above Figure 4.32 presents the number of respondents who claimed that the selected companies are disclosing in the notes to the financial statements an analysis of revenue from the different revenue streams. The disclosure of a significant amount of each revenue category is a key disclosure requirement of IAS 18. Of the 36 participants nine (25%) indicated that the amount of revenue from sale of goods was presented in the notes to the financial statements. Eleven (30.56 %) participants indicated the disclosure of revenue from the provision of services in the notes. Interest, dividend and royalty received four, three and two respondents respectively.

4.11 Secondary data

The researcher undertook a desk study on the compliance with IAS18. The data analysis was based on the published financial statements. The objective of the study

was to determine how the companies are presenting information in the financial statements including the level of disclosures.

The focus was therefore on the accounting policies, disclosures and related notes on revenue. The secondary data analysis revealed that most companies are disclosing detailed accounting policies in the financial statements. It was further noted that the accounting policies on revenue were abstracts of the accounting standard requirements.

The data analysis found that most companies audited by the big four audit firms had detailed accounting policies on revenue but not necessarily beyond the standard wording contained in the IAS 18 itself. The researcher discovered two companies in the same industry that were audited by the same audit firm. The companies had the same accounting policy on revenue word by word and the same disclosure style.

The secondary data analysis further revealed that only two companies in the retail sector had selective disclosures on revenue. The disclosure covered the revenue accounting policy and revenue amounts related to each significant revenue category. The researcher discovered that 34 of the companies were disclosing the accounting policies but failed to disclose significant amounts of revenue arising from different categories or from different major operations.

Furthermore, the study revealed that the majority of the companies did not disclose the treatment of unutilised credit awards or points at the end of the financial period.

At least one company did not have a disclosure policy on the accounting treatment of credit awards or points system.

Another element that the companies failed to disclose was the accounting treatment of products that the buyers return due to faults or other dissatisfaction. It was observed that none of the companies that participated in the study had a note in the financial statements regarding the customer's right to return goods.

4.12 General evaluations of IAS 18

(a) Fair Valuation

The researcher designed question 9, which had three sub-questions. The sub-questions were intended to extract the perceptions of the participants on the application of fair value principles contained in IAS 18. All participants answered the question.

Five respondents (13.89 %) indicated that the use of fair value measurement was not important. The respondents were also given other options to rate the use of fair value as either somewhat important, important or very important. The results were four (11.11 %), nine (25 %) and twelve respondents (33.33 %) respectively. However, six participants (16.67 %) chose to remain neutral. Overall, the results indicate that 69.44 % of the participants regard fair value measurement as important.

(b) Benefits of IAS 18 to the users of the financial statements

The purpose of the question was to solicit the opinions of the chief finance officers on whether or not users of the financial statements benefit from the use of IAS 18. The rating was from never, to sometimes and always. The results were six (16.67%), thirteen (36.11 %) and 17 respondents (47.22 %) respectively. Overall, therefore, there seems to be a belief that users of financial statements benefit from the use of IAS18.

(c) Effectiveness of IAS 18

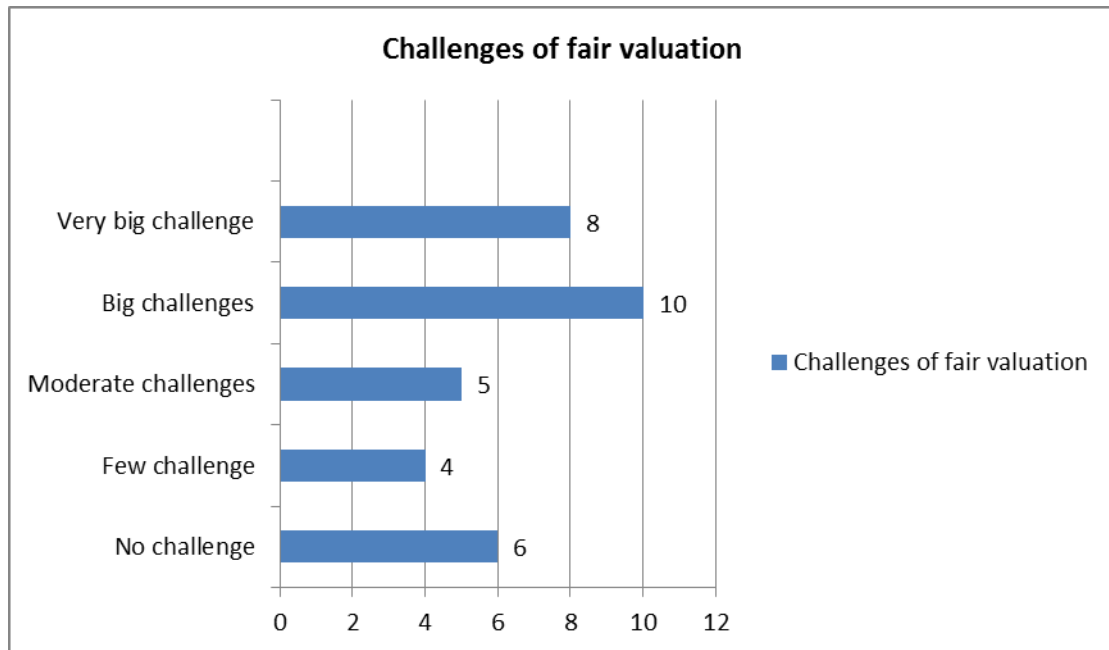
The participants were further requested to express their opinions on the effectiveness of IAS 18 in reporting the revenue figure in the financial statements. Eight respondents (22.22%) indicated that the standard was ineffective. However, others rated the standard as either average, effective or very effective. The results were eleven (30.56), 14 (38.89 %) and three (8.33 %) respectively.

4.13 Challenges in the application of IAS 18

Question 10 was designed with seven issues viewed as problematic according to the literature review. Participants were then asked to express their opinions on these seven issues. The responses to the individual issues are presented graphically and individually below in figures 4.34 to 4.38

(a) Fair valuation

The researcher developed a question 5 to obtain information on the challenges that companies are facing with the use of fair value as a measurement basis. The results of this question are presented in figure 4.34



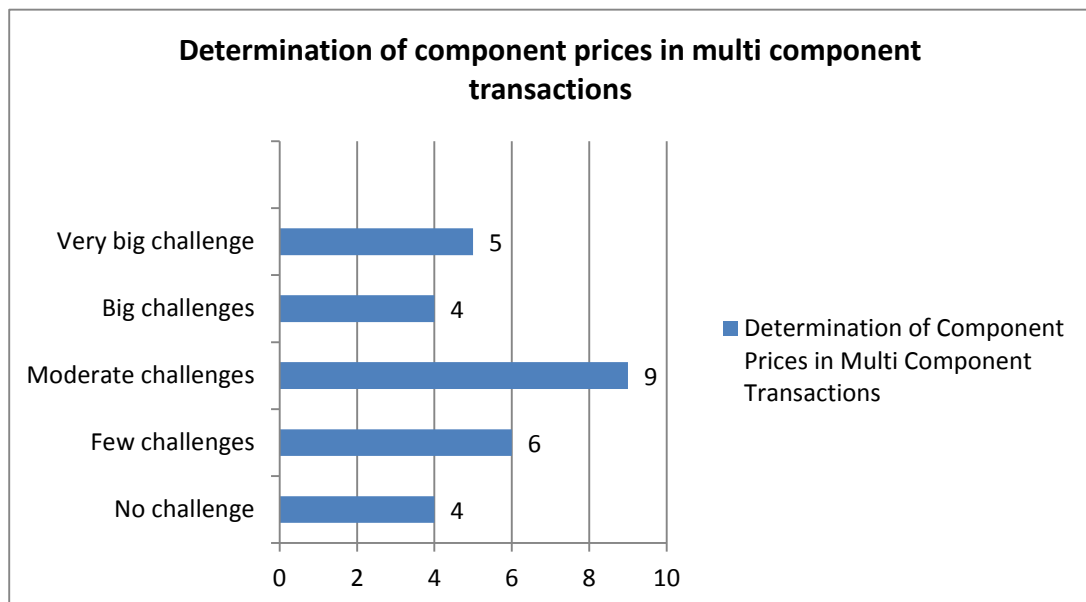
N = 36

Figure 4. 33: Challenges of fair valuation

The objective of this question was to determine whether the chief finance officers were experiencing any challenges in the application of fair value principles. All 36 participants answered the question. An overall analysis reveals that 27 respondents (75 %) indicated that the participants were experiencing some challenges with the application of fair value principles. Only six respondents (16.67 %) indicated that there were no challenges in the application of fair valuation principles.

(b) Determination of component prices

The second sub question sought to determine how the chief finance officers were dealing with the price allocation in multiple component sale transactions. A total 28 respondents representing 77.78 % of the respondents answered the question. The balance of the respondents representing 22.22 % chose not to answer the question. Results are shown in Figure 4.34 below.



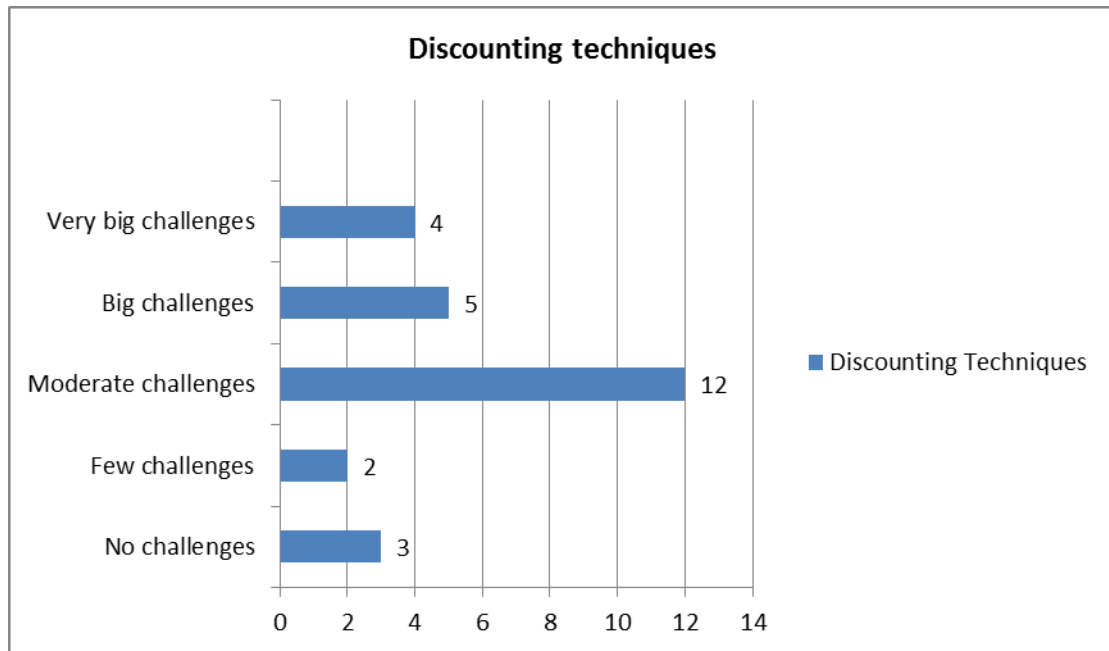
N = 36

Figure 4.34: Determination of component prices in multi component transactions

The above figure indicates that 24 (66.67 %) respondents were of the view that there were challenges related to the issue of pricing different components in a multi component transaction. Four respondents (11.11%) indicated there were no challenges.

(c) Application of discounting techniques

The discounting techniques are used in determining fair values. The results of the question are presented in figure 4.35 below.



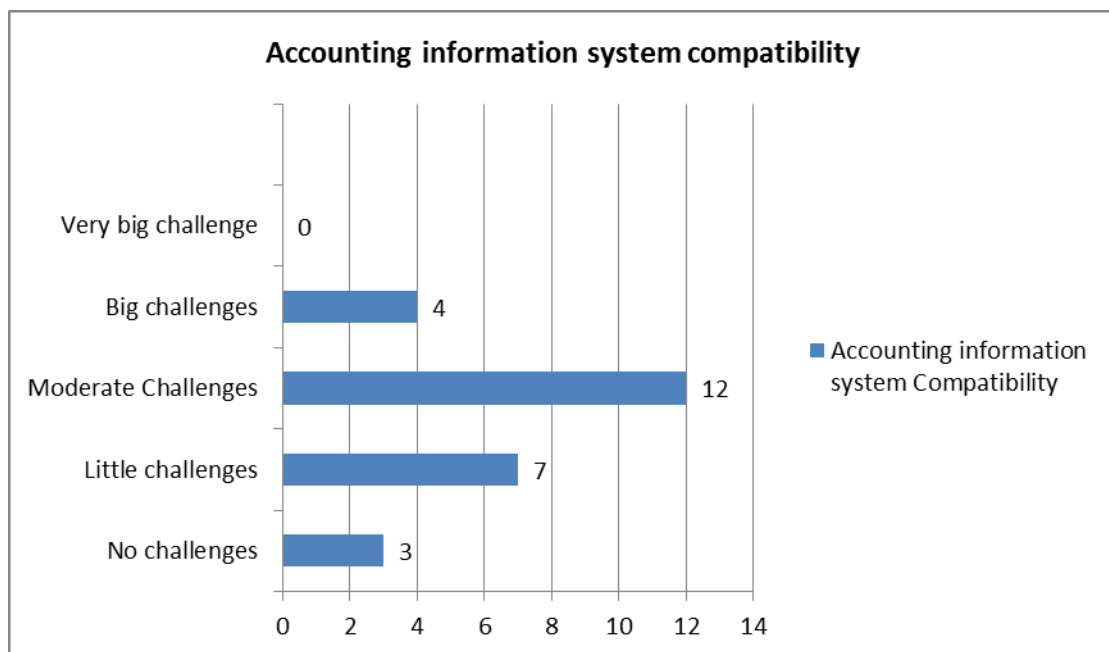
N= 36

Figure 4. 35: Discounting Techniques

The question about discounting techniques was answered by 26 respondents (72.22 %). Of these, 23 respondents or 63.89 % of the participants indicated that they were experiencing challenges with the application of discounting techniques. Only three respondents (8.33 %) indicated that they did not have any challenges with the application of discounting techniques.

(d) System compatibility

Question 10 also sought to determine whether companies are facing challenges in adapting their accounting information system to meet the requirements of IAS 18. The results are presented in figure 4.36 below.



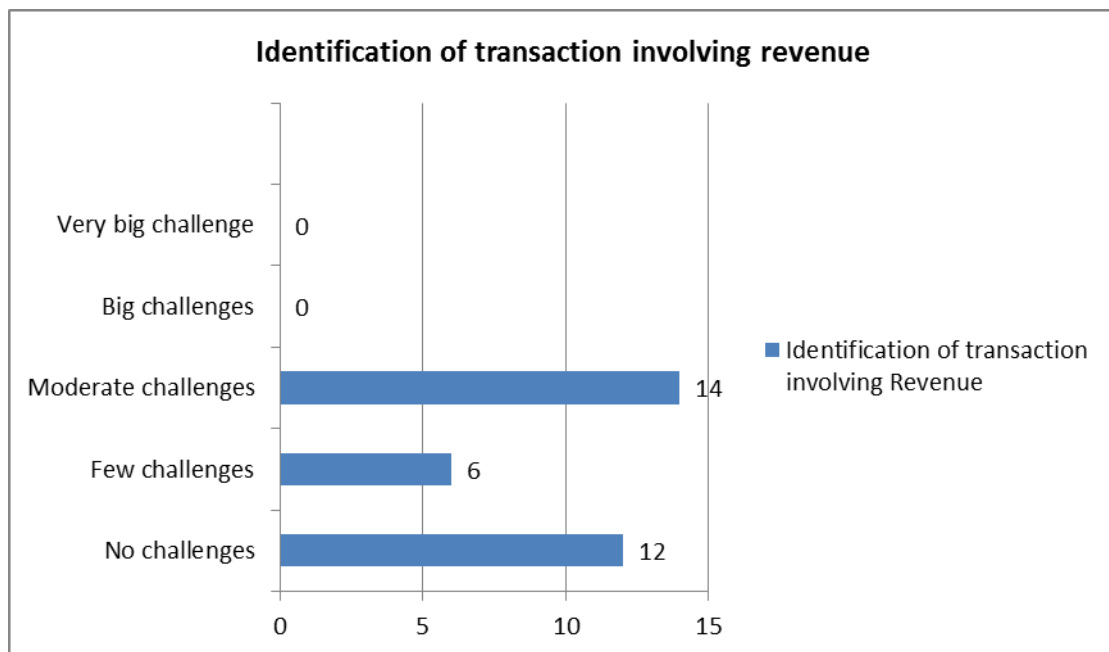
N = 36

Figure 4. 36: Compatibility of IAS 18 with an accounting information system

The objective of this question was to determine whether the issue of system compatibility had an effect on the level of compliance. Twenty-one respondents or 58.33 % indicated that they were experiencing some challenges in making IAS 18 compatible with the accounting information system. Only three respondents (8.33%) indicated that they were not encountering any challenges regarding compatibility.

(e) Identification of transactions and events involving revenue recognition

The objection of the question of identification of transaction was to determine whether companies are aware of transactions which may involve revenue recognition and those which may involve exchange of goods and services but not involving revenue recognition.



N=32

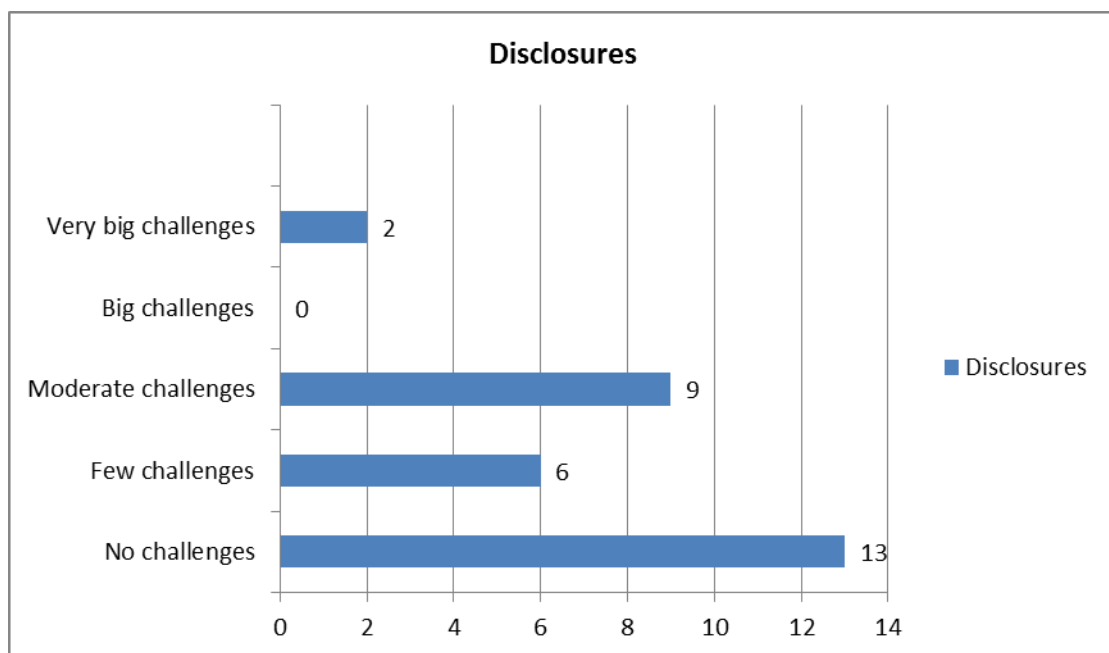
Figure 4. 37: Identification of transactions and events involving revenue

Only 32 respondents or 88.89 % of the participants answered this question. The possible responses for this question were moderate challenge, few challenges and no challenge. The moderate challenge response was more popular with 14 respondents or 38.89 % of the participants selecting this answer. Few and no challenges received six (16.67 %) answers and 12 (33.33 %) respondents respectively. It appears

therefore that the majority of the participants do not experience challenges in identifying transactions involving revenue recognition.

(f) Disclosures

One of the key requirements of IAS 18 is the presentation of disclosures on revenue. A question was therefore, designed to determine whether companies are facing difficulties in presenting disclosures in the annual financial statements. The results of this question are presented in figure 4.38 below.



N = 30

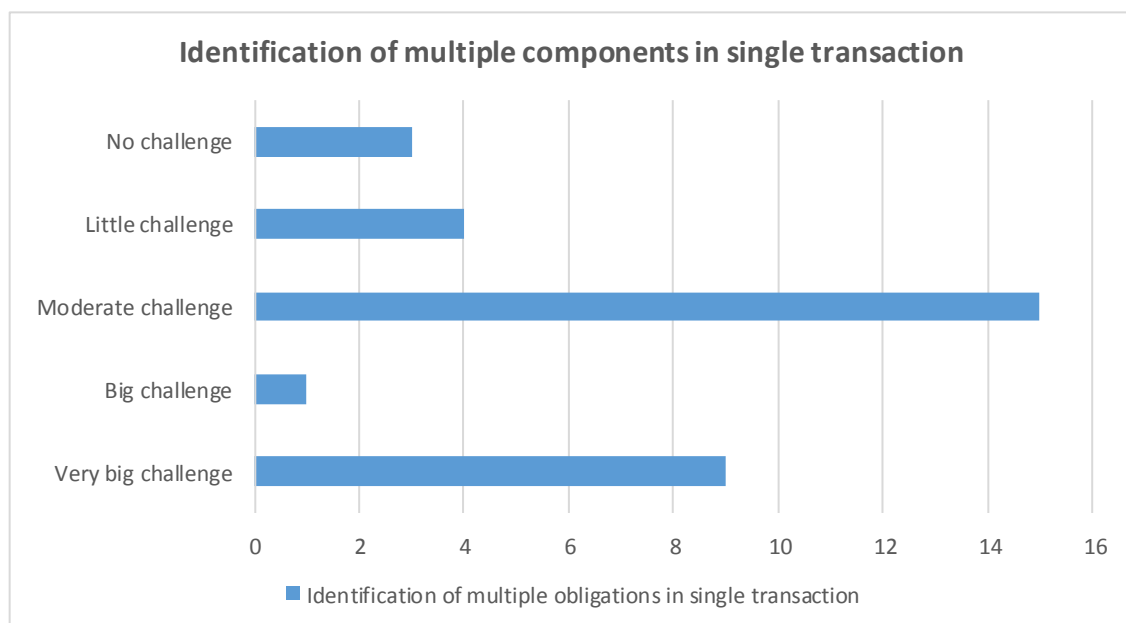
Figure 4. 38: Disclosures

The question on disclosures attracted 30 respondents. Thirteen participants (36.11 %) indicated that they had no challenges regarding disclosures in terms of IAS 18. Six (16.67 %) of the participants indicated that they experienced few challenges. However, nine participants, or 25 %, felt that there were moderate challenges, while

only two (5.56 %) opined that there were very big challenges in accordance with IAS 18 Revenue.

(g) Identification of multiple components in a single transaction

IAS 18 Revenue requires companies to identify transactions with multiple components. The components of such transactions are measured separately. The researcher therefore designed a question to determine whether companies are facing challenges in identifying such transactions. The results are presented in figure 4.39 below



N= 36

Figure 4. 39 Identification of multiple components in a single transaction

Thirty two participants responded to the question on the challenges that the chief finance officers face regarding the identification of multiple components in a single revenue transaction. This number represented 88.89 % of the participants.

Ten respondents (27.78 %) indicated that there were challenges, while 15 felt that the challenges were moderate. Three participants (8.33%) indicated that they are not experiencing challenges, while four participants (11.11 %) indicated that they encounter little challenge.

4.14 Challenges faced by the researcher

The researcher consistently faced the need to justify why a particular company or an individual had to participate in the study. The majority of the respondents who did not take part in the study initially had accepted the opportunity to participate in the study. The major issues that were cited by respondents (for not participating) were that the questionnaire was directly asking the respondents to divulge company secrets or confidential information. The second issue raised was that the respondents were too busy to attend to the questionnaire. The researcher respected the respondents' positions.

The researcher made a number of observations in relation to the profiles of the respondents who refused to participate in the study. The observations, which are more inferences, will be discussed in the findings section of this study.

4.15 General comments

The questionnaire had a section at the end of a list of questions that requested the respondents to give any general comments that were related to the application of IAS 18 Revenue. The objective of this section was to solicit further information that may

not have been addressed by a specific question. There were only three respondents or 8.33 % who gave general comments.

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The following quotations are quite interesting and worth noting.

“Even though accountants might understand the accounting theory, in practice IAS 18 is not always applied in the accounting records.”

“While for auditing and preparation of annual financial statements we try to comply with IAS 18, the application of the standard on day to day becomes limited due to the idea of creating transactions that are likely to be reversed in the following month or within the same year.”

“The requirements of IAS 18 may seem very good, but they do not apply to the actual accounting transactions. They are applied by the auditors to published or audited financial statements.”

The above general comments provide further insight into the application of IAS 18 Revenue. The comments largely reflect the attitudes of those responsible for the implementation of and compliance with the IAS 18. However, the number of respondents who subscribe to these comments may not be significant, even though the level of compliance confirms that attitude.

4.16 Conclusion

This chapter presented the findings of the study. The findings were presented mainly in the form of tables and charts. A number of narrative explanations in the form of percentages were presented as well as supplementary explanations to the charts. The next chapter will provide a discussion of the findings.

Chapter 5

Discussion of Findings

5.1 Introduction

This chapter discusses the findings of the study. The chapter presents the discussion of the findings of the study based on the core issues in IAS 18 Revenue. This chapter discusses the findings on the sale of goods in section 5.2, measurement of revenue in sections 5.3 to 5.8, revenue from interest, dividend and royalty in section 5.8, provision of services in section 5.10, and development of accounting standard is discussed in section 5.11. The study further examines the findings on IAS 18 disclosures in section 5.12 and concludes with a summary in section 5.15 of this chapter.

5.2 Sale of goods

As discussed in paragraph 2.5 of chapter two, IAS 18 paragraph 18.14 requires that revenue from the sale of goods be recognised when:

- (1) the enterprise has transferred to the buyer the significant risks and rewards of ownership;
- (2) the seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (3) the amount of the revenue can be measured reliably;
- (4) it is probable that the economic benefits associated with the transaction will flow to the entity, and

(5) the costs incurred or to be incurred in respect of the transaction can be measured reliably (IASB, 2014). Revenue can only be recognised when all the above conditions have been fully fulfilled.

The results in figure 4.5 in chapter four on revenue recognition criteria indicate that average of twenty five of the selected companies are not fully aware of the recognition criteria. The respondents indicated that they were complying with selected criteria only. It can be concluded therefore, that most of the companies are not complying with IAS 18.

5.3 Measurement of Revenue: Use of discounts

According to paragraph 9 of IAS 18, revenue is measured at fair value of the consideration received or receivable at the date of the transaction (IASB, 2014). Consideration is not restricted to cash only. The fair value of revenue at the transaction date is correctly determined by taking the effect of trade and settlement discounts as well as the time value of money.

The results reported in figures 4.7 to 4.15 in chapter four indicate that a number of inconsistencies exist with the use of discounts in accordance with IAS 18. The discounts are used to determine the fair value of revenue. The revenue must be reported net of discounts given to a buyer.

(a) Preferred customer discount

Preferred discounts are mainly offered for cash transaction to certain customers with a view to encouraging repeated sales or to reduce other banking charges related to the use of credit cards or cheques. The discount is also used as a way of encouraging sales from certain classes of customers. The discount is therefore deducted from the sales price. This may be offered irrespective of whether the transaction is on cash or credit terms. It is therefore recognised at the date of the transaction. The results in figure 4.7 of chapter four show that a relatively high proportion of the respondents are aware that the discount must be accounted for at the date of the transaction. The results presented in figure 4.11 in chapter four indicate that the respondents are aware of the treatment of preferred customer discount in determining the fair value amount of revenue. Hence, the companies in general are complying with IAS 18 Revenue in relation to the measurement of revenue using the preferred customer discount.

(b) Kickback discount

A kickback discount is a discount given by a supplier when a customer has reached a certain level of purchases. The fulfilment of such requirement may, therefore, spread over more than one financial year. The discount is therefore only offered once those conditions have been met. The discount affects the revenue figure rather than the selling price. However, all the participants did not identify the correct journal entry. The correct journal entry is that revenue is debited while the customer / bank is credited. The results in figure 4.12 reveals that the selected companies in general are not complying with the standard when using the kickback discount.

(c) Bulk discount

Bulk discount is offered by suppliers to encourage bulk purchases. The discount is related to quantity levels at the date of the purchase. The provision of the bulk discount leads to a reduction in the list price. There is, therefore, no journal entry required since revenue is automatically reduced at the date of the transaction. The results presented in figures 4.9 and 4.13 in chapter four indicate that the number of those who are incorrectly treating the discount is greater than the number of those who are complying with the standard. There is, therefore, a high chance that the revenue valuation is incorrectly undertaken.

(d) Settlement discount

Settlement discount is offered by suppliers as an incentive to debtors for early settlement of accounts. In terms of IAS 18 the discount must be estimated at the date of the transaction. However, figures 4.10 and 4.14 in chapter four reveal that seventeen (47.22 %) of the companies are recognising settlement discount incorrectly.

The correct treatment is that the revenue amount is reduced by the amount of the discount and a provision for discount account is credited while the customer is debited with the full invoice amount. The settlement discount provision is reversed should the customer fail to take up the discount. The provision for discount account is debited and revenue is credited by the value of the discount. In general, therefore,

the companies are therefore not complying with IAS 18 in valuing revenue at the date of the transaction.

Based on the above analysis it can be observed that a number of companies (44.44 %) both private and public are likely to be inappropriately accounting for discounts. It is therefore concluded that the selected companies are not in compliance with IAS 18 Revenue.

5.4 Swap of similar goods and services

Where there is an exchange of goods and services it is very important that the substance of the transaction is determined. The legal form may not reveal the true nature of the accounting transaction concerned. There are two basic principles that need to be observed when dealing with an exchange of goods and services. The principles is stated as follows;

- Where there is an exchange of goods or service of the same nature and equivalent value then no revenue is recognised. Under such cases, it is considered as a swap of inventory
- Where goods or services are not of the same nature and are being exchanged, a sale transaction and a purchase are considered to have taken place. The revenue in the transaction is measured at the fair value of goods received plus any top up of cash where appropriate. However, there may be cases where the value may not be easy to determine. Then the sale is measured at fair value of goods that have been given up. As already indicated above there may also be need for a cash adjustment since goods

or services are not of the same nature and value. The above requirements are covered by paragraph 18.12 of IAS 18 Revenue.

When considering the results of the study, it is observed that in figure 4.16 in chapter four, only two respondents correctly indicated that where goods or services of similar nature and similar value are exchanged, no revenue should be recognised. By recognising revenue at the different measurement values, as indicated in figure 4.16, the selected companies are not be in compliance with IAS 18 Revenue at the rate of ninety four percent.

5.5 Swap of dissimilar goods of dissimilar of value

The above paragraph has laid out the principles of valuing of a transaction involving dissimilar goods. The amount is measured at the fair value of goods received. The results in figure 4.17 (chapter four) indicate that only six respondents were able to correctly state that the revenue should be measured at the fair value of goods received. The figure represents 16.67 % of the participants. It can, therefore, be concluded that by applying other values other than the fair value of goods received the majority (83.33 %) of the selected companies are not complying with IAS 18 Revenue.

5.6 Recognition of revenue where a customer has a right to return goods purchased

The results shown in figure 4.18 in chapter four indicate that twenty five of the companies recognise revenue immediately. IAS 18 requires a company to make a

provision for the anticipated return in terms of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. All the companies that took part in the study do not make any such provision. The companies are therefore not in compliance with IAS 18 Revenue.

5.7 Measurement of revenue where the sales prices include the price of providing future services

There are circumstances where a supplier sells goods at a price that includes an obligation to provide future services related to the product. The key requirement of paragraph 13 of IAS 18 is that entities must be able to identify multiple obligations in a single sales transaction. The transactions must then be valued separately. A sales transaction of this nature requires that the price be split between that related to the actual product and that related to a service that is yet to be provided over a period of time that the service is being rendered. The period over which the service is being rendered may span over one reporting period. The revenue must be recognised in terms of paragraph 13 of IAS 18 that requires an entity to apply the use of discounting techniques.

The above mentioned paragraph further requires that such revenue is recognised over the period the service is being provided. The revenue is therefore discounted to the present value and deferred. The study found that all the companies are recognising revenue immediately without the use of discount techniques and spreading the recognition over the period over which the service is being offered.

5.8 Fair valuation of award credits (points)

The results indicate that there are few companies in Namibia offering award incentives. The researcher observed that most programmes of credit awards were system based. This resulted in a lack of understanding of the accounting treatment by some respondents. However, the few that are offering the credit incentives do not properly value the unused credit awards at the end of the reporting period. Furthermore, the companies do not fully disclose their accounting policies. The companies do not therefore fully comply with IAS 18 disclosure requirements use of fair value on credit awards.

The results depicted in figure 4.24 in chapter four show that 16 respondents claimed exposure to the use of fair values. Twenty respondents indicated that the use of fair values was not applicable to the selected companies. It was very interesting to note that during the interviews most of the participants were not aware that they were actually applying fair value techniques. For example, the majority of the respondents in the motor industry indicated that they were not using the fair value.

However, a closer examination of their operations reveals that the fact they are using pre-owned vehicles as trade in, at agreed prices, which are based on some hypothetical market prices, is clear indication of the use of the fair values. It is also interesting to note that some of the respondents from the motor industry indicated

that they were not involved in the exchange of goods either of similar or dissimilar nature. The above observation is a clear misconception of fair value.

5.9 Interest, dividend and royalty

The recognition, measurement and disclosure of interest, dividend and royalty revenue were discussed in paragraph 2.12 of chapter two. Paragraph 18 of IAS 18 states that interest shall be recognised using effective interest rate, royalties on accrual basis and dividends when the shareholders' right to receive payment is established. The results presented in figures 4.27, 4.28 and 4.29 in chapter four clearly show that the companies are not in compliance with the standard. The rates of non-compliance for interest, dividend and royalty income are 94.44 %, 86.11 % and 91.67% respectively.

5.10 Provision of services

Paragraph 2.11 of chapter two presented a discussion on recognition and measurement of revenue arising from provision of services. Paragraph 20 of IAS 18 insists that, certain criteria be met before revenue from provision services can be recognised, such as the amount of the revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the entity, the stage of completion of the transaction can be estimated reliably at the end of the reporting period, the costs incurred for the transaction and the costs for completing the transaction can be measured reliably. All the requirements above must be fully complied with.

The results from figure 4.31 clearly show that 33 respondents lack an understanding of the recognition criteria. Only three respondents managed to correctly identify the four criteria items. If companies are not aware of the recognition criteria, there is high chance they are not complying with the requirements of IAS 18.

5.11 Development of accounting policies

The results presented in table 2 in chapter four clearly show that only three respondents were involved in the development of the accounting policies. The majority (91.67 %) of the chief finance officers are not directly involved with the development of accounting policies. It can, therefore, be concluded that the lack of knowledge and compliance can be attributed to the non- involvement of the respondents in the development and review of accounting policies.

5.12 Disclosures

The findings of the study indicate all companies that were involved in this study had different levels of disclosures in accordance with IAS 18. However, based on the review of annual financial statements and demographics of the respondents, the findings were in some cases inconsistent with previous studies. Complete details of disclosure requirements in terms of IAS 18 were discussed in paragraph 2.13 of chapter two.

Some of the previous studies' findings showed that a company's compliance level of disclosure requirements with IFRSs was positively related to company age, the external auditor size and affiliation, and company staff qualifications (Ali, Ahmed, & Henry, 2012; Islam, 2012; Karim & Ahmed, 2005; Mbetuet al., 2014).

(i). Company age

The results presented in figure 4.3 in chapter four indicate that the selected companies for this study have been in existence for periods exceeding ten years. A period of more than ten years is a substantial period that allows a company and its finance staff to gain appropriate experience in financial reporting. Furthermore, private and public companies in Namibia are required to submit statutory audited annual financial statements. However, this number of inconsistencies with IAS 18 observed in this study reveals a high level non-compliance. It can be concluded therefore from this study that company age did not have a positive impact on the level of compliance. The study does not support therefore, the results from other previous quantitative studies that reported positive association between company age and disclosure compliance (Al-Shammari et al., 2008;Mbetu et al., 2014). However, there are results from other studies that confirm that company age has no positive relationship with disclosure requirements of IFRSs (Demir & Bahadir, 2014).

(ii). Staff qualifications

The results shown in figures 4.1 and 4.2 in chapter four indicate that most of the respondents are well qualified in accounting. The majority of the respondents are in

possession of highly regarded local and international professional and academic qualifications. As already alluded to above under company age, the experiences and accounting qualifications of the chief finance officers do not support the current level of non-compliance.

(iii). Audit firm size and affiliations

The secondary data analysis revealed that most of the companies that were audited by either the big four or other small and medium firms who have international affiliations had reasonably disclosures. However, the disclosures did not contain anything beyond the text contained in IAS 18. This is, therefore, not conclusive evidence that the companies were in compliance. Previous quantitative studies found that there was a positive relationship between the audit firm size and disclosure compliance level (Karim & Ahmed, 2005; Demir & Bahadir, 2014). However, some studies have noted that auditor size and affiliation has a negative relationship with the disclosure requirements (Ali, Ahmed, & Henry, 2012).

(iv). International linkages

The study revealed that most of the companies that were either linked to companies registered overseas or to the Johannesburg Stock Exchange have detailed disclosures on revenue recognition and other related aspects. This finding, therefore, confirms other previous studies (Ali et al., 2012; Atsunyo, 2012; Karim & Ahmed, 2005; Mbetu et al., 2014).

(v). Regulatory requirements

The study also revealed that eighteen companies listed on the Namibia Stock Exchange (NSX) have detailed disclosures on revenue. Financial institutions provided a substantial volume of data in respect of revenue recognition policies and related information when compared with other companies listed on NSX.

5.13 General evaluations

A number of observations were made about those who refused to participate in the study despite having initially accepted. These observations include unfamiliarity with exposure to dealing with researchers as individuals, suspicions of credentials and possible misuse of the information, blanket company policy on confidentiality, uneasiness discussing technical accounting issues.

In deciding whom to interview in accounting research, senior personnel are selected. The basis of their selection is their exposure to high accounting level issues as well as dealing with the auditor (Horton, Macve, & Struyven, 2008). Horton et al. (2008) further contend that senior accounting personnel are also involved in financial analysis, involvement in high-level committees dealing with accounting proposals or giving professional advice on strategic financial proposals. Similarly, this study was dealing with high level accounting policy issues. Information concerning revenue recognition and measurement can only be obtained from senior accounting personnel.

The major challenges other researchers faced were the following: relative unfamiliarity with the experience by academic researchers, suspicion of credentials despite being included in the introductory letters, lack of association with a professional body, and lastly, fear of discussing complex accounting issues (Horton et al., 2008). The researcher observed that fear of discussing technical accounting issues, unfamiliarity with interviews and fear of accidentally disclosing confidential company information could be reasons why some respondents refused to participate in this study.

5.14 General comments

In the previous chapter, the researcher noted some general comments that were offered by the respondents. All the comments indicate that some of the requirements of the accounting standards are not implemented in the accounting system. There is, therefore, need to determine the reasons for non-compliance with the requirements of IAS 18. Furthermore, the information can be taken as a direct confirmation of non-compliance with IAS 18 by the respondents. It may also be inferred that the company accounting information system contains information that is relatively different from the published or audited financial statements.

5.15 Conclusion

This chapter covered a number of discussions on the findings of this study. The chapter mainly concentrated on the core issues covered by IAS 18. The core issues

covered by IAS 18 include the main sources of revenue such as the sale of goods, provision of services and interest, dividend and royalties.

The discussion is mainly based on the measurement, recognition and disclosure of revenue in terms of IAS 18. The measurement of revenue involves the use of discounts, fair value and net present values. The researcher observed that most respondents were not familiar with the exchange of or services of either similar or dissimilar nature. The overall finding of the study is that most of the selected private and public companies did not comply with measurement principles of IAS 18 Revenue.

The second issue covered in the discussion of the findings is the recognition criteria and disclosure requirements of IAS 18 for both the sale of goods and provision of services. The study reveals that most respondents did not fully appreciate the existence and application of the revenue recognition criteria and related disclosure requirements of IAS 18.

Thirdly, the chapter further discussed the findings on interest, dividend and royalty income. It was observed that most respondents are not following the requirements of IAS 18 Revenue. An average of ninety two per cent (92 %) of the respondents mostly recognise this category of revenue on receipt of a payment. This practice is not in line with the requirements of IAS 18 Revenue.

Fourthly, the study reveals that thirty-two of the companies were not disclosing in their accounting policies anything detailed beyond the basic wording contained in IAS 18. Furthermore, as noted, some of the findings of the study were not consistent with previous studies on accounting disclosures.

Fifthly, the general comments provided an insight into the level of non-compliance. The general comments reveal that certain requirements of IAS 18 are only presented in annual financial statements and not in the accounting information system. It was further observed that because of this practice, there will always be a disparity between the information presented in the annual financial statements and that contained in the accounting information system.

The overall conclusion of this study is that seventy percent (70 %) of the selected companies in Namibia do not fully comply with IAS 18. This chapter concludes the discussion of the findings of the study. The next chapter presents some policy implications of the study. Having examined the shortcomings of the implementation of IAS 18, the researcher will formulate some policy recommendations. The recommendations are presented in chapter 6.

Chapter 6

Conclusions and Recommendations

6.1 Introduction

This chapter presents conclusions emanating from the discussions of findings in chapter five. A summary of conclusions is presented in section 6.2. Section 6.3 presents possible limitations of the findings of this study. The recommendations presented in section 6.4 are aimed at seeking some improvements to the compliance level. The chapter presents suggested recommendations for possible policy change.

6.2 Conclusions

6.2.1 Measurement of revenue

The measurement of any element of financial statements is topical in modern accounting. All IFRSs lay down specific rules and procedures for determining values that accountants must apply. IAS 18 is not an exception to that requirement. The standard contains key paragraphs that lay out rules for measuring or valuing revenue for financial reporting purposes. The key paragraphs of IAS 18 are .9, 10, 11, 12 and 13. The results of the study show that most companies selected for this study do not apply the requirements of IAS 18. The study therefore concludes that the majority (70%) of the companies do not comply with the measurement principles in IAS 18 Revenue.

6.2.2 Recognition criteria

The IASB conceptual framework lays out special conditions that must be met before an item can be reported in the financial statements. The rules are applied in all the standards. IAS 18 stipulates similar rules in paragraphs 18.14 for the sale of goods. For the rendering of services, the rules are contained in paragraph 20 while for interest, dividend and royalty revenue the rules are spelt out in paragraphs 29 and 30. The results of the study indicate a rate of 70.68 % non-compliance. It is therefore concluded that most participants lack appreciation of the recognition criteria.

6.2.3 Use of fair value

The majority of chief finance officers in this study qualified before the introduction of IFRS13 Fair Value. The perception of fair value held by some of the respondents is that fair value is a stand-alone cost base. These observations confirm the findings of other previous studies on the use of fair value (Durocher & Gendron, 2014; Hitz, 2007; Power, 2010). Due to this misconception, some companies do not comply with IAS 18 when determining revenue from complex sale transaction.

6.2.4 Identification of multiple components

The identification of multiple obligations appears not to be a challenge per se. However, it is the allocation of prices and the allocation of revenue between different types of revenue that poses challenges. A total of 32 respondents (88.88%) could not correctly identify how revenue is allocated in a multiple obligation transaction. It

can, therefore, be concluded that all companies are failing to appropriately allocate revenue to its different components.

6.2.5 Credit incentives awards

Some respondents did not understand the credit incentives awards. Furthermore, it was observed that the selected companies were not properly accounting for the credit awards. Most of the participants on this question did not have a clear understanding of the accounting treatment. The participants did not know about the valuation of the points at year end. Furthermore, the companies do not fully disclose their accounting policies on credit awards or points system. The eleven companies (30.50 %) do not therefore fully comply with IAS 18 disclosure requirements.

6.2.6 Disclosures

The disclosures on revenue are a key requirement of IAS 18. The disclosure details are required in terms of paragraphs 35 and 36 of the standard. It was observed that while all selected companies had some disclosures in the annual financial statements, the disclosures were basically a reproduction of the definition of revenue and the reproduction of the standard itself of how revenue should be disclosed. Not all the companies adhered to paragraph 35 of IAS 18, on significant amounts of revenue. It is very difficult therefore to confirm that companies are fully compliant since the companies are merely reproducing the standard.

6.2.7 General comments

The general comments that were reported in chapter four are a clear indication of the gap that exists between the perceptions of professional accountants and accountants in business. The comments generally confirm the discrepancies in compliance levels.

6.3 Limitations of the study

Like any other studies, the researcher recognizes the limitations of a study of this nature. Based on the sample size compared to the total population of both private and public companies in Namibia, selected participants and the exclusion of companies based outside Windhoek, it is inappropriate to generalise the results of the study. As such the findings may not be a true representation of all companies in Namibia.

6.4 Suggestions for further studies and policy implications

As has already been alluded to above, there is need for some recommendations for further studies and policy implementation. The recommendations are discussed briefly below.

6.4.1 Mixed design

The current study was undertaken as a mixed design based on a small sample of fifty chief finance officers. It is, therefore recommended that further studies are undertaken using quantitative designs with larger samples. It is suggested the proposed samples should include external auditors and financial analysts.

6.4.2 Customer loyalty programmes

The current study investigated customer loyalty programmes under FRIC 13. It was observed that the issue of CLPs is a separate research area that requires comprehensive research. Furthermore, the implication of CLPs on corporate and value added tax calculation require some serious investigation.

6.4.3 IFRS 15 preparedness for Namibian companies

The current study was carried out based on IAS18 Revenue. The researcher is fully cognisant that the life of IAS 18 is coming to an end very soon. The standard will be replaced by IFRS 15 Contracts with customers from 2017, with early adoption being allowed. The study recommends that a further study be undertaken to determine the preparedness of Namibian companies to implement the new standard.

6.4.4 Regulation of accounting profession in Namibia

The results of the study should persuade the accounting profession in Namibia to reassess the general level of compliance with IFRSs by companies as well as by individual registered accountants in business. The accounting profession supervisory authorities in Namibia such as PAAB, ICAN and ACCA should take a leading role in ensuring compliance with IFRSs. Furthermore, the relevant accounting bodies should increase their monitoring role. The accounting profession needs to vigorously monitor continuous professional development requirements for accountants in business.

6.4.5 Corporate governance

One of the key requirements of corporate governance is that audit committees must oversee the preparation of annual financial reports. It is, therefore, worrisome to see such a high level of noncompliance with a standard when companies claim to have strong audit committees. The Namibian Stock Exchange should take an active role in enforcing compliance with IFRSs to ensure that correct and reliable information is communicated to investors. Incorrect revenue figures may lead to an incorrect profit figure being used for calculation of earnings per share (EPS). The EPS is a key ratio for investors.

6.5 Conclusions

The purpose of this chapter was to present conclusions and recommendations. The recommendations were based on the results of chapters four and five above. The chapter further presents recommendations for further studies. The study concluded that most of the selected companies are facing serious challenges with IAS 18. The most challenging issues are measurement, disclosure and the recognition criteria. The majority of the respondents did not have any understanding of the recognition criteria for sale of goods and provision of services.

The researcher observed that the sample for the study was small. It was concluded therefore, that the results could not be generalised to all the companies in Namibia. The researcher, therefore, made a number of recommendations for further studies. The study recommended that further research studies should be undertaken in a

number of areas using larger samples in quantitative designs. The areas of further studies were identified as CLPs, IFRS 15 preparedness, the active role of accounting profession authorities, NXS's increased regulatory role and observation of corporate governance rules.

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**AN ANALYSIS OF COMPLIANCE OF SELECTED NAMIBIAN COMPANIES
WITH INTERNATIONAL FINANCIAL REPORTING STANDARD ON REVENUE**

UNIVERSITY

OF

NAMIBIA

QUESTIONNAIRE

Researcher: Emmanuel Milijala

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Supervisor: Professor Hekki Heino

Dear Participant

I am a Master of Science in Accounting & Finance student at UNAM doing research entitled in the field of accounting. In partial fulfilment of this degree, I am required to complete a dissertation and for that purpose I have designed a questionnaire which I request you to kindly take time to complete.

I have attempted to make the questionnaire as brief as possible and I estimate that about 15 minutes of your time would be required to complete it. Though I shall appreciate it if you could answer all the questions, you are however under no obligation to answer the questions; hence you may omit any question you may feel uncomfortable to answer.

Please note that you do not need to divulge your name or that of your organization and your responses to this questionnaire shall be treated confidentially. Your position, name or that of your organization shall not appear in my research. Please be assured that the information you give shall be used solely for this research and will not be passed on to any third parties except with your express consent.

Your participation represents a valuable contribution to the debate, research and continuous improvements which we seek in cost and management accounting issues. I am therefore most thankful for your participation.

Yours Sincerely

Emmanuel Milijala

SECTION A**DEMOGRAPHICAL INFORMATION**

1.1	What is your job title?					
1.2	How many years of financial reporting experience do you have?					
	1 year or less			2 – 4 years		
	5 – 10 years			More than 10 years		
1.3.1	What is the highest academic qualification that you hold?					
	Diploma	Degree	Post graduate diploma	Degree (Honours)	Master's	PHD
1.3.2	Male		Female			
1.4	What professional qualification do you hold?					
	CIMA		CA	CFA	ACCA	
1.5	Who is responsible for the development of your organization's accounting policies?					
	External auditors	CFO		Audit committee	Internal auditors	

SECTION B**INFORMATION ON REVENUE RECOGNITION**

2.1	Which of the following does your organisation earn revenue from (tick the applicable one)?						
	Sale of goods				Provision of services		
	Interest				Royalties		
	Dividend						
2.2	For how long has your organisation been recognizing the above revenue category?						
	1 year or less				2 – 4 years		
	5 – 10 years				More than 10 years		
2.3	Which accounting standards does your organization use when accounting for accounting for revenue?						
	SA GAAP	IFRS GAAP		NAM GAAP		OTHER (SPECIFY)	
2.4	If your organisation does not use any accounting standard, would you like to use any accounting standard in the future?						
	Definitely not	Maybe not		Undecided	Maybe yes	Definitely yes	

Part C

Accounting Policies: Sale of Goods

	What recognition criteria does your company follow when recording revenue from sale of goods? Please tick the most applicable.	Yes	No	N/A
3.1	i. The company would have transferred to the buyer significant risks and rewards of ownership.			
	ii. The company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.			
	iii. No specific procedure is followed by the company			
	iv. The amount of revenue can be measured reliably			
	v. It is probably that the economic benefits arising from the transaction will flow into the company			
	vi. The costs incurred already or to be incurred in connection with the transaction can be estimated reliably			
	vii. The company has its own procedure for revenue recognition			
3.2	What steps does your organization follow to ensure that the above recognition criteria are followed if any?			
	Identify the contract or transaction with the customer			
	Identification of separate performance obligations in the contract or transaction			
	Determination and allocation of transaction prices			
	Determination of how and when the obligation is satisfied			
	No such procedures			

MEASUREMENT**3.3 Does your company offer any of the following discounts?**

Bulk discount	Preferred Customer discount	Kickback discount	Settlement discount	Cash discount

3.4 At what point does your company account for the following discounts

	At the time of sale transaction	When payment is received	When set conditions have been met	Not at all	At the end of the reporting period
Preferred Customer discount					
Kickback discount					
Settlement discount					
Cash discount					
Bulk discount					

3.5 How does your company recognise the above discounts?

	A	B	C	D	E
	A provision for discount account is created while the customer is debited the full amount	The selling price is reduced by the amount of discount	A provision for discount account is created with a corresponding discount allowed	Revenue is reduced by the amount of the discount and a provision for discount is created (CR).	Customer is credited. Discount allowed is debited.

			expense account		
Preferred Customer discount					
Kickback discount					
Settlemen t discount					
Cash discount					
Bulk discount					

3.6 How does your company account for settlement discount when credit terms have been breached by the customer?

Discount allowed is reduced and the debtor's account is increased	No action is taken since the discount is only offered at the time of payment.	The provision for settlement discount is reduced and revenue is increased	OTHER (Specify) /NOT SURE

Complex transactions

3.7 How does your company record and measure revenue from transactions involving a swap of similar goods of similar value?

No revenue is recognised	Revenue is recognised at the fair value of goods received.	Revenue is recognised at the fair value of goods given up.	Not sure	N/A

3.8 How does your company measure revenue from transactions involving a swap of dissimilar goods of dissimilar value?

No revenue is recognised	Revenue is recognised at the fair value of goods received.	Revenue is recognised at the fair value of goods given up.	Not sure	N/A

3.9 How does your company record and measure revenue from transactions involving exchange of goods and services?

At the cost of the goods or services being received	At the fair value of the goods or services being received	At the fair value of the goods or services being given	At the cost of the goods or services being given	Not sure.	N/A

3.10 How does your company recognise revenue from the sale of goods on cash or credit terms that are subject to a customer's right to return them within a specific time frame?

Revenue is recognised immediately	Revenue is recognised when shipment has been accepted by the buyer only	Revenue is recognised when the time for rejection has lapsed only	Not sure.	N/A

3.11 Sale of goods and provision free products and service

(a) How does your company measure revenue from sale of goods on price that includes the provision of other related services?

Revenue is recorded separately for sale of goods, provision of a services and interest revenue measured at	Revenue is recorded separately for sale of goods, provision of a	The nominal transaction amount is recorded as sale of goods or	Not sure	N/A
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NPV	services and interest revenue measured in nominal terms	services depending on the transaction with a higher value		

(b) How does your company account for the cost of providing free products to customers? [E.g. buy two and get one, free trailers and five year service.]

Treated as marketing costs	Deducted from the selling price of each product	Treated as cost of sales	Treated as discount allowed	N/A

3.12 Does your company offer special incentives to its customers? State the incentive programmes.

Customer points		No incentives		Special vouchers		Combos		Other [explain]
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3.13 (a) How does your company measure revenue when there is an incentive award in place offered by the company?

The full amount of the transaction amount is recognised immediately and no further action is taken	The NPV of the transaction amount is recognised as revenue	The transaction amount is reduced by the fair value of points granted on the transaction	Revenue is only recognised to the extent of the cash received.	Not sure how the transaction is recorded in the system.

3.13 (b) How does your company value the credit awards (points) that you give to your customer? [Fair valuing award points]

Fixed percentage per invoice amount	A fixed amount N\$100	A fixed amount per purchase by customer	N/A

3.14 How is your accounting information system designed to deal with adjustments related to the points not taken up by customers?

Customers are charged with the value of the points and the credits are reduced in the system	Points just expire and no further action is required	Revenue is increased by the fair value of the expired points and the provision is reduced	Not sure how the transaction is recorded in the system	N/A

Part D

4. At what point does your company recognise revenue from bill and hold sales.

Revenue is recognised immediately	Revenue is recognised only when the customers takes delivery and ownership.	Revenue is recognised receipt of payment	Revenue is recognised when the goods have been handed over to the transporter	N/A

Part E

5. Fair values

5.1 Under what circumstances does your company apply the principles of fair valuing when recognising revenue?

On swap of goods and services	On swap on dissimilar goods /services of dissimilar value	On exchange of good or services of similar value	On sale of goods that have observable daily prices	N/A

5.2 What sources of information does your organization use to obtain fair values of your products and services?

Quoted price from active markets of our products	Use of experts in valuation	Observable but not published prices	Use of Net present value calculations	Our costing system	N/A

5.3 How reliable do you think is the revenue figure presented in the financial statements that is obtained from the use of fair values and the use of net present values?

Very unreliable	Unreliable	Neutral	Reliable	Very reliable

Part F

6. Interest, dividend and royalties

6.1 At what point does your company recognise the following as income

	When the right to receive payment is established	Accrual basis only	When actual payment is received	Time proportionate basis
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Dividend				
Interest				
Royalties				

Comments.....

Part G

7. Provision of services

7.1 Does your company earn revenue from the following services?

Education	
Telecommunication	
Financial services	
Advertising services	
Accounting services	
General business consultancy	
Medical	
Other – Specify	

7.2 What criteria does your company use to recognise revenue from provision of services?

The amount of revenue can be measured reliably	
It is probably that economic benefits will flow to the company	
The stage of completion can be estimated reliably	
When payment has been received only	
The costs incurred for the transaction can be estimated reliably	

The company has no criteria followed	

8. Disclosures

What nature of information on revenue does your company disclose in its annual financial statements?

	Yes	No	Not applicable
Accounting policy			
Amount from:			
The sale of goods			
Rendering of services			
Dividend			
Interest			
Royalties			

9. General evaluations

9.1 As a chief financial officer, how important do you see the use of fair valuation in measuring revenue that will be reported in the published financial statements?

Not important	Somewhat important	Important	Very important

9.3	When preparing the financial statements of your organisation do you believe that stakeholders benefit from the use of IAS 18?		
	Never	Sometimes	Always

9.3	Do you consider IAS 18 as effective in ensuring that the correct and legitimate revenue is recorded and reported?				
	Very ineffective	Ineffective	Average	effective	Very effective

10. Are there any challenges in applying IAS 18?

		No challenge	Little challenge	Moderate challenge	Big challenge	Very big challenge
1.	Fair value					
2.	Determination of component prices in multi components transactions					
3.	Application of discounting techniques					
4.	Systems compatibility of the standard with AIS					
5.	Identification of transactions and events involving revenue recognition					
6.	Disclosures					
7.	Identification of multiple components in a single transaction					

