THE PROFESSIONAL JUDGMENT PRACTICED IN THE IMPLEMENTATION OF PFRS 15 IN THE CONSTRUCTION INDUSTRY IN CAGAYAN VALLEY

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ABSTRACT

This study evaluated the post-implementation effects of PFRS 15 on construction firms in the Cagayan Valley, with particular focus on the professional judgment exercised in the key components of the five-step revenue recognition model. The research aims to explore how these judgments influence the recognition, measurement, presentation, and disclosure of financial statements. The proponents developed a self-made interview questionnaire to gather primary data from accountants in construction firms holding valid PCAB licenses. A qualitative research methodology was employed, with data analyzed through thematic and content analyses to identify key patterns and insights. The study's findings underscore the significant role of professional judgment in the implementation of PFRS 15. In particular, contract modifications are commonly evaluated based on set thresholds, external market conditions, and practical approaches. When addressing performance obligations, accountants consider the nature of the contract, the interrelatedness of services, and the customer perspective. In the allocation of the transaction price, they depend on both the cost-plus margin and residual approaches as determined by the reliability of cost data and the contract's complexity. Notably, the study found that accountants do not apply professional judgment in determining the transfer of control. Additionally, results reveal a preference for recognizing revenue over time, with construction firms equally favoring input and output methods. The shift in revenue disclosures, driven by new PFRS 15 guidelines, has enhanced transparency but also created significant compliance challenges.

Keywords: accounting standard, contracts, construction firms, Philippine Contractors Accreditation Board (PCAB), revenue recognition

INTRODUCTION

Rationale

The underlying gaps and issues in revenue recognition, specifically the need for specific guidelines from IAS 11 encouraged the International Accounting Standard Board (IASB) to introduce IFRS 15. Adopted in the Philippines as PFRS 15, this standard offers a five-step framework for recognizing revenue from contracts with customers, aiming to enhance consistency and comparability in financial reporting across industries. Despite becoming mandatory on January 1, 2018, its full effects on accounting objectives remain unexplored. According to Haggenmuller (2019), concerns have been raised about the standard's impact on comparability due to the increased discretion it grants practitioners, potentially leading to varied treatments of similar transactions. Moreover, the shift to this standard underscores the importance of professional judgment, which Ajekwe (2022) highlights as a critical element in effectively implementing IFRS 15, requiring practitioners to exercise, accept, and justify their decisions.

In line with the substantial adjustments and considerations brought by the standard, Vardiashivili et al. (2017) highlight that the construction sector is among the industries most affected by IFRS 15, given its complex activities such as manufacturing, labor, and the use of materials and equipment, all of which contribute to national goals like revenue generation and sustainable development (Hillebrant, 1985; Alaloul et al., 2022). In the Philippines, contractors are defined under Republic Act 4566, as amended by P.D. No. 1746, as individuals or organizations engaged in construction activities, including building, altering, or demolishing structures, and must possess a valid Philippine Contractors Accreditation Board (PCAB) license to operate legally. Among all other industries that apply PFRS 15, the construction industry involves complex stages that require specialized services, technical resources, and financial expertise (Nebrida & Orale, 2022). These complexities mean that identifying performance obligations in contracts requires significant professional judgment and a shift in perspective.

According to Usurelu and Dutescu (2021), the success of IFRS 15 depends on a firm's ability to understand and manage the challenges it presents. Businesses must also regularly assess their adoption of the standard using both quantitative and qualitative methods (Buenavides, 2015). From 2014 to 2021, most research on PFRS 15 focused on its challenges, effects, and professional judgment in industries other than construction. Hence, this study aims to fill this gap by examining how professional judgment is applied in Cagayan Valley's construction industry during the post-implementation phase of PFRS 15. It evaluates the experiences of PCAB-licensed contractors and accountants in using the five-step revenue recognition model and its impact on financial statement presentation.

This study aligns with the research agenda of the School of Accountancy and Business, specifically revenue recognition which is significantly under-researched despite it being one of the most complex areas of accounting. Furthermore, it aligns with the achievement of the Sustainable Development Goal (SDG) 8: Decent Work and Economic Growth; SDG 9: Industry, Innovation and Infrastructure; and SDG 11: Sustainable Cities and Communities. Moreover, the study benefits construction companies, financial statement users, regulators, accounting professionals, and educators. Its findings can enhance accounting standards, guide professional judgment, and serve as a reference for future research and classroom discussions, addressing the under-researched area of revenue recognition in accounting.

Statement of Objectives

The study examined the post-implementation effects of PFRS 15 on registered contractors in Cagayan Valley, accountants' experiences, factors influencing their professional judgment and how these factors influence the presentation of financial statements. The conduct of the study was from the midyear term to the first semester of the academic year 2023-2024 and 2024-2025, respectively.

Specifically, the study sought to determine the following:

1. What are the factors considered in determining whether a particular change in the transaction price constitutes contract modification?
2. What factors do accountants consider in accounting for performance obligations separately?
3. What are the factors considered by accountants in accounting for variable considerations?
4. What are the facts and/or considerations accountants examine when choosing the method to use in allocating the transaction price to the performance obligations in the contract?
5. What facts and circumstances are considered in determining the point in time at which control transfers?
6. How do accountants measure progress towards completion of performance obligations?
7. What are the accounting effects of the professional judgment practiced in the implementation of PFRS 15 in terms of:
   7.1. Recognition Criteria;
   7.2. Measurement Criteria;
   7.3. Presentation Criteria; and
   7.4. Disclosure Criteria?

METHODOLOGY

This study employed a qualitative research method to assess the professional judgment of accountants of registered private contractors who hold valid PCAB licenses in implementing PFRS 15. Specifically, this research utilized thematic analysis to investigate the experiences of accountants in applying their professional judgment. Content analysis was also utilized to evaluate the audited financial statements of the companies in the construction industry sector. The place of study was Cagayan Valley, Philippines, particularly the provinces of Cagayan, Isabela, Nueva Vizcaya, and Quirino. The locale of the study was specifically selected since the construction industry is one of the major industries in the region alongside agricultural production (DTI, 2022). The research informants who are accountants of construction companies with valid PCAB licenses were selected using a purposive sampling technique, specifically expert sampling. According to Boyd (2001), two to ten research subjects are sufficient to reach saturation. As of July 30, 2024, there are 37 contractors in Cagayan Valley based on the current list of the PCAB Licensed contractors available by the Department of Public Works and Highways (DPWH) Regional Office II. Given the abovementioned considerations, the study included six qualified participants as research informants, consisting of one accountant from Nueva Vizcaya and Quirino, and two from Isabela and Cagayan. Two accountants were selected from the provinces of Isabela and Cagayan because these provinces have a higher number of contractors, including a greater proportion of those in higher-ranking categories. The contractors involved were classified as follows: B category in Nueva Vizcaya, AA category in Quirino, and AAA category in Isabela and Cagayan. The availability of interviewees, as well as the classification of PCAB licensed contractors, was given due regard in determining the research informants. An interview questionnaire formulated by the researchers was utilized in assessing the accountants' professional judgment. The researchers employed a combination of thematic and content analysis to examine how accountants in the construction industry applied professional judgment in implementing PFRS 15. The contractors' audited financial statements within the years 2019 to 2023 were reviewed using content analysis to assess how the accountants interpreted PFRS 15 in actual reports. Content analysis determined the professional judgment applied based on how accounting information was reported considering the direct accounting effects on recognition, measurement, presentation, and disclosure criteria.

RESULTS AND DISCUSSION

Section 1. Professional Judgment in Determining Whether a Particular Change in the Transaction Price Constitutes Contract Modification

PFRS 15 specifies that if the addition of distinct goods or services expands the scope of the contract and the price reflects the stand-alone selling prices of those additional goods or services, adjusted for any applicable discounts or considerations, then the contract modification should be considered a separate contract (IASB, 2016). However, the accountants interviewed exhibited a range of approaches in applying these guidelines. The judgment that accountants apply in Step One of PFRS 15, on the area of contract modification, involves three factors, namely (a) nature and scope of changes, (b) impact of external factors, and (c) practical approaches.

The first factor is the nature and scope of the changes. These play a critical role in determining contract modifications. Changes in project scope require careful evaluation of existing contracts to assess their implications (Harlow, 2021). Respondent 6 emphasized the need for a comprehensive review of contract terms when the scope is altered, reinforcing the idea that significant deviations from original requirements demand corresponding contract adjustments. Additionally, the use of percentage thresholds to evaluate materiality in contract modifications is a common practice. Fifty percent of respondents (Respondents 2, 3, and 4) noted the use of specific thresholds, with Respondent 2 and Respondent 4 citing a 20% change in transaction price as a trigger for formal modifications, while Respondent 3 used a 30% threshold. A 20% change is a widely accepted benchmark for formal modifications (Smith, 2020), while changes below 10% are typically considered immaterial and managed informally. The second factor is the impact of external factors, particularly unforeseen circumstances and cost implications. Events such as natural disasters can disrupt project schedules and budgets, resulting in contract adjustments (Taylor, 2022). Thirty-three percent (33.33%) of the respondents (Respondent 2 and 6) revealed that fortuitous events, such as natural disasters, can dramatically alter project costs and timelines, necessitating adjustments to the original contract terms. This emphasizes the need for flexibility and responsiveness in accounting practices, particularly in an unpredictable economic environment. Cost implications are also necessary in determining whether or not a contract needs modification. The research data gathered revealed that fluctuations in material costs directly impact contract pricing. Meanwhile, 50% of the respondents (Respondent 2, 3, and 5) determine that significant price changes lead to necessary negotiations with clients, ensuring that the contract remains viable and aligned with actual project costs. The last factor is the existence of practical approaches to settle adjustments. One effective strategy is the use of side agreements, which allow respondents to adapt to changes while maintaining the core terms of the original contract. Respondent 4 highlighted that these agreements make transitions during project execution smoother and more manageable. Additionally, some respondents, like Respondent 1, rely on variation orders instead of formal modifications, aligning with a regulatory compliance strategy to document changes in transaction price without needing full contract renegotiation (Lee, 2022). However, the use of variation orders varies by company. Respondent 3 noted that while they use variation orders to facilitate the process, any variation order exceeding their prescribed threshold will still require a formal contract modification.

Section 2. Professional Judgment in Accounting for Performance Obligations Separately

In determining when to account for performance obligations separately, the guidelines set by the IASB (2016) in par. 22 of PFRS 15 require entities to identify whether the goods or services are distinct independently, as part of a bundle, or if they constitute a series of distinct goods or services that are substantially identical and exhibit a uniform transfer pattern to the customer. In practice, accountants align with this Standard by applying professional judgement, which encompasses three factors: (a) the nature of the contract; (b) the interrelatedness of the services; and (c) the customer perspective.

The first theme that emerged is the nature of the contracts. There are two sub-themes that were determined under this namely: bundle performance and single performance. Thirty-three percent (33.33%) of the respondents (Respondent 1 and 4) stated that, in deciding the performance obligations as a bundle performance, the activities performed within the contract were handled as one performance obligation. Respondent 1 claimed that the whole contract comprises a single performance obligation, and the performance obligations outlined in a contract are often combined. Respondent 4 said that the contract itself clearly outlines the characteristics of the work. This clear breakdown of duties or services supports the identification of whether performance obligations are accounted for separately. Respondents 1 and 4 generally consider performance obligations outlined in a contract as bundled. Whereas, 33.33% of the respondents (Respondents 2 and 3) focus on identifying and evaluating the distinct elements and individual impacts of each performance obligation within the contract. An illustration was given by Respondent 2. The construction projects are divided into two distinct phases: the design and construction phase, which represent distinct and significant activities that are crucial to the completion of the overall project. Due to their individual impact on the project's timeline, costs, and deliverables, these phases must be treated as separate performance obligations within the contract. PwC (2014) claims that revenue in most construction contracts is typically recognized at the contract level, and not separately in different performance obligations. However, the study of Van Wyk and Coetsee (2020) asserts that construction entities cannot always assume that they are providing a single combined contractual output. The determination of "distinct" goods and services requires judgment, and construction firms must examine their contracts to determine the number of performance obligations present. The second factor considered by three respondents is the interrelatedness of the services. There were two sub-themes under this namely: interrelated services and independence of performance obligations. Under the first sub-theme, 16.67% of the respondents (Respondent 5), believes that interrelated services are often treated as a single performance obligation. With regards to the independence of performance obligations, 16.67% of the respondents (Respondent 6) notes that services performed independently are accounted for separately. The accountant stated that when the entity is only commissioned to install electrical wirings and improve the plumbing, these are considered separate obligations because the non-fulfillment of one does not affect the other. The accountant clarifies, however, that such decisions are subject to management and project managers' approval. According to Ernst and Young Taiwan (2019), one of the key factors outlined in IFRS 15 par. 29 for assessing the separability of an entity's promise is the degree of interdependence or interrelation among the promised goods or services. This criterion is frequently the most challenging to assess and is expected to be a major topic of concern for the organizations and their stakeholders. The last factor considered by 33.33% of the accountants is the perspective of the customers. Respondents 3 and 5 considered whether a customer can derive independent benefit from each obligation to reflect customer value received. In construction industries like Company C, there are various activities such as planning, design, and construction that need to be undergone. These complexities necessitate Respondent 3 to consider the customer's perspective in identifying the separability of obligations. In an instance, when the company is contracted to design and build a structure, the accountant determines that while the design work is a different obligation from the actual construction, it would not be beneficial from the perspective of the customer without the latter. Thus, in such a circumstance, it calls for a single performance obligation. According to PFRS 15 in par. 27 and 28, one of the criteria in assessing whether a good or service promised to a customer is distinct is the customer benefit. Therefore, identifying distinct performance obligations should not solely focus on the inherent characteristics of the goods and services provided but also consider how customers perceive and benefit from them.

Section 3. Professional Judgment in Accounting for Variable Consideration

Variable consideration under PFRS 15 significantly impacts the transaction price by introducing uncertainty in determining total revenue, arising from factors such as discounts, rebates, performance bonuses, penalties, and other contractual terms. Step three of PFRS 15 involves estimating variable consideration using the most likely amount or expected value method and recognizing revenue only when it is highly probable that no significant reversal will occur once uncertainties are resolved (PFRS 15, par. 50–59). This process requires professional judgment to address risks like market volatility, third party decisions, weather, and obsolescence, ensuring the transaction price reflects the expected consideration while complying with the standard (PFRS 15, par. 57). In practice, accountants align with this standard by exercising professional judgment in Step Three of PFRS 15, which involves three factors: (a) contractual arrangement and clarity; (b) estimation of variable consideration; and (c) customer and market behavior.

In contractual arrangement and clarity, 33.33% of respondents (Respondents 4 and 5) highlighted the importance of clearly defined contractual terms in accounting for variable considerations. Coetsee et al. (2021) support this by emphasizing that variable considerations must be explicitly stated in contracts or deduced from standard practices to ensure enforceability. Respondent 4 stressed that these considerations should be included in the transaction price only when a significant revenue reversal is unlikely. Similarly, Respondent 5 highlighted the importance of clarity to prevent misunderstandings, particularly in variation orders. Additionally, 33.33% of respondents (Respondents 3 and 2) emphasized the timing of revenue recognition. Respondent 3 noted that for long-term contracts, revenue is recognized progressively by dividing projects into phases to manage uncertainties. Respondent 2 highlighted the role of quality control, where retention fees serve as variable considerations that affect the timing of full revenue recognition. Moreover, 16.67% of the respondents (Respondent

3) emphasized the use of historical data from similar or previous projects in accounting for variable considerations, particularly for long-term projects. This practice ensures that estimates are more reliable, as shorter time periods and scopes minimize uncertainties. Additionally, 16.67% of the respondents (Respondent 2) analyzed materiality thresholds to assess the extent of variability in the transaction price, typically classifying variability of 10% or less as normal. However, for projects with high gross profit margins, Respondent 2 extended the threshold for variability beyond 10%. This flexibility indicates that profitability, rather than the size or status of the construction company, influences decisions on accounting for variable consideration. The higher the gross profit, the lower the risk of revenue reversal, allowing for greater leniency in recognizing variable amounts. Lastly, 16.67% of the respondents (Respondent 6) emphasized the importance of assessing customer creditworthiness to determine whether variable considerations will materialize and be recognized as revenue. The study supports this view, noting that external factors such as economic conditions, customer relationships, and payment schedules influence variable considerations (Coetsee et al., 2021). Respondent 6's observation about assessing customer payment capabilities aligns with the need to consider customer and market behavior. Furthermore, 33.33% of the respondents (Respondents 5 and 3) identified external factors such as weather disturbances, material shortages, and industry trends as significant influences on the variability of construction projects. This highlights the broader impact of industry and economic conditions on revenue recognition.

Section 4. Professional Judgment in Choosing the Method in the Allocation of the Transaction Price

In determining what method to use in allocating the transaction price to the performance obligations, PFRS 15 par. 76-77 specify that it is determined by their respective stand-alone selling prices, which refers to the price at which an entity would sell a good or service separately to a customer. When a contract includes multiple goods or services, the stand-alone selling price helps determine the relative value of each performance obligation, so that the total transaction price can be appropriately allocated among them. However, in PFRS 15 par. 78, if a stand-alone selling price is not easily observable, an estimation is necessary, and the entity must take into account all reasonably available information (IASB, 2016). In this context, accountants are expected to use professional judgment to determine the most appropriate method for allocation, ensuring transparency and fairness in reflecting the value of the performance obligations.

According to the research analysis, the respondents identified two methods commonly used in practice to allocate the transaction price: (a) the residual approach and (b) the cost-plus margin method, both of which are discussed in PFRS 15 par. 79 wherein the respondents pointed out that their choice of method is influenced by the reliability of cost data and complexity of the contract, which is aligned with the guidelines of the Standards. Fifty percent (50%) of the respondents (Respondent 2, 4, and 6) mentioned that they utilize residual approach to allocate the transaction price to the performance obligations. Respondent 2 and Respondent 6 indicated that their decision on which method to use is based on the availability and reliability of cost estimates. They noted that they employ residual approach when a contract involves distinct and identifiable performance obligations, as the transaction price can be clearly determined. Respondent 4 added that when cost-plus method and adjusted market assessment approach are unsuitable due to variable and complexity of contracts, he/she uses residual approach instead. These responses from Respondent 2, Respondent 4, and Respondent 6 align with the published criteria in PFRS 15 par. 79(c) concerning the use of residual approach for estimating the stand-alone selling price. All of the respondents considered the complexity of the contracts, and they all agree on the utility of the cost-plus margin method. Respondent 1 and Respondent 6 discussed the impact of client type on pricing methods, emphasizing the use of cost-plus margin method for government contracts to account for uncertainties and enhance transparency. Many contracts in construction extend over long periods, making it challenging to determine total costs upfront. Respondent 2 and Respondent 5 provided insight into the long-term nature of construction projects, where the cost-plus margin method allows for ongoing revenue recognition based on project progress. Respondent 3 and Respondent 4 further noted the reliance on the cost-plus margin method for large construction due to their identifiable nature and the need to account for discounts and returns. They mentioned that this method helps cover overhead and ensure profitability, even when determining reasonable margins can be challenging. This is evident in Haider (2021), who explains that cost-plus contracts are used to accommodate uncertainties, particularly in government projects where costs can be difficult to estimate upfront due to the long duration and complexity of construction work.

Section 5. Professional Judgment in Determining the Point in Time at which Control Transfers

Revenue is recognized when a company meets its performance obligations by transferring a promised good or service to a customer, as outlined in PFRS 15 (IASB, 2016). This transfer occurs when the customer gains control of the asset, defined as the ability to use and benefit from it. Control can be transferred either over time or at a single point in time, depending on how the performance obligation is fulfilled. Christensen et. al (2021) assert that determining the point of control transfer is crucial because it directly impacts the timing of revenue recognition. While PFRS 15 provides indicators for determining when control transfers, RSM Global (2023) states that a careful consideration of facts, circumstances, and judgment is often required to be exercised in determining whether control over the product or service has been transferred to a customer.

However, in this study, none of the respondents exercised such judgment in assessing when control is transferred as they rely solely on the clear and explicit provisions of the Standard to guide their decision-making. This may suggest a preference for rule-based frameworks over discretionary decision-making, which may pose challenges in dealing with complex transactions where the standard's guidance might not fully address specific contract nuances. One respondent noted that in the construction industry, transfer of control is typically determined by legal title. Similarly, Ernst and Young (2019) notes that in construction, the fact that the customer has legal control over the asset during and after the construction makes the transfer of control unambiguous. Furthermore, the reliance on the explicit provisions may suggest that IFRS 15 has already provided detailed criteria, reducing the need for professional judgment on the same area of the Standard. This aligns with Van Wyk and Coetsee's (2020) study, which argued that determining when control is transferred typically doesn't require much professional judgment, as the standard offers clear guidelines.

Section 6. Professional Judgment on the Method Used in Measuring Progress Towards Completion

PFRS 15 outlines a few criteria when a performance obligation is satisfied over time but the meeting of one is sufficient for its application. However, if none of the criteria laid down by the Standard is satisfied, the same necessitates the use of a point of time in recognizing its revenue. In line with this, all of the respondents are recognizing their revenue over time which indicates that it must measure its progress toward completion in each accounting period.

In this study, 50% of respondents used the input method to measure progress, citing two main reasons. First, they argued that it reflects ongoing efforts, such as labor hours, materials, and overhead costs, which have already been allocated in the project budget, ensuring that only relevant costs are considered. For example, if 50% of the budget has been spent, the company assumes it is halfway through completing the performance obligation. This aligns with Ernst and Young (2017), which suggests the input method is beneficial for projects with steady resource usage. Second, respondents found the input method practical for long-term projects where tracking costs and resources over multiple periods provides a more accurate basis for revenue recognition. One respondent noted that actual receipts are used to track costs, ensuring the method reflects actual resource consumption. PwC (n.d.) similarly supports the input method for complex, long-duration projects like infrastructure or custom-built assets. The other 50% of respondents use the output method to measure progress, citing three main reasons. First, they believe progress is based not only on physical work but also on achieving specific milestones and the time elapsed, providing a clearer assessment of performance obligations. This is especially relevant for government contracts, which often involve projects completed in stages, with payments tied to milestones. For example, in a construction contract with major milestones, the company would recognize revenue based on the completion of each stage. Even if work is halfway done on the next milestone, revenue is only recognized when the same is complete. Deloitte (2018) supports the output method for industries like construction, where progress is typically measured by completing visible stages. The second factor for using the output method is its direct link to the benefits customers receive. 33.33% of respondents noted that customers gain incremental benefits as services are provided, especially in contracts with multiple performance obligations. For example, in the case of a construction project, completing the foundation allows customers to secure permits for further work. PwC (n.d.) states that the output method aligns revenue recognition with the completion of observable deliverables, ensuring a clear connection between the transfer of control and recognized revenue. Finally, another third of respondents use the output method because they believe evaluating progress is beyond the accountant's role. Instead, they rely on data from engineers and project managers to determine the completion stage.

Section 7. Accounting Effects of the Implementation of PFRS 15

7.1 Recognition Criteria

The implementation of PFRS 15 has introduced significant changes in the way construction companies recognize revenue. This standard requires more judgment and estimation. This analysis identifies two key areas: the estimation of variable consideration and the measurement of progress toward completion. In estimating variable consideration, the findings show that 83.33% (5 out of 6 respondents) applied professional judgment when accounting for variable elements such as retention receivables and expected credit losses (ECL). Despite this high rate of judgment application, 16.67% of the respondents (Respondent 6), one out of the five respondents who applied professional judgment, disclosed their judgment in the notes to the financial statements. This suggests that while many respondents used professional judgment to estimate these variables, they often did not provide transparency regarding their decision-making process. According to PFRS 15, companies must make such estimates and recognize revenue only when it is highly probable that the variable consideration will not result in a significant reversal, yet the lack of disclosure raises concerns about the clarity of how such judgments impact financial reporting (Coetsee et al., 2021). In measuring progress toward completion, all respondents (100%) applied judgment in choosing the appropriate method for measuring progress—either the input method or the output method. However, only 33.33% (2 out of 6 respondents) disclosed their method in the notes to the financial statements. This indicates that while the respondents used their judgment to determine the most accurate way of recognizing revenue based on progress, only a portion of them communicated this clearly in their financial disclosures. PFRS 15 requires that companies select a method that most accurately reflects the transfer of control to the customer, and the lack of disclosure in most cases points to a gap in providing stakeholders with a full understanding of how revenue recognition is determined in long-term contracts. While most respondents applied professional judgment in both estimating variable consideration and measuring progress toward completion, the level of transparency varied significantly. Only a small proportion of respondents reflected their judgments in the notes to their financial statements, pointing to a lack of comprehensive disclosure that is crucial for stakeholders to fully understand the impacts of these judgments on revenue recognition. To improve the clarity and reliability of financial reporting under PFRS 15, it is essential for companies to disclose the judgments made, as emphasized by studies on the importance of transparent financial reporting (Deloitte, 2018; Ernst & Young, 2017).

7.2 Measurement Criteria

All six respondents mentioned that one of the most affected areas by the PFRS 15 is the measurement of revenue in which variable considerations are taken into account. In addition, they all agreed that the allocation of transaction price also changed, requiring them to allocate the prices to different distinct goods and as opposed to allocating it to the fixed price of the contract. The introduction of PFRS 15 has provided guidance on measuring variable considerations, a crucial aspect of revenue recognition. Respondent 5 emphasized that judgment is necessary for aligning revenue reporting with economic conditions such as transaction complexity, historical performance, fortuitous events, and market conditions. Various measurement methods, such as probability-weighted averages or the most probable amount, can be used to more accurately represent revenue (Ernst & Young, 2020). While all respondents acknowledge the change in how variable considerations are measured under PFRS 15, only Respondent 6 clearly reflects this in their financial statements. This suggests that responses from other respondents are inconsistent with the financial statements they provided, indicating discrepancies in applying PFRS 15. In addition to variable considerations, PFRS 15 redefines the allocation of transaction prices among distinct performance obligations and requires professional judgment when estimating values for goods or services without standalone prices. Accountants can choose from three methods for these estimates: the adjusted market approach, the expected cost-plus-margin approach, or the residual approach (PFRS 15 par. 74-75, IASB, 2016). Among respondents, 66.67% (Respondents 1, 3, 4, and 5) primarily use the cost-plus-margin approach, while 16.67% (Respondent 6) uses both cost-plus-margin and residual approaches, and another 16.67% (Respondent 2) uses the residual approach in certain situations. These estimation methods impact transaction price measurement, influencing reported assets and liabilities. However, only 16.67% (Respondent 6) explicitly disclosed this in their financial statements, indicating that despite the guidelines in PFRS 15, many construction companies remain noncompliant.

7.3 Presentation Criteria

The implementation of PFRS 15 has influenced how revenue is presented in the financial statements particularly as regards contract asset or contract liability. 83.33% of the respondents (Respondents 1, 2, 3, 4, and 5) indicate that there are minimal to no accounting effects resulting from the implementation of PFRS 15 regarding presentation criteria. This corroborates the study of Garcia et al. (2023) which found that the changes introduced by IFRS 15 over the recognition and measurement of figures contained in the income statement and the balance sheet are seen as having had a low-moderate impact. Only 16.67% (Respondent 6) asserts that the presentation change introduced by the implementation of PFRS 15 pertains to the concepts of contract assets and contract liabilities. According to the accountant, determining the correct classification among receivables, contract assets, and contract liabilities will require judgment especially when a single contract contains both contract asset and contract liability. Therefore, the respondent proposes that contract assets and liabilities be presented at the performance obligation level instead of the contract level. The new revenue standard also dictates that the amount and timing of revenue recognition are contingent upon the progress made towards fulfilling each performance obligation. These influence the composition of the statement of financial position, necessitating distinct line items for contract assets and liabilities. Only Respondent 6 exercises the professional judgment outlined in PFRS 15, recognizing the importance of presenting financial statements in compliance with the standard. However, inconsistencies were observed between the respondent's statements and the actual presentation in the statement of financial position. The term "contract asset" and "contract liability" or its equivalent was not presented separately as a line item. Consequently, none of the respondents fully adhered to the guidelines set forth in PFRS 15 par. 105–109, which states the requirement to present contract assets and contract liabilities as separate line items in the Statement of Financial Position (IASB, 2016).

7.4 Disclosure Criteria

PFRS 15 has brought significant changes to disclosure practices particularly (a) revenue recognition policies; (b) disaggregation of revenue; (c) performance obligations; (d) transaction price; and (e) contract balance. The first key theme focuses on revenue recognition policies. PFRS 15 par. 124-125 requires entities to disclose significant accounting policies, specifying when and why certain methods are used for revenue recognition. 33.33% (Respondents 2 and 6) disclosed whether their revenue was presented on a gross or net basis, but only 16.67% (Respondent 6) provided further explanations regarding the classification of services as separate or single obligations, the progress measurement method, and the timing of revenue recognition. The second key theme is the disaggregation of revenue. According to PFRS 15 par. 114, entities must identify distinct goods or services in a contract and disclose details in financial statements to reflect the nature, amount, and timing of revenue (IASB, 2016). Half of the respondents (Respondents 2, 3, and 6) partially complied with this requirement. Interviews revealed they exercised professional judgment in disaggregating revenue, with Respondent 2 noting decisions on whether building design and construction services are recognized separately or as a single obligation. However, an analysis of their financial statements indicated insufficient disclosure on the basis for disaggregating revenue. The third key theme is performance obligations, as mandated by PFRS 15 par. 126, which requires entities to disclose the transaction price allocated to each performance obligation and the expected timing of revenue recognition. Only 16.67% (Respondent 6) complied with this guideline. Respondent 1 noted that despite the requirement to provide detailed information about performance obligations and related transaction prices, compliance remains lacking. The transaction price emerged as another key theme, identified as an area requiring significant judgment and full disclosure. PFRS 15 par. 120 specifies that the transaction price must be allocated to distinct performance obligations based on their standalone prices. Respondents reported using two of the three methods outlined in PFRS 15 par. 79 for this allocation, depending on cost data reliability and contract complexity. They also noted that billing based on progress extends financial statement disclosures due to additional requirements (KPMG, 2019). PFRS 15 par. 120(b) further mandates disclosing the transaction price for unsatisfied or partially satisfied performance obligations, adding to the complexity (PwC, 2016). However, most respondents omitted or provided insufficient entity-specific disclosures, with only 16.67% (Respondent 6) successfully including these in their financial statements. Finally, the key theme 'contract balances' wherein under PFRS 15 par. 116, entities must now disclose the beginning and closing balances of contract assets and liabilities, and receivables, along with any significant changes in these balances due to impairments and adjustments. Only 16.67% (Respondent 6) complied with this requirement, providing a breakdown of these balances for two consecutive periods and specifying whether the contract assets pertain to third parties or joint venture entities.

Overall, according to the respondents, there is a significant increase in the amount of disclosures when implementing PFRS 15. This corresponds with the study of Quagli, Roncagliolo, and D'Alauro (2021) where they found that the adoption of IFRS 15 necessitated more extensive disclosures. This response from the respondents is also in line with Ernst & Young (2018) which stated that entities may need to change aspects of their financial statement presentation and significantly expand the volume of their disclosures.

CONCLUSION AND RECOMMENDATIONS

Conclusion

1. When determining whether a particular change in transaction price constitutes a contract modification in Step 1, accounting practitioners undertake an evaluation of several key aspects. They closely examine the nature and scope of the changes to assess whether they represent a substantive alteration to the terms of the original agreement.

Practitioners also consider external factors and practical approaches that may necessitate changes and adjustments to the contract terms.

2. As regard to identifying performance obligations in Step 2 of IFRS 15, the findings in this study highlight the multifaceted nature of accountants' judgments. This involves the nature of the contract, requiring an in-depth understanding of its terms of specific promises made to the customer. Accountants also consider the interrelatedness of services, as some goods or services may be highly dependent on or integrated with others, and the customer's perspective in determining whether goods or services are capable of being used on their own or together with readily available resources.
3. The exercise of professional judgment by accountants in accounting for variable considerations under Step 3 persists due to the varying perspectives and methods. Specifically, the need to analyze defined contractual terms, engage in the careful estimation of variable considerations, and understand customer market and behavior are being taken into account as to avoid possible significant reversals in
4. The study reveals that both the residual approach and the cost-plus margin approach are commonly employed by accountants in allocating transaction price as stated under Step 4. The choice of approach stems from the availability and reliability of cost data and specific characteristics of the contract, as reasonable cost information is critical for justifying the allocation of the transaction price to performance obligations. By tailoring the method to these factors, accountants ensure that the transaction price is allocated in a way that faithfully represents the economic realities of the contract.
5. Under Step 5, particularly in the determination of when control is transferred, the accounting practitioners engaged in the construction industry generally agree that exercising professional judgment is no longer needed. This is largely due to IFRS 15 provisions being adequate in addressing the complexities involved in construction contracts, reducing ambiguity in their decision-making as to the application of the Standard across the industry.
6. When it comes to the determination of methods in measuring the progress towards completion under Step 5 of IFRS 15, the findings reveal that both of the output and input methods are being utilized. These judgments as to choosing the input method stem from the reflection of a company's on-going effort and effects of long-term complexities. Meanwhile, the output method is used by construction entities which rely on the achieved milestones and time-elapse, consideration of benefits provided to customers, and the role of expertise.
7. The effects of professional judgment in the implementation of IFRS 15 in the recognition criteria entailed deferment or adjustment in revenue due their accounting for variable consideration and measurement of progress on performance obligations. Meanwhile, judgment done with regard to variable considerations and allocation of transaction price results in a more reasonable assignment of amounts, ultimately affecting the measurement criteria. As to the presentation, judgment on the distinguishment between receivables, contract assets, and liabilities have moderately impacted financial statements. With PFRS 15 expanded considerably with qualitative and quantitative disclosures, the professional judgment of the practitioners on the revenue recognition policies, disaggregation of revenue, performance obligation, transaction price, and contract balances increased the disclosures in the financial statements. Nonetheless, most of the construction companies are not compliant with the required disclosures laid down by IFRS 15.

Recommendations

For Accountants and Construction Company Owners. In addition to regular reviews of updates in accounting standards, accountants, in collaboration with construction company owners, should also be regularly informed about new rulings regarding standards and other factors that affect the reporting of revenue. Moreover, they should conduct regular seminars and workshops for accountants and construction company owners, focused on changes in accounting standards and their implications for revenue reporting, to ensure they remain well-versed in the latest standards and rulings.

For Concerned Government Agencies, Officials, and Regulatory Body. Government agencies and their officials, especially the SEC, should provide a compliance checklist that outlines the latest standards and rulings, helping accountants and company owners ensure adherence in the reporting practices. In addition, they should develop a dedicated centralized communication channel for sharing concerns and/or updates on accounting standards and relevant regulations, facilitating timely dissemination of information and immediate response from the concerned agencies and its officials. Moreover, they should organize regular workshops and seminars focused on changes in accounting and their implications for revenue reporting in the construction industry.

For the School of Accountancy and Business. They should incorporate the findings in this study into case analyses that require students to evaluate situations, particularly the areas involving the application of professional judgment in the implementation of PFRS 15. They may also utilize the findings to create real-world examples that reflect the practical application of PFRS 15 principles in the classroom and the corresponding role of professional judgment in applying the Standard.

For Future Researchers. They may conduct further research studies focused on the professional judgment exercised in the implementation of PFRS 15 across other industries significantly impacted by the standard. They may also conduct a more comprehensive analysis of the topic by exploring alternative methodologies to investigate the various effects of implementing PFRS 15, including real effects, information effects, and capital effects. In addition, they may explore the influence of government regulations and guidelines on the adoption and adherence to accounting standards in the construction industry. Furthermore, they may study the evolution of the same accounting standard, implementation over time and its long-term effects on financial reporting and business performance.

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