IFRS 15 EARLY ADOPTION AND ACCOUNTING INFORMATION: CASE OF REAL ESTATE COMPANIES IN DUBAI

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ABSTRACT

The International Accounting Standards Board (IASB) has published in 2014 a new standard, IFRS 15 "Revenue from Contracts with Customers". It replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" in order to provide a single comprehensive model of accounting for revenue. Entities are required to adopt IFRS 15 for periods beginning on or after January 2018 with early adoption allowed. The objective of this paper is to analyze the impact of the early adoption of IFRS 15 by Real Estate Companies (REC) on accounting information disclosed. The study is covering REC listed in Dubai Financial Market (DFM) using IFRS 15 to prepare their consolidated financial statements in 2015. The application of the five-step model for revenue recognition is expected to result in a material effect on accounting numbers. Results indicate that early adoption of IFRS 15 by REC has a significant positive affect on earnings and stockholders' equity for all firms analyzed in the paper. The standard has a double favorable effect: revenue is recognized over time in almost all contracts with customers and contract costs are more likely capitalized rather than expensed. Moreover, results show that all the early adopters have selected the modified retrospective approach in order to disclose related information. This research indicates that the application of IFRS 15 by REC in Dubai has resulted in an increase in the measurement of financial indicators: earnings and stockholders' equity.

Keywords: IFRS 15, Revenue Recognition, Comparability, Disclosures, Earnings Quality, Real Estate Companies.

INTRODUCTION

In May 2014, the International Accounting Standards Board (IASB) issued the International Financial Reporting Standard 15 "Revenue from Contracts with Customers" hereafter, IFRS 15 providing firms with a five-step model that will apply to revenue earned from a contract with a customer. It was the result of a convergence project with Financial Accounting Standards Board (FASB) that started in 2002. IFRS 15 supersedes IAS 18 "Revenue" and IAS 11 "Construction Contracts" in order to introduce a new model for revenue recognition that is based on the transfer of control. It applies to revenue earned regardless of the type of revenue transaction or the industry (with limited exceptions). Although the effective date for the new standard is the beginning of a firm's first fiscal year beginning after January 1, 2018, the new standard allows early adoption for periods beginning prior to the effective date without any conditions.

Revenue recognition under IFRS 15 is performed in a manner that measures the amount representing the consideration to which the company got or is expecting to get in counterparty of goods and services transferred to customers. Thus, it is expected that the application of the new standard will affect significantly all entities in all industries. The objective of this paper is to analyze the effect of IFRS 15 early adopted by Real Estate Companies (REC) on the quality of accounting numbers: earnings and stockholders' equity. The paper is covering REC listed in Dubai Financial Market (DFM) that elected to use IFRS 15 in preparing their consolidated financial statements for the fiscal year 2015. The application of the five steps to determine when and how revenue should be recognized is expected to result in a material effect on earnings quality for REC. In fact the timing of revenue and profit recognition and the capitalization or expensing contract costs may be significantly affected and therefore lead to a material change in the measurement of revenue and profit.

This is explained by the following main differences between IFRS 15 and the current accounting practices: IAS18 and IAS11. Indeed revenue recognition under IFRS15does not depend on each category of revenue: sales, services, interest, royalties or dividends. It is based on a uniform method applicable to all type of revenue. Compared to current practices, IFRS15 revised the accounting criteria "over time". Its objective is to provide more relevant and reliable information to capital providers. Particularly, in construction contracts, unlike IAS11, revenue recognition over time by reference to the degree of completion is no more automatic. It depends on the transfer of control. The off-plan contracts for real estate developers in Dubai is common practice. It permits firms to recognize revenue progressively. An extensive use of judgement is expected. Moreover, it is expected that applying IFRS15 leads to a significant impact because of the new treatment of pre-contract costs. IAS 11 allows a broader range of costs to be capitalized. Under IFRS15, only incremental costs of obtaining a contract could be capitalized.

Positive accounting theory makes a number of predictions regarding the behavior of managers. The flexibility allowed in accounting to prepare financial statements can lead to an opportunistic behavior by managers (Holthausen, 1990; Morris, 1987). This would imply that managers might adjust the timing of adoption to maximize their interests. Given that the effective date for the adoption of IFRS 15 is January 2018, the analysis of accounting practices for REC listed in DFM regarding revenue recognition shows that there are firms that chose to adopt before the mandatory period; early adopters. Studies of IFRS adoption have demonstrated an increase in accounting quality (Ball et al., 2003; Gassen & Sellhorn. 2006). This increase is more visible when applying IFRS is mandatory (Houque et al., 2012 & Brochet et al., 2013). Financial reporting with high quality has demonstrated a reduction in information asymmetries for investors (Ashbaugh & Pincus, 2001; Tarca, 2004; Beneish & Yohn, 2008). The objective of the IASB is to prepare high quality accounting standards. Reducing information asymmetries amongst external users of financial statements, primarily investors, is one of the major consequences of high quality (Haller et al., 2009; Ball. 2006). Moreover, research demonstrated that high quality accounting standards allows the reduction in information asymmetry among countries (Healy & Palepu, 2001; Barth et al., 2008; Turki et al., 2017). Nevertheless, the way in which IFRS are implemented by entities should be considered when they are evaluated (Kvaal & Nobes, 2010). In general, countries which has opted for a standard by standard implementation method demonstrate an improvement in the relevance of accounting information (Ouezzani1 & Alami, 2014). Furthermore, techniques and models used by researchers in analyzing the effect of IFRS adoption on accounting quality would influence the findings. There is no evidence for improvement when a sophisticated model is used (Koch et al., 2014).

The remainder of this study is organized as follows. The next section discusses IFRS 15 and its impact on real estate industry. The following section describes the data collection and sample. The following section presents analyses of results. The last section concludes the study.

IFRS 15 AND REAL ESTATE INDUSTRY

In May 2014 the IASB and FASB have issued jointly a converged standard on the recognition of revenue from contracts with customers: IFRS 15 which replaces all existing IFRS and US GAAP revenue requirements. The objective of the new standard is to improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. Initially the application of the new standard was required for annual periods beginning on or after January 1, 2017. The IASB issued an amendment to IFRS 15 deferring the effective date by one year to 2018. The publication of the amendment, *Effective Date of IFRS 15*, follows from the IASB's decision in July 2015 to postpone the effective date by one year, having considered the feedback to its consultation. Companies applying IFRS continue to have the option to apply the standard early.

IFRS 15 develops a five-step model applicable to revenue earned from a contract with customer. In main cases, it does not consider the industry or the nature of transaction generating revenue. Compared to current accounting standards related to revenue, the new standard provides guidelines for issues not covered previously. It indicates the accounting treatment for the incremental costs of obtaining a contract with a customer and the costs incurred to fulfill a contract with a customer. IFRS 15 is presenting a five-step model that replaces the concept of the "transfer of risks and rewards" by the "transfer of control". The five-step model can be exposed as follows:

Step 1: Identify the Contract(S) With a Customer

The contract should be compulsory and have commercial substance regardless its form: written, verbal or implied. The five-step model is applicable to contracts with customers if it is "probable" that the company will collect the consideration to which it is entitled. In order to assess the collection probability, the entity would take into account only the customer's ability and intention to pay the consideration when due. IFRS 15 gives detailed guidelines for contract modifications. A modification may be considered as a separate contract or an amendment to the original contract. It depends on situations. Moreover, the standard allows entities to combine two or more contracts that are entered into with the same customer and same time.

Step 2: Identify the Separate Performance Obligations in the Contract

In the second step, the entity should identify the promised goods and services in the contract. The assessment leads to identify which of the promised goods and services will be considered and so accounted for as a separate performance obligation. In order to perform this step it is essential to assess whether a good or service, or a bundle, is distinct. Several activities can be identified in real estate but not necessary considered as separate performance obligation. For example, in a construction contract, the constructor is responsible for the overall management of the project, procurement of materials, site preparation and foundation pouring, framing and plastering, mechanical and electrical work, installation of fixtures, etc. Revenue recognition will be different if each distinct good or service will be considered as a separate performance obligation.

Step 3: Determine the Transaction Price

The transaction price represents "*The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties."* To determine the transaction price entities should take into account an estimate of any variable consideration, the fair value of any non-cash consideration as well as the effect of any consideration payable to the customer. In addition, the time value of money impact should be reflected in determining the transaction price if there is a significant financing component in the contract.

Step 4: Allocate the transaction price to the separate performance obligations

In order to allocate the transaction price to the performance obligation, entities refer to their stand-alone selling price. The observable price in the market of goods or services sold separately provides the best measurement of each price. This information is available in real estate industry for main services and goods provided. A residual approach could be used by entities in order to allocate the transaction price to separate performance obligations only if the stand–alone selling price is highly variable or unpredictable.

Step 5: Recognize revenue When (or as) the Entity Satisfies a Performance Obligation

The transfer of control of promised goods or services from an entity to a customer is the indicator of satisfying performance obligation and therefore revenue recognition. This is representing a different approach from the "risks and rewards" model as applied by IAS 18. In fact, one of the major differences between IAS18 and IFRS 15 is the interpretation of the existence of continuing managerial involvement. It means that control of goods and services has not passed from the seller to the buyer but it does not prevent to recognize revenue under IFRS 15.

Revenue recognition would take place at a point in time or over time. It follows the performance obligations satisfied and the transfer of control of promised goods and services. For REC a performance obligation is transferred over time if, for example, the construction contracts contain clauses indicating that the customer owns any work-in-progress as the contracted item is being built. In some countries, laws allow the purchaser to pledge unfinished apartments, sell, or exchange the unfinished apartment. This is considered as potential benefits that can be obtained by an asset as mentioned in IFRS 15 that permits to recognize revenue over time. Furthermore, off-plan contracts in real estate provide the entity an enforceable right to payment for performance completed to date. This represents another situation where revenue is recognized over time.

For some companies, the impact of the new rules for revenue recognition as explained above will be minimal and they will simply continue recognizing revenue just as before. However, some companies might face difficult challenges in order to apply the new rules. The biggest challenges will be mainly in the areas that are not very precisely arranged by IAS 18 and other related interpretations. This paper is analyzing the impact of IFRS 15 on the real estate industry. It assumes that the application of the new rules related to revenue recognition will affect significantly REC. In fact it might modify the timing of revenue and profit recognition that would result in material changes in the profile of revenue and in cost recognition. This is not only representing a financial reporting issue for REC. stakeholders should consider the impacts related to the adoption of IFRS15 on the measurement of some key performance indicators, the availability of profit for distribution, and for compensation and bonus plan.

As explained earlier IFRS 15 allows the "over time recognition" in certain situations that could be met in the majority of real estate contracts in Dubai. In fact, the off-plan property sale is a common practice in UAE. It implies that the customer enters in a legal agreement to buy a property before starting the development or the initial phase of development. The off-plan property market has almost disappeared after the global financial crisis of 2008-2009. The market has recovered since 2013. The Dubai master developer Emaar initiated it. Currently all major developers are launching projects.

In case of an "over time recognition" the REC will need to determine how to measure the progress in performing the obligation toward customers. IFRS 15 is offering more detailed guidance regarding the identification of different goods and services within a contract. REC have multi-elements contracts and accordingly may need to amend their current accounting practices in order to be consistent with the guidance of IFRS 15, in particular, the new rules on how to allocate global revenue between different items. This may lead to a material effect on the profile of revenue recognized. For example, REC should determine if the services performed as a part of the design phase are recognized separately or they are not distinct from the construction contract.

Moreover, IFRS 15 introduces specific criteria for determining whether certain costs should be expensed or capitalized. It distinguishes between costs associated with obtaining a contract and those related to fulfilling a contract. In real estate industry significant costs incurred are directly attributable to obtaining contracts with customers. The accounting treatment will depend on the type of costs incurred. For example design costs will be most probably capitalized. However costs of obtaining contracts prior to the contract being awarded will be expensed. For example legal costs will be expensed as they are incurred regardless abstaining contracts. Capitalized construction costs should be amortized on a systematic basis that is consistent with the pattern of transfer of the goods and services.

SAMPLE AND DESCRIPTIVE STATISTICS

This paper analyses the effect of early adoption of IFRS 15 by REC in Dubai. The study covers all REC listed in DFM. Table 1 presents financial data and descriptive statistics for each firm included in the study. The main indicators show the importance of Emaar and Damac in real estate industry in UAE. According to total assets, they are representing 73% of total listed companies. Moreover, based on 2015 revenue, Emaar and Damac market share is respectively 38% and 24%. The above should be taken into consideration in analyzing results. That is those companies are the main early adopters of IFRS 15. Research demonstrated that early adopters of new accounting standards were large firms (Sami & Welsh, 1992). Furthermore the company size is positively associated with the quality of financial information disclosed by firms using IFRS (Agyei-Mensah, 2013).

RESULTS PRESENTATION AND ANALYSIS

All REC listed in DFM disclosed in their notes to the consolidated financial statements for the year ended December 31, 2015 information related to IFRS 15. They can be classified in two categories: the non-adopters and the early adopters. In general REC that do not adopt IFRS 15, have indicated that they are assessing the impact of the new standard and planning to adopt it on the required effective date (Arabtec Holding) or that no significant impact is expected from the application (Al Mazaya Holding Company). IFRS adoption by some entities is done only when it is mandatory (Gujarathi & Hoskin, 2003; Tyrrall et al., 2007; Hove, 1989). Analysis reveals that only three REC early adopt IFRS 15: Deyaar, Emaar Properties and Damac (hereafter the early adopters). According to descriptive statistics presented earlier in table 1, those firms are the largest one in the market with a total market share of 62%. The transition approach used by all the early adopters was the modified retrospective application. Effects on the consolidated income statement for the year 2015 and on the beginning balance of retained earnings were communicated in the notes to the financial statements.

Table 1
KEY FINANCIAL INDICATORS FOR REC LISTED IN DFM (AED 000)

		Emaar	Damac	Arabtec Holding	Deyaar	DSI	Al Mazaya	UP	Emaar Malls
Revenue	2014	9 930 000	3 740 034	8 293 000	1 045 337	4 762 264	201 730	2 068 067	2 694 020
	2015	13 661 000	8 536 067	7 256 000	257 102	4 197 620	724 101	1 465 076	2 992 692
	Change (%)	37.57	128	(12.50)	(75.40)	(11.86)	258.95	(20.16)	11.09
Gross profit (loss)	2014	5 941 000	2 229 307	919 000	236 724	411 609	75 868	NA	NA
	2015	7 263 000	5 067 061	(1 376 000)	141 419	(446 491)	195 400	NA	NA
	Change (%)	22.25	127	(249.73)	(40.26)	(208.47)	157.55	NA	NA
Margin (%)	2014	59.83	59.60	11,08	22.65	8.64	37.61	NA	NA
	2015	53.17	59.36	(18.96)	55.00	(10.64)	26.99	NA	NA
	Change (%)	(0.11)	0	(2.71)	142.83	(223.15)	(28.24)	NA	NA
Net profit (loss)	2014	3 293 000	3 483 284	215 000	281 850	100 708	106 055	864 994	1 350 594
	2015	4 082 000	4 514 830	(2347 000)	291 354	(826 623)	114 609	434 609	1 656 301
	Change (%)	23.96	29.61	(1,192)	3.37	(920.8)	8.07	(49.76)	22.64
Margin (%)	2014	33.16	93.13	2.59	26.96	2.11	52.57	41.83	50.13
	2015	29.88	52.89	(32.34)	113.32	(19.69)	15.83	29.66	55.34
	Change (%)	(0.10)	(43.20)	(1,149)	320.32	(1,033)	(69.89)	(29.09)	10.39
EPS (AED/share)	2014	0.48	0.62	0.05	0.0488	0.044	1.58	0.24	0.25
	2015	0.57	0.75	(0.51)	0.504	(0.36)	1.82	0.12	0.13
	Change (%)	18.75	20.96	(1,120)	932.79	(918)	15.19	(50.00)	(48.00)
Cash flow from (used)	2014	7 830 252	1 062 890	(1 145 916)	(593 785)	(692 320)	(38 734)	(165 679)	2 058 355
Operating Activities	2015	5 613 000	2 409 915	(925 681)	161 638	(364 357)	104 310	(71 800)	2 665 572
	Change (%)	(28.32)	126	(19.22)	(127.22)	(47.37)	(369.30)	(56.66)	29.50
Equity	2014	35 631 000	5 268 410	5 961 744	4 373 064	3 075 986	1 304 380	4 998 480	13 800 677
	2015	41 921 000	9 830 913	3 199 724	4 662 553	2 130 079	1 349 155	5 332 033	15 443 664
	Change (%)	17.65	86.60	(46.33)	6.62	(30.75)	3.43	6.67	11.90
Assets	2014	74 179 000	18 826 196	14 344 799	6 098 919	8 556 729	3 170 162	8 499 144	22 557 824
	2015	79 557 000	23 447 497	12 931 647	6 206 778	8 077 676	3 038 860	8 292 018	24 560 917
	Change (%)	7.25	24.55	(9.85)	1.77	(5.60)	(4.14)	(2.44)	8.88

The Transition Approach

IFRS 15 requires retrospective application. It allows either “full retrospective” adoption or a “modified retrospective” adoption. In NBFISof all its contracts with customers that are presented in the financial statements. Entities that elect the modified retrospective approach will apply the new standard retrospectively to only the most current period presented in the financial statements. Accordingly, the company should recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application.

In this paper all REC that early adopt IFRS 15 elect to use the modified retrospective approach. In fact, the new standard had been applied to all contracts that are not yet completed at January 1, 2015. That is, contracts that are not completed before January 2015 have been evaluated as the company had always applied IFRS 15 to these arrangements. Thus the following practices were noted in the financial statements of the early adopters in the year 2015:

1. Comparative periods' statements were presented in accordance with prior revenue standards (IAS 18 and IAS 11).
2. IFRS 15 was applied to new and existing contracts from January 1, 2015 onwards.
3. The cumulative adjustment to the beginning balance of retained earnings related to existing contracts that still require performance by the company in 2015 was recognized.

The adoption of the modified retrospective approach by all early adopters in this study could be explained by the fact that the full retrospective approach is more demanding from a recordkeeping perspective and therefore is more costly. In fact, all accounting figures related to the previous year (2014) should be restated. However, from the perspective of relevance for investors and financial analysts, the full retrospective approach would result in greater comparability, which is considered as an enhancing qualitative characteristic of financial information. An entity may consider comparability as most important but determine that the full retrospective method cannot be applied in time at an acceptable cost (KPMG, 2016). Managers select adoption timing and reporting method in order to communicate to the users their private information about a new standard's effect (Sengupta, 2004). The choice between those approaches should be done by considering the cost constraint as presented in the conceptual framework. The costs of providing financial information should be higher than the benefits that can be obtained from using it. For REC the costs of providing information using the full retrospective approach are of different categories. They may include costs of collecting and processing information related to all contracts with customers, of auditing, of disclosure to competitors. Benefits to capital providers could be receiving high quality information for better allocation of their resources (Jong, 2006). Financial quantification of the costs and especially benefits is not always evident. It represents the difficulty in applying the cost constraint. It appears that the early adopters estimated that costs of applying the full retrospective approach exceed expected benefits. Indeed, they elected to use the modified approach.

IFRS 15 Application: Effect on Earnings and Stockholders' Equity

As presented earlier, it is expected that the adoption of IFRS 15 will effect significantly the measurement of key performance indicators for REC. Table 2 shows the effect of the adoption of IFRS 15 on revenue, costs, and net profit for the fiscal year 2015. Results include only Deyaar Development and Emaar Properties because this data was not communicated in the notes to the financial statements of Damac. An entity may prefer not to communicate information if it is uncertain about investor response to disclosure (Suijs, 2007; Lang & Lundholm, 1993; Lang & Lundholm, 2000).

In general, results indicate a significant increase in gross profit, and net profit. Applying the standard seems to signal that the entity is disclosing high-quality accounting information which is important and crucial to the development of listed firms (Zeghal & Mhedhbi, 2006; Larson & Kenny, 1995). The application of IFRS 15 has led to an increase in the net profit reported in the year 2015 by 58.44% and 12.67% respectively for Emaar and Deyaar. This overall increase could be explained by revenue increase and/or costs decrease. That is, IFRS 15 allows the "over time recognition" of revenue in certain situations. In real estate industry, there are mainly two situations applicable to over-time revenue recognition: when the seller is creating a work in progress asset which is controlled by the customer or when the seller is creating a work in progress asset which could not be directed to a different customer and in respect of which the customer has an obligation to pay for the firm's work to date. All the above situations are met in the majority of real estate contracts in Dubai. In fact, the off plan sale is a common practice in Dubai. Companies recognize revenue over a time because they have usually an enforceable right to payment for performance completed to date. As a result, due to applying IFRS15, Emaar's revenue increased by 33.7%.

Regarding the allocation of transaction price to performance obligation in contracts with customers, all REC that early adopt IFRS 15 have elected to apply the input method. This method requires revenue recognition on the basis of the firm's efforts to the satisfaction of the performance obligation. The firm estimates the total costs to complete the projects in order to determine the amount of revenue to be recognized. Costs include the cost of providing infrastructure, potential claims by contractors, and the cost of meeting other contractual obligations to the customers. This accounting practice is allowing a better matching between revenue and cost of revenue recognized. Consequently, it leads to improve earnings 'quality: relevance and faithful representation.

Table 2
IFRS 15 ADOPTION: EARNINGS EFFECT

Consolidated income statement for the year ended December 31, 2015:								
	Emaar Properties				Deyaar Development			
	As per old policy	As per IFRS 15	Impact due to change	Impact due to change	As per old policy	As per IFRS 15	Impact due to change	Impact due to change
	AED'000	AED'000	AED'000	%	AED'000	AED'000	AED'000	%
Revenue	10215999	13660536	3444537	33.72	290138	257102	(33 036)	(11.39)
Cost of revenue	(421618)	(639712)	(2181494)	51.74	177261	124485	(52776)	(29.77)
Gross profit	5 999 881	7262924	1 263 043	21.05	112877	132617	19740	17.49
Margin (%)	58.73	53.17	(5.56)	(9.47)	38.90	51.58	12.68	32.60
Net profit for the year	2 576 471	4082165	1505694	58.44	258582	291354	32772	12.67
Earnings per share (Fils)	36	57	21	80.76	4.48	5.04	0.56	12.50

On the other hand, an increase in the gross profit and therefore in the net income, would be explained by a decrease in costs as measured by the new guidance of IFRS 15. For that reason, the earnings increase by 17% for Deyaar is explained by a reduction in costs by almost 30%. The company exposed in its notes to the consolidated financial statements the change in accounting for sales commission. The company previously recognized sales commission related to sale of properties as selling expenses when these were incurred. Under IFRS 15, the company capitalizes those commission fees as costs of obtaining a contract when they are incremental and amortizes them consistently with the pattern of revenue for the related contract.

As all REC have elected to use the modified retrospective approach in order to perform the transition to IFRS 15, the new standard has been applied to the year ended December 31, 2015 only. Moreover this approach requires the recognition of the cumulative impact of adoption to all contracts not yet complete as at January 1, 2015 in the form of an adjustment to the opening balance of retained earnings as at January 1, 2015. Table 3 shows the details of adjustments to opening retained earnings for the three REC that early adopt IFRS 15.

Table 3
IFRS 15 ADOPTION: EQUITY AFFECT

	Emaar AED'000	Damac AED'000	Deyaar* AED'000
Balance at December 31, 2014	9 445 391	4 072 517	(1 632 836)
Effect of the change in accounting policy	2 337 907	597 673	(917)
Balance at January 1, 2015	11 783 298	4 670 190	(1 624 753)
Impact due to change (%)	24.75	14.68	0.05
* Accumulated losses			

The above results consolidate the findings related to earnings effect. In fact, for two REC a significant increase in the adjusted opening balance of retained earnings can be noted. The highest was for Emaar with an adjustment repressing 24.75% of the ending balance. This could be explained by an important number of contracts with customers that were in process in 2015.

The combined analysis of the above findings reveals that the results in this paper are in consistence with the positive accounting theory (Watts & Zimmerman. 1986). A voluntary adoption of any accounting method is reflecting an opportunistic behavior by managers. For all REC that have elected to early adopt IFRS 15, the impact on earnings and equity measurement resulted in a positive adjustment.

CONCLUSION AND DISCUSSION

The objective of this paper is to analyze the effect of the early application of IFRS 15 by REC on accounting information quality: Earnings and equity. The study is covering REC listed in Dubai Financial Market that have elected to use IFRS 15 to prepare their consolidated financial statements for the fiscal year 2015. The IASB has published on May 2014 a new standard, IFRS 15 "Revenue from Contracts with Customers". It was the result of a convergence project with Financial Accounting Standards Board that started in 2002. IFRS 15 replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" in order to provide a single comprehensive model of accounting for revenue arising from contracts with customers. Revenue recognition and measurement in accordance with IFRS 15 is based on applying a five-step model. In most cases the model is applicable to entities regardless their industry. Entities are required to adopt IFRS 15 for reporting periods beginning on or after January 2018 with early adoption allowed. It is expected that the application of this standard will affect significantly the majority of entities. IFRS 15 replaces the old condition of "transfer of risks and rewards" by "transfer of control" in order to recognize revenue. The application of this condition would result in a material effect on earnings quality for REC. In fact, it is modifying the timing of revenue and profit recognition and the accounting for contract costs in many cases.

Results indicate that early adoption of IFRS 15 by REC has a significant positive affect on earnings and stockholders 'equity for all firms analyzed in the paper. The new standard has a double favorable effect: revenue could be recognized over time and not at a point of time in almost all contracts with customers and contract costs are more likely capitalized rather than expensed. The adoption timing of accounting standards by managers is one of the application of positive accounting theory. Early adoption of a new accounting standard may serve as a credible method of disclosing favorable information (Amir & Ziv, 1997; Titman & Trueman, 1986). Previous research demonstrates results consistent with the debt and compensation and political costs hypotheses. Indeed, adoption timing can be justified by reporting an increase in earnings (Langer & Lev, 1993; Ali & Kumar, 1994). In this paper results confirm the previous findings. The nature of contracts in real estate industry in Dubai allowed managers to take advantage by applying precociously the standard and disclose higher results. The majority of real estate developers are selling properties under off-plan contracts. This kind of contracts engenders reciprocal legal obligations between the buyer and the seller. That is, for example, the property developer is creating a work in process asset, which cannot be directed to a different customer. Such situation implies to recognize revenue on an over-time basis under IFRS 15. Accordingly, the measurement of revenue and costs for REC is more reflecting the process of generating income. Compared to old accounting rules, it leads to remove inconsistencies and weaknesses in previous revenue requirements. The application of IFRS 15 helps in providing accounting information that is in harmony with qualitative characteristics of the Conceptual Framework. In fact, it improves comparability of revenue recognition practices across entities, industries and capital markets.

All the early adopters used the modified retrospective approach when applying IFRS 15 for the first time in 2015. This mode of adoption and presentation result in disclosing to users financial information with lower comparability. The importance of costs related to the full retrospective approach compared with expected benefits from its application explain managers' choice. However, the disclosure level of financial information by early adopters was different between them. The association between the cost of equity capital and the annual report disclosure level might explain this finding (Botosan & Plmlee. 2002; Francis et al., 2005; Daske et al., 2013). Consistent with previous research, results confirm that accounting policies followed by managers provide support for earnings appreciation (Graham et al., 2005).

Future studies are needed in order to analyze the impact of using IFRS 15 by all real estate entities in 2018. Such studies will help in better understanding the effect of applying the five-step model on recognizing revenue. A size effect might be analyzed as in this paper the early adopters represent the leaders in real estate industry in Dubai. Moreover, it is expected that other industries will be affected by adopting IFRS 15. As such, future studies may be performed for other industries like telecommunication or media.

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