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The International Accounting Standards Board First Floor 30 Cannon Street London, EC4M 6XH

Dear Sirs

Revenue recognition in contracts with customers

As a Chartered Accountant, who has spent much of his working career in Practice, I wish to make my views known to you on the above discussion paper.

My clients were mainly small local limited companies, sole trader and partnerships, firms that would be described as SME's.

I have a special interest in service providers, as I have dealt with a significant number of Barrister clients. As a Trustee of TaxAid, a UK based charity specialising in tax help to low paid individuals, I would wish the position of those who do not have professional advisers to be considered in setting any standard.

Revenue recognition

I fully support the general concepts of the Discussion Paper, and hope that you are able to progress to a full standard with minimum changes as speedily as possible.

The paper tries to cover the concepts with a broad brush approach, which inevitably leaves certain areas open to interpretation and will need much more detail before a final view can be expressed upon a practical standard.

I have assumed that the paper does not cover 'not-for-profit' situations where contract may not be basis on which funds are made available. It is likely that separate rules will be needed for certain specialized financial areas such as financial instruments, insurance and leases.

Questions

I will attempt to give answers to the questions posed, certain areas go beyond my personal experience and therefore responses will be limited.. Some of the terms used are not easily 'translated' to the common parlance of the UK accountant.

The eventual standard must be presented in terms that are understandable and capable of being applied by business of all sizes and proprietors of all types and educational background.

- Q1. I agree that there should be a single principle for revenue recognition. I further agree that a business should recognize revenue when it satisfies a performance obligation in a contract.
- O2 No
- Q3 The definition of a contract would not normally cause difficulty in the UK.
- Q4 There will need to be much greater detail in the final paper, but the principles appear correct.
- Q5 The concept is good, but would be difficult to draft in a paper so as to prevent differing interpretations in practice. It might be difficult to word so as to prevent similar contracts achieving different revenue recognition treatment because of the terminology used within the contract. A contract should only be separated if there is a clear definitive supply of more than one easily identifiable good or service.
- Q6 A normal return is a separate performance obligation.
- Q7 Yes, this would be a separate performance obligation
- O8 Yes
- Q9 For SME's this would follow commercial understanding of when revenue should be recognized.
- Q10 I agree that measurement should be at the transaction price.
- When a contract is deemed to be onerous I would have apportioned revenue over the parts performed and to be performed by reference to costs incurred and to be incurred.
- Q11 I would agree with the treatment of costs of obtaining a contract as expenses when incurred. I would disagree with spreading or treating as an asset.
- Q12 If a contract is only unbundled were it is absolutely clear that there are separate supplies then the allocation of cost to performance obligations should be practical to achieve.
- Q13 The answer above also applies to this question.

Thoughts on further details for the proposed standard

In the case of a supply of goods it will normally be easy to define as 'when it transfers a promised asset to the customer', that is, when the customer has control of the asset. I am aware that control may not always be physical control, but would be dependent on the detail point of transfer as set out in the contract of sale.

The definition for the supply of services is more difficult to define with such clarity as to prevent differing interpretations. In the case of services, I agree that the transfer of the asset would be when the customer takes control of the service provided. It may be that the customer decides not to use the service acquired (such as advice) but will still have control when the service (advice) is made available to them.

In the case of multiple or continuous supplies I agree that revenue should be recognized every time a discrete supply is made. This would include each request for advice being a separate 'performance obligation' and an appropriate amount of revenue should be recognised when the service provider supplies that advice. If no definable supply has been made under a continuous contract then it would be necessary to provide for a deemed supply to have been made at intervals, which should be defined in the standard. If a contract provides for a retainer and no services are actually provided within the retention period then again revenue should be recognized at the end of the contract period or, at the intervals specified by the standard, if shorter.

Where the duration of a contract extends over a period of more than 12 months without a performance obligation having been satisfied, revenue should be recognised on every anniversary of the commencement of the contract until such an obligation is satisfied.

I support the focus on the contract between the service provider and the client, I note the statement that a service provider satisfies a performance obligation when the customer has received the promised service.

When the paper is finally prepared there will have to be a way of using the standard in all economic circumstances. For example It would have to be able to cover situations that occur at the UK Bar such as 'no win no fee' conditional contracts where it would appear that the correct point to recognise revenue is when the condition is satisfied. Another common situation is a 'pay at end' contract where a barrister does not receive any remuneration until the case is finally closed. This may be many years from commencement and the fee is typically not agreed until completion. In my view a limited amount of revenue should be recognised at yearly intervals, but in valuing the revenue there must be recognition of the likelihood of the fee being reduced from the normal level and a discount for the possible time until payment might be expected.

The approach of the paper provides for certainty and means that until the customer has received the benefit of a service there can be no performance of the entity's contractual obligations. This approach would appear to accord with the position under English contract law, where the provider has no right to any consideration until he has performed

his obligation in its entirety. Most contracts entered into by the majority of small and micro businesses will fall into this category..

There has been much discussion in the UK about the principles introduced by UITF 40 and its interaction with SSAP9. I would support clear and unambiguous rules in an International Standard that prevents any further disagreement and introduces a Standard that is recognised by business of all sizes as fair and workable.

I would support a standard that makes it clear that it is not possible for revenue to be deemed to accrue over the life of the contract. In other words, at any point in time, revenue either should be recognised or it should not. This is an absolute concept; either a performance obligation has been satisfied or it has not. There can be no concept of partial satisfaction of that obligation. Until the point at which revenue is to be recognised the work part completed should be valued as 'Work in Progress' without the addition of the profit element.

The concepts, as set out above, will be understandable by small business proprietors and can therefore be complied with without any misunderstanding. It will be seen as fair and sensible. The proprietor will recognise income from a contract when he has earned it, i.e. when he has done what he has undertaken to do and when he is entitled to invoice for the goods or for his fees and seek to recover them.

Summary of my views

- I agree with the proposed standard i.e. that revenue should be recognised at the point at which the asset is transferred to the customer.
- Contracts for the provision of services require special consideration and I agree that the point at which the service is transferred to the customer is when that service is received by him, that is, when the service has been supplied to the customer and he has received the benefit of that service.

Should the Board wish to discuss these issues further, I would be happy to be contacted or to attend a meeting to further discuss the issues raised.

Yours faithfully

P S Gravestock FCA, CTA(Fellow), ATT