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**IASB** 



The Institute of Certified

Public Accountants in Ireland

17 Harcourt St, Dublin 2, Ireland

 Phone
 01 425 1000

 Fax
 01 425 1001

 Email
 cpa@cpaireland.ie

 Web
 www.cpaireland.ie

Chief Executive: Eamonn Siggins

To whom it may concern,

The Institute of Certified Public Accountants in Ireland welcomes the opportunity to comment on:

# 'Preliminary Views on Revenue Recognition in Contracts with Customers'

In response to specific questions asked, we would like to make the following comments:

### **Question 1**

Do you agree with the boards' proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

Yes it would be preferable to have a single revenue recognition principle...

But the discussion document itself - para 2.10 gives the example on recognizing revenue in accordance with other standards such Agriculture IAS where "because obtaining a contract may be trivial if buyers are readily available in active markets"

Surely then a ready market for the goods is a better indication of revenue than one based on a contract customer. If for example the customer goes bankrupt but there is a ready market for that type of good/service does this mean that revenue cannot be recognized, under any circumstance, because there is no immediately identified contract customer?

In general there is no universal agreement about what an asset or liability is. Until there is then how can it be possible to speak of contracts with net asset or net liability? For example the document itself refers the present practice of presenting "Deferred income" under Liabilities

### **Question 2**

Are there any types of contracts for which the boards' proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

At what point will premiums received be earned by insurance companies from each contract customer? For example there is the probability that a claim greater than the premium earned may be paid out.

In fact do insurers not pool their contracted customers and apply general probability statistics in estimating various outcomes. This might suggest that the distinction of customer contract is secondary to the economic report on the group as a whole.

### **Question 3**

Do you agree with the boards' definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

The problem with this approach is that it appears to give preference to a quasi legal approach, in which accounting for a transaction may depend on an interpretation of the legal implications of a contract, requiring legal expertise, rather then determining whether economic consequences have resulted from those transactions

#### **Question 4**

Do you think the boards' proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

Again reference is made to two slightly different definitions of asset. Which one is intended to be the asset in the definition of an obligation?

## **Question 5**

Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

Yes, we agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer. The reason is this would enable the entity to determine when it has satisfied the performance obligations it has entered into with the customer.

#### **Ouestion 6**

Do you think that an entity's obligation to accept a returned good and refund the customer's consideration is a performance obligation? Why or why not?

Yes, we think that an entity's obligation to accept a returned good and refund the customer's consideration is a performance obligation provided it can be determined that the customer

would pay additional consideration for that right. If a customer would pay additional No. 121 consideration for the right to return the goods well then the logical consequence of this on the entity offering to accept a returned good and refund the customer's consideration is that the entity is clearly undertaking a performance obligation without any resultant revenue.

# **Question 7**

Do you think that sales incentives (eg discounts on future sales, customer loyalty points and 'free' goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

Yes, we think that sales incentives give rise to performance obligations if they are provided in a contract with a customer. The fact that the sales incentives are embodied in a contract with a customer clearly imposes contractual obligations on the entity and in our opinion this results in the performance obligations.

### **Question 8**

Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.

We suggest that when an entity transfers the benefits and risks of an asset to a customer it has satisfied its' performance obligation.

### **Question 9**

The boards propose that an entity should recognise revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

Not aware of any contracts that would not provide decision useful information using revenue recognition based on performance obligation

### **Question 10**

In the boards' proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.

(a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?

Agree because it better aligns with satisfaction of performance obligation.

(b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?

Agree. This method of re-measurement recognizes potential contract losses as the contract progresses

(c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable?

Please provide examples.

No

(d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.

No comment

# **Question 11**

The boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (eg selling costs) are included in the initial measurement of the performance obligations. The boards propose that an entity should recognise those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.

(a) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?

Yes we agree that the amounts an entity charges to a customer to recover the cost of obtaining a contract would be included in the initial measurement of an entity's performance obligations only as long as the expenditure is separately identifiable and can be directly attributed to the performance obligations or contract.

For example, specific legal or specialist consultancy fees or other promotional expenditure that has been incurred solely for that specific contract should be included in the initial measurement or selling price. However, the entity's overall marketing and promotion expenditure would not be directly attributable to any one specific contract and an attempt should not be made to assign a portion of this or similar expenditure to a specific performance obligation. Additionally this would be unnecessarily complex.

(b) In what cases would recognising contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.

In the above examples, the entity's "general" marketing and promotional expenditure would be recognised as they are incurred and not capitalised or deferred as they do not relate to a specific performance obligation.

The recognition of contract origination costs as expenses would not be useful in the case of very long term contracts. An example would be the case of oil or mineral exploration. From the commencement of geologic tests, feasibility tests of the mine/well etc could be incurred over a number of years. If successful and the entity commenced extraction on behalf of a customer then these costs should be deferred and included in the original contract price to the

customer (subject to any provisions of IFRS 6 "Exploration for and Evaluation" of Milleral Assets).

#### **Ouestion 12**

Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

The example on page 66/67 appears to be a very simplistic example of the calculation of the Stand Alone Selling Price. However, it is in reality probably the most realistic and practical way of allocation of a transaction price. Also, it is probably the easiest way of updating the value of the entity's performance obligations over the life of the contract.

However, when the value of the transaction price relative to the contract price or overall selling price is not material then the transaction price should be written off in year one of a long term contract.

# **Ouestion 13**

Do you agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?

Given that the purpose of estimating is solely for the allocation of the transaction price, we would agree with the use of estimates. The reason we agree is that is the amount of the transaction price is significant relative to the contract price. In these types of cases, it will be necessary to use well supported estimating techniques to allocate the transaction price. However, the use of estimates should be constrained in cases where the transaction price is immaterial and in those cases the transaction price should be charged in full at the contract inception.

The Institute of Certified Public Accountants in Ireland hopes that these comments are beneficial to you and we would be happy to discuss any of the above with you.

Yours sincerely,

Declan Nestor Chairperson, Financial Reporting Sub - Committee