Comments- Revenue from Contracts with Customers

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1. Comments on the questions for respondents noted in IN27-IN28., on which we do not agree fully or partially.

Question 1:
Dependency of amount for the consideration for goods or services in one contract

(Comment)
We agree on the drafted policy that an entity shall combine two or more contracts and account for them as a single contract if the amount for the consideration for goods or services in one contract is dependent on that in another contract.
However, indicator (b) shown in para.13 shall be changed to the following;

"(b)the contract explicitly stipulates that an amount for the consideration is dependent on the amount stipulated in another contract, or the contracts with customers are all explicitly presented and negotiated as a package with a single commercial objective"

(Rationale)
-We need to refer to such a case that the contract itself stipulates the dependencies of the consideration amount on another contract, where we combine those contracts to recognize revenue.

-Exposure draft(ED) reads that we need to consider combining the sales contracts with the purchase contracts.
However, this Para means that we need to combine contracts both with the sale of goods or rendition of services in certain conditions.
Thus, we need to change the phrases as mentioned above.

Question 5:

Reflection of the customer's credit risk to the transaction price

(Comment)

We do not fully agree on Reflection of the customer's credit risk to the transaction price stated in para.43.

We need to add the following at the beginning of Para 43.

"In many contracts, the effect of the customer's credit risk on the transaction price is immaterial. In these cases, an entity measures the amount at the original invoice amount. If credit risk gets to be material, such material credit risk shall be recognized thereafter irrespective of the original revenue recognition.

However, if there is a reasonable possibility that the customer might not pay the consideration for reasons other than non-performance of the entity at the initial revenue recognition,. ..."

(Rationale)

Para. B78 in the Application Guidance (Appendix B) stipulates in many contracts, the effect of the customer's credit risk on the transaction price is immaterial; an entity measures the amount at the original invoice amount.

However, the paragraph43 reads that the effect of customer's credit risk shall be reflected to the transaction price irrespective of the materiality of customer's credit risk.

Thus, we need to change Para 43 as noted above, to clarify the intention of para.43.

Question 11:

Disclose of the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts

(Comment)

We do not agree on the proposal that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.

Instead, we propose that an entity should disclose the non-cancelable amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.

(Rationale)
As the amount of remaining performance obligations and the expected timing of their satisfaction can be easily changed, information is not reliable or useless to predict company's future operational result.
We think that more stable information should be disclosed such as non-cancelable amount of remaining performance.

Question13:
Retrospective application of this accounting standard

(Comment)
We do not agree on the retrospective application of this accounting standard.
Instead, we propose that, at the first adoption of this accounting standards, an entity should disclose the amounts accounted for in compliance with the former accounting method as well as the amounts accounted for based on this accounting standard.

(Rationale)
Retrospective application of this standard is not cost-effective and not feasible as the revenue transactions from contracts with customers are too huge.

Question 16
Accounting treatment when a license is not considered to be a sale of intellectual property.

(Comment)
We do not agree on the proposed accounting treatment when a license is not considered to be a sale of intellectual property.
We propose the principle that the revenue recognition of a license contract should be based on the time passage irrespective whether a license contract is exclusive or non-exclusive.
We also propose the alternative treatment that an entity recognizes revenue when a customer begins to use license based on the contract, only when the individual revenue recognition is too time-consuming and non-cost-effective due to the huge volume of non-exclusive contracts with customers.

(Rationale)
It seems unreasonable to divide the recognition method based on whether the license contract is exclusive or non-exclusive.
Such natures of license contracts are irrespective whether the revenue should be recognized based on time passage or not.

2. Comment on Paragraph 10

(Comment)
We propose to change an expression of first sentence as follows;

"This [draft] IFRS applies to a contract which meets the followings;"

(Rationale)
The contract physically exists irrespective of the requirements stipulated in paragraph10. The expression of paragraph 10 is too spiritualistic.

3. Comment on Paragraph 11

(Comment)
We propose to adjust the first sentence as follows;

"<u>This [draft] IFRS applies to a contract,</u> if either party can terminate a wholly unperformed contract without penalty."

(Rationale)
The contract physically exists irrespective of the requirements stipulated in paragraph10. The expression of paragraph 11 is too spiritualistic.

4. Comment on Paragraph 37

(Comment)

We propose to adjust the first sentence as follows;

If an entity receives consideration from a customer and expects to refund some or all of that consideration to the customer (i.e., the customer has a conditional obligation to pay), the entity shall recognize a refund liability.

(Rationale)
We think it better to add the explanation that the customer still has the control on a goods or services, considering the control concept explained paragraph 30,

5. Comment on Paragraph37 and B11 in Application Guidance

(Comment)
We propose to add the following sentences to B11 in Application Guidance.
"A refund liability explained in paragraph 37 is recognized at the initial recognition of revenue. However, a refund liability can be recognized at the first-coming end of the reporting period instead of at the initial recognition of revenue, as the length of time from the initial recognition of revenue to the first-coming end of the reporting period is usually less than a year. "

(Rationale)
Considering that an entity processes the huge volume of the transactions with huge customers, it is not practicable to recognize refund liabilities at initial recognition of each revenue transaction.
It is reasonable to recognize refund liabilities collectively at the first-coming end of reporting period.

6.Comment on Paragraph 51

(Comment)
We propose to change the second sentence as follows;
"A contractually stated price or a list price for each obligation with goods or services shall not be presumed to represent the stand-alone selling price of that good or service. When we use such contractually stated price or a list price, we need to corroborate them observable as a stand-alone price."

(Rationale)
- Paragraph 51 refers to the allocation of the transaction price to separate performance obligation.
Thus, we need to clarify that, even if the price is determined for each obligation in the contract or price list, we cannot presume to represent the stand-alone selling price of that good or service.
- We also need to clarify that, even if the contractually stated price or listed price cannot be presumed as the stand-alone selling price, we can use it, if we corroborate the price is observable as stand-alone price.

7.Comment on Paragraph66

(Comment)
We propose to add the following sentences to the paragraph66 or to the newly added paragraph.

" We may recognize the unconditional right for consideration stated in the contract with customer at the receipt of consideration, when an entity deals a huge volume of revenue transactions with customers continuously and the length of time from the conclusion of contract to the receipt of the consideration is expected to be short."

(Rationale)

The accounting treatment as stated in the example 29 in the Para. B91 in the Application Guidance is theoretical.
However, such an accounting treatment seems not cost-effective, considering the followings;

- An entity deals a huge volume of revenue transactions with customers continuously and the length of time from the conclusion of contract to the receipt of the consideration is expected to be short.
- It is time-consuming to look into every contract and determine whether the unconditional right for consideration is stated.

8. Comment on Application Guide B22 and B23

(Comment)
We propose to adjust the sentences in first sentence of both B21 and B22 to the following;

“B21. If the contract states that an entity obtains control of the goods or services of another party before it transfers those goods or services to the customers, the entity's performance obligation is to provide the goods or services itself.”

“B22. We need to determine in the contract whether the entity's performance obligation is to arrange for the provision of goods or services by another party (i.e. that the entity is an agent and shall recognize revenue net).
At the determination, indicators include the following:”

(Rationale)
We need to examine the contracts with customers to determine whether an entity is stated as a principal or an agent.
To clarify this matter, we propose to adjust the expression of B21 and B22.