

CONSTRUCTION ASSOCIATION OF KOREA

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IFRS Foundation/ International Accounting Standards Board 30 Cannon Street London EC4M 6XH United Kingdom

Comments on Exposure Draft "Revenue from Contracts with Customers"

Dear International Accounting Standards Board,

The Construction Association of Korea (hereinafter "CAK") welcomes the opportunity to comment on the Exposure Draft "Revenue from Contracts with Customers". We are pleased to submit our comments as we believe that it has the potential to have a positive impact on the global construction industry.

CAK is a statutory organization incorporated by the <Framework Act of the Construction Industry of the Republic of Korea> and currently represents about 11,500 Korean general contractors. The main objective of CAK is to improve systems, policies and technologies relevant to the construction industry. As such, our comments on this 2nd ED are mainly related to the construction industry.

For details, please refer to Appendix 1 for our answers to Question 1 through 5 as well as our additional comments pertaining to the practices of the construction industry.

We sincerely believe that IFRS will successfully establish itself as a global accounting standard based on these constructive efforts.

Yours sincerely,

Sam-Kyu Choi

President

Construction Association of Korea (CAK)

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APPENDIX 1

Question 1:

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognises revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

<u>CAK</u> agrees with the new proposal for recognising control of a good or service over time and the following recognition of revenue over time.

Question 2:

Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectable because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

CAK agrees that presenting the collectability of promised consideration (customer's credit risk) will enhance the accuracy of financial information.

However, CAK believes that the account for amounts of promised consideration that the entity assesses to be uncollectable because of a customer's credit risk should be presented as a separate cost item rather than a separate line item adjacent to the revenue line item due to the following problems that may arise otherwise.

Firstly, it is difficult to measure and categorize customer's credit risk in practice.

Unlike financial institutions, most entities do not have a credit risk analysis system in place so it is realistically impossible to obtain an accurate measurement of customer's credit risk.

And this requirement will increase the risk and burden of entities because reporting credit risk is directly linked to an entity's profits, for example, by affecting its revenue.



Secondly credit risk reporting can cause confusion in practice because it is unclear how risk should be reported. The absence of a credit risk reporting standard or example can result in entities developing individual reporting methods which can hinder comparison among entities.

Finally, reporting credit risk adjacent to the revenue line item can confuse information users by providing inaccurate information which is inconsistent with the underlying economic substance.

In principal, the amount of promised consideration that is expected to be realized as a particular performance obligation is satisfied should be recognised as revenue. However, if credit risk is presented adjacent to the revenue line (as a profit or loss), it is impossible for information users to determine whether the item is a constituent of revenue or cost.

Moreover, if an information user determines that credit risk is a revenue item, then this goes against the Exposure Draft's revenue recognition principle. In addition, credit risk should be presented as a separate cost item because if an entity's calculated credit risk is larger than its revenue, there is the possibility of an entity recording a loss even though it was actually in the black.

Question 5:

The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports.* The disclosures that would be required (if material) are:

- The disaggregation of revenue (paragraphs 114 and 115)
- A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
- An analysis of the entity's remaining performance obligations (paragraphs 119–121)
- Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)
- A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfil a contract with a customer(paragraph 128)

Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures



do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

Interim financial report presentation requirements will be comprehensively dealt with in IAS 45 later on. As such, CAK believes that this section should be deleted from the ED on "Revenue from Contracts with Customers."

Also although revenue is an important barometer of an entity's performance, extensive disclosure requirements for the interim financial reports can add to an entity's work burden. Not only do entities have to build the capacity to estimate uncertain revenue and cash flows, they must also be responsible for the risk associated with the accuracy of those estimates.

CAK believes that disclosure requirements should be minimized by eliminating disclosure requirements that do not assist information users to analyze an entity's future risk.

Additional comments on "Contract costs":

Costs to fulfil a contract

If the costs incurred in fulfilling a contract with a customer are in the scope of another IFRS (for example, IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*), an entity shall account for those costs in accordance with those other IFRSs. Otherwise, an entity shall recognise an asset from the costs to fulfil a contract only if those costs meet all of the following criteria:

- (a) the costs relate directly to a contract (or a specific anticipated contract);
- (b) the costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future; and
- (c) the costs are expected to be recovered.

The contribution of a particular contract to revenue is not explicitly presented if the indirect cost incurred in fulfilling that contract with a customer is recognised as a different account.

Not recognising indirect costs incurred in fulfilling a contract as contract costs goes against the principle of matching costs with revenue.

Based on the reasons above, CAK believes that indirect costs that can be reasonably estimated should be recognised as contract costs.