To: commentletters@ifrs.org

Subject: **Exposure Draft, ED/2011/6 A revision of ED/2010/6 Revenue from Contracts with Customers**

I am pleased to submit my comments on the above Exposure Draft (ED).

Although **I agree with all of the questions specified in ED**, I have some concerns over other areas of ED.

1. Application to month-to-month contract

It is not clear how an entity should apply a month-to-month contract to the proposed model. Thus, I suggest the boards clarify how to identify the *contract* (as defined in ED) and separate performance obligation under such contract.

A simple example can make this clear.

- Consider a month-to-month contract of 24 months duration. An entity is an Internet service provider and provides access to the Internet to its customer with fixed consideration per month.
- Consideration paid to the entity from its customer is CU 1,200. However, for first three months, customers receive a discount of CU 400 i.e. consideration paid for first three month is CU 800.
- Customer can terminate the contract with one month notice at any point during the contract period. However, an entity does not have right to terminate the contract during the contract period.

In this case, there are 3 ways to account for the contract under the proposed model.

Method 1-account for the contract as a single *contract* (as defined in ED) with a single separate performance obligation

One might think that the contract is a single 24 month *contract* (as defined in ED) and hence should be accounted for as such. Also, under this method an entity identifies a single separate performance obligation in the *contract*. An entity would recognise revenue in accordance with paragraphs 38-48. However, paragraphs 81-84 would not apply because there is no "consideration allocated to satisfied performance obligations" if there is only a single performance obligation in the contract.

Accounting result would be as follows:

Month	M1	M2	M3	M4	......	M23	M24	total
Consideration paid (CU)	800	800	800	1,200		1,200	1,200	27,600
Revenue	1,150	1,150	1,150	1,150		1,150	1,150	27,600

recognised (CU)								

An entity would also disclose the information required under paragraph 119.

Method 2-account for the contract as a single *contract* (as defined in ED) with 24 separate performance obligations

One might think that the contract is a single 24 month *contract* (as defined in ED) and hence should be accounted for as such. Also, under this method an entity identifies 24 separate performance obligations in the *contract*. An entity would allocate the transaction price of CU 27,600 to each separate performance obligation based on its stand-alone selling price.

Accounting result would be as follows (assume that an entity is reasonably assured to be entitled to the amount of total consideration):

Month	M1	M2	M3	M4	......	M23	M24	total
Consideration paid (CU)	800	800	800	1,200		1,200	1,200	27,600
Revenue recognised (CU)	1,150	1,150	1,150	1,150		1,150	1,150	27,600

An entity would also disclose the information required under paragraph 119.

Accounting result would be the same with Method 3 if entity judged that it is not reasonably assured to be entitled to the amount of consideration allocated to satisfied performance obligations (still an entity would have to disclose the information).

Method 3-account for the contract as a 24 *contracts* (as defined in ED)

One might think that the contract is 24 ***contracts* (as defined in ED)** and hence should be accounted for as such. Under this method an entity identifies a separate performance obligations in each *contract*. A contract modification occurs each month i.e. the scope (length) of contract is renewed each month. An entity would not allocate the total transaction price of CU 27,600 to each contract.

Accounting result would be as follows:

Month	M1	M2	M3	M4	......	M23	M24	total
Consideration paid (CU)	800	800	800	1,200		1,200	1,200	27,600
Revenue recognised (CU)	800	800	800	1,200		1,200	1,200	27,600

An entity would not disclose the information required under paragraph 119.

Variation

A situation would be more complex when there is no explicit contract period stated in the contract. Should an entity estimate the contract period to apply the proposed model, and if so how?

2. Present value of the probability-weighted cost for onerous performance obligation test

Paragraph 55 of the former ED required an entity to use present value of the probability-weighted cost for onerous performance obligation test. However, the present value notion is not stated explicitly in the paragraph 87 of ED.

Stating the boards' intention in the basis for conclusion in the final standard would be helpful.

3. Borrowing costs

While IAS 11 states that "Costs that may be attributable to contract activity in general and can be allocated to specific contracts also include borrowing costs," ED says nothing about the borrowing costs.

Either incorporating the relevant guidance in the final standard or stating the boards' intention in the basis for conclusion would be helpful.

Yours faithfully,
/s/ Sukune Takeuchi