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International Accounting Standards Board 1st Floor 30 Cannon Street London EC4M 6XH

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Dear Sirs,

Exposure Draft ED/2011/6 Revenue from Contracts with Customers

The Auditor General for Wales welcomes the opportunity to comment on the IASB Exposure Draft on Revenue from Contracts with Customers. This response has been prepared on behalf of the Auditor General by the Wales Audit Office.

Background

The IASB's standards have been developed to apply to 'general purpose financial statements and other financial reporting of all profit-oriented entities' (Preface to International Financial Reporting Standards). Accounting practices in the United Kingdom for all principal public sector bodies are based on those standards (as amended for the specific needs of the public sector). All relevant IFRSs will, therefore, have a direct impact on public sector accounting practices in Wales.

In preparing this response on behalf of the Auditor General, we have considered the potential implications of the Exposure Draft for the not for profit public sector entities that fall within his remit, namely:

- Welsh Government (WG);
- Welsh Government Sponsored Bodies (WGSBs);
- Local Government bodies in Wales;
- Local Health bodies in Wales; and
- certain not for profit companies in Wales

Summary view

We welcome the introduction of a standard which consolidates current standards on revenue recognition and which attempts to cover the considerable variety and complexity of transactions undertaken in the commercial world. We particularly welcome the pragmatic approach taken in paragraph 55 that allows entities to estimate the transaction price as either the expected value based on probability or the most likely amount.

Our responses to the six specific questions posed by the consultation paper are appended to this letter.

I hope that you find these comments useful. If you have any queries regarding our response, please contact lolo Llewelyn of our Technical Group at e-mail: iolo.llewelyn@wao.gov.uk or telephone: 02920 320674.

Yours sincerely,

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MIKE USHER Group Director - Technical

Question	Response
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?	We agree with this proposal.
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 uncollectible 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?	We agree with the principle behind paragraphs 68 and 69, in that revenue should initially be recognised at the amount that entities expect to be entitled to, with any associated impairment shown separately to give a net revenue figure. We however consider that the wording in paragraph 69 could be amended to clarify that: • entities should show the transaction price as the revenue to which they are entitled; with • any impairment arising from credit risk being shown separately. We consider that users will benefit from this information. However, to avoid clutter on the face of the profit and loss account, it may be appropriate to include only the net revenue figure on the face of the primary statement, with the split between entitlement and impairment shown in the notes to the accounts.

Question

3. Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations.

Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

4. For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognise a liability and a corresponding expense if the performance obligation is onerous.

Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

Response

We agree with the principle of a constraint on revenue, but we would prefer the term 'probable entitlement' rather than 'reasonably assured to be entitled', with 'probable' being taken to mean being 'more likely than not'.

This is on the basis that 'probable':

- is a concept that is already widely used and understood in financial reporting; and
- is a more specific and clearly defined term than 'reasonably assured to be entitled'.

We consider that the criteria in paragraph 81 and the indicators in paragraph 82 would remain valid if the term 'probable' is used.

Replacing 'reasonably assured to be entitled' by 'probable entitlement' would therefore preserve the objectives of the IASB in drafting the proposed standard, while helpfully clarifying its requirements.

We agree with this proposal.

Question Response

- 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 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 fulfill 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

As interim financial reports tend not to be used in the public sector, we have no comment to make in response to this question.

Question	Response
and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.	
6. For the transfer of a non-financial asset that is not an output of an entity's ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply	We agree with this proposal, but would note our comments in response to Question 3 about the use of the term 'reasonably assured'.
(a) the proposed requirements on control to determine when to derecognise the asset, and	
(b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition of the asset.*	
Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?	