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

Comments on the Discussion Paper “Preliminary Views on
Revenue Recognition in Contracts with Customers”

Dear Sirs/ Madams :

Many thanks for the opportunity to comment on Discussion Paper “Preliminary Views on Revenue Recognition in Contracts with Customers(DP).”

General — Revenue in the absence of a contract

As to accounting for inventory in the absence of a contract, DP states “In present practice, revenue is sometimes recognised from an increase in the value of inventory even though a contract with a customer does not exist. . . . However, in the boards-proposed model, an entity recognises revenue only if it has a contract with a customer. Therefore, the boards need to consider whether those entities should be preclude from presenting increase in the value of inventory as revenue . . . (paragraph 6.15, 6.16)” Equally, revenue is recognised from an increase in the fair value of financial instruments even though a contract with a customer does not exist. Therefore, not only accounting for inventory in the absence of a contract but also accounting for financial instruments should be considered.

Comments on individual questions

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 ?

Comment

1. I agree with the boards' proposal generally except for the following two problems.

- ① Proposed principle is inappropriate for recognition of revenues which arise from contracts to provide rights, because these revenues, such as interest, royalties and rent, arise independently of time when a performance obligation is satisfied.
- ② Proposed principle does not cover revenue in the absence of contracts.

Therefore, additional principle would be necessary.

2. Proposal of additional principle

- (1) Revenue arising from contracts to provide rights

An entity should recognise revenue when it obtains unconditional right to receive the fruit.

- (2) Revenue in the absence of contracts

An entity should recognise revenue when enhancements of assets become irreversible.

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 ?

Comment

I do not think so because of the following problem.

Proposed definition eliminates right from an asset transferred to customer.

As a result, proposed principle is inappropriate for recognition of revenues which arise from contracts to provide rights.

The boards once reached decision that the definition of performance obligations should include obligations to provide not only goods and services but also other rights, such as rights to use.

It would be necessary to consider this decision.

Yours faithfully,

Takeshi Imamura