1660-100 Comment Letter No. 185

24 June 2009

Sir David Tweedie

International Accounting Standards Board

30 Cannon Street

London EC 4M 6XH

UNITED KINGDOM

Dear Sir David

Re: Discussion paper on revenue recognition

The Polish Accounting Standards Committee presents its opinion and some remarks on ideas of Discussion paper on revenue recognition.

We would like to stress that it is difficult to submit comments on this important discussion paper on revenue recognition due to the fact that the conceptual framework is currently undergoing a significant revision and we do not know what the final outcome of the basic conceptions will be. Moreover it is also difficult to comment on the revenue issue separately from many other interrelated IAS and IFRS that are currently being substantially modified.

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? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

The ASC agrees with the principle proposed by the IASB, which is to apply one single

revenue recognition principle based on changes in an entity's contract asset or contract liability. This solution might be supported by the fact that the revenue definition (set out in the IFRS as well as in the US GAAP) is based on the definitions of assets and liabilities. Both the

revenue definition and the definitions of assets and liabilities are of an universal character. Therefore the recognition principles of each of these categories should be independent from the nature of the business activity of the entity. Moreover the proposed principle ensures the cohesiveness of the information presented in the balance sheet and profit and loss account, that are set out in the contracts with customers.

Question 2

Are there any types of contracts for which the boards' proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

The boards' proposed definition of the contract has a broad scope, which results in it having an universal character. Under such an approach to the contract definition and to the proposed revenue recognition principle based on changes in an entity's contract asset or contract liability - that have an universal character – the specific character of a given contract should not influence the differentiated usefulness of the information obtained for decision making purposes.

The principle proposed by the boards might not allow for obtaining decision-useful information in case of financial instruments (IAS 39), insurance contracts (IFRS 4) and leasing contracts (IAS 17).

Question 3

Do you agree with the board's definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

The definition of a contract given by the boards is logical, short and understandable. In boards' view it is in conformity with the definition of a contract in IAS 32 Financial instruments: Presentation. However, both definitions have different wording and we think that there should be only one universal definition of a contract in the IFRS. Nevertheless taking into account the substance over form principle we think that there will be no significant difficulties in applying this definition.

Question 4

Do you think the boards' proposed definitions of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

We agree that the boards' proposed definition of a performance would help entities to identify consistently the deliverables in or components of a contract. Due to the differentiated length of the realization of contracts and a different complexity of their subject, it seems advisable to consider the possibility of splitting the performance obligation set out in the contract into partial performance which means the satisfaction of basic components of the contract distinguished based on defined by the timing of the satisfaction and/or performance subject.

Question 5

Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

We agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer. Due to the different length of the realization of contracts (especially long-term service contracts), and the necessity of systematic measurement of entity's revenue (like other economic figures presented in financial statements), we doubt that the satisfaction of a performance obligation means the promise in a contract with a customer to transform an asset (good or service) **in one single transfer** to this customer. The fulfillment of the obligation might be done partially (in phases) and it could be confirmed by the customer's acceptance.

Question 6

Do you think that an entity's obligation to accept a returned good and refund the customer's consideration is a performance obligation? Why or why not?

In our view an entity's obligation to accept a returned good and refund the customer's consideration is a performance of a separate obligation. That approach could be supported by the fact that an obligation to accept a returned good and refund the customer's consideration

does not result from every contract with a customer. In many cases the customer pays an additional amount for the right to return the good and to receive back its consideration. In some cases the contract excludes such a possibility for the customer and the obligation for the entity.

Question 7

Do you thinnk that sales incentives (eg discounts on future sales, customer loyalty points and 'free' goods and services) give rise to performance obligations if they are provided in a contrach with a customer? Why or why not?

The sales incentives do not seem to increase the performance obligation resulting from a contract with a customer. The customer as a party to the contract takes over a good or service, that is subject of the contract, and does not necessarily make use of the sales incentives. The sales incentives are in their substance marketing activities of the entity that are cost requiring and should not influence the amount of entity's revenue.

Question 8

Do you agree that an entity transfers an assets to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest alternative for determining when a promised good or service is transferred.

We agree that an entity transfers an asset to a customer and thereby satisfies the performance obligation when the customer controls the promised good or when the customer receives the promised service. However, we think that it is necessary to allow for partial transfer of an asset (in case of long-term contracts).

Question 9

The boards propose that an entity should recognize revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

An entity should recognize revenue only when a performance obligation is satisfied. The satisfaction of the performance obligation is known in most cases when the contract is completed, i.e. it is in the period following after the one (ones) in which the contract was

being performed in its core elements. In such a case the possibility of partial satisfaction of the performance obligation should be introduced based on the reaction of the customer (expressed for example by the acceptance of invoices, and in case of the pre-payment – by no submission of reservations). Under such an approach the revenue recognition is based on the changes in contract assets or contract liabilities and simultaneously it is the measure of entity's activity in the reporting period aiming at the satisfaction of the contract.

Question 10

In the board's proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.

a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?

Performance obligations should be measured initially at the original transaction price. The transaction price – agreed with the customer – is the only reliable measurement of performance obligation at the contract inception.

b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?

We agree that a performance obligation that is deemed onerous should be remeasured to the entity's expected cost of satisfying the performance obligation, if that cost exceeds the carrying amount of the performance obligation. The reason for that approach is the prudence principle.

c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.

The proposed approach might not be appropriate for performance obligations resulting from some contracts included by the boards in this document i.e. financial instruments (IAS 39), insurance contracts (IFRS 4) and leasing contracts (IAS 17). Obligations arising from those

type of contracts have a much higher level of uncertainty than obligations resulting from contracts on good or non-financial services.

d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.

It seems that the proposed approach to the measurement of performance obligations in a revenue recognition standard - apart from the exclusions in point 3 - has an universal character.

Question 11

The boards propose that an entity should allocate the transaction price at contract inception to the performance obligation. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (eg selling costs) are included in the initial measurement of the performance obligations. The boards propose that an entity should recognize those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.

a) Do you agree that any amounts an entity charge a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligation? Why or why not?

Any amounts that an entity charge a customer to recover the cost of obtaining the contract should be included in the initial measurement of an entity's performance obligation, unless they are qualified for recognition as an asset according to other standards. Such an approach seems to ensure appropriate revenue recognition on a given contract.

b) In what cases would recognizing contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial performance? Please provide examples and explain why.

Recognizing contract origination costs as expenses of the reporting period does not provide decision-useful information about an entity's financial situation and performance in case when those costs are significant and the contract is concluded for a period longer than one reporting period. The approach proposed in this discussion paper might lead – in the initial

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phase of the contract - to the deterioration of entity's financial situation and performance and

in the subsequent periods – to the overstating of entity's financial performance.

Question 12

Do you agree that the transaction price should be allocated to the performance

obligations on the basis of the entity's stand-alone selling prices of the goods or services

underlying those performance obligations? Why or why not? If not, on what basis would

you allocate the transaction price?

We agree with the IASB proposal because we do not see any better alternative.

Question 13

Do you agree that if an entity does not sell a good or services separately, it should

estimate the stand-alone selling price of that good or service for purposes of allocating

the transaction price? Why or why not? When, if ever, should the use of estimates be

constrained?

We agree with the IASB proposal. This model seems to be the only reasonable one.

Yours sincerely,

Joanna Dadacz Chairman of Polish Accounting Standards Committee

cc:

Stig Enevoldsen, Chairman of EFRAG TEG