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Sent: 22 June 2009 09:16
To: Commentletters ; lehathang1986@yahoo.com
Subject: comment letter about revenue recognition

Dear Sir or Madam.

According to IFRS revenue and IAS 18,

Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

- (a) the entity has transferred **to the buyer** the significant risks and rewards of ownership of the goods;
- (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
- (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Can you explain to me why revenue is recognized only when the entity has transferred "**to the buyer**" the significant risks and rewards of ownership of the goods?

Can the entity recognize revenue when they transfer all the risks to the **third party** and the rewards to the buyer?

I will give you an example to illustrate my opinion.

Agri Inc has manufactured a machine specifically to the design of its customer. The machine could not be used by any other party. Agri Inc has never manufactured this type of machine before and expects a number of faults to materialize in its operation during its first year of use, which Agri Inc. is contractually bound to rectify at no further cost to the customer. The nature of these faults could well be significant. As of Agri Inc's year-end, the machine had been delivered and installed, the customer invoiced for \$100,000 (the contract price), and the costs incurred by Agri Inc up to that date amounted to \$65,000.

If Agri Inc signed an insurance contract worths \$30,000 with AIG to abolish the risks. Agri Inc can recognize revenue or not?