recd 13/8

1660-100
Comment Letter No. 221

สภาวิชาชีพบัญชี ในพระบรมราชูปถัมภ์
FEDERATION OF ACCOUNTING PROFESSIONS
UNDER THE ROYAL PATRONAGE OF HIS MAJESTY THE KING

FAP 1235 /2009

July 30, 2009

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir David :

Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers

We are writing to express our opinions on Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers. We very much value IASB's important role in developing high quality financial reporting standards, and hereby wish to offer our contribution to be considered by IASB.

Specific Questions to DP

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?

In principle, we agree with the boards' proposal to have a single revenue recognition model for consistency purposes. However, other criteria reflecting the substance of the transaction (such as collectability reasonably assured at inception, etc.) should be taken into consideration.

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 application of the model would not provide decision-useful information for entities engaging in long-term construction contracts, where obtaining control over the assets by the customer normally do not happen until the end of the contract period. The performance of a construction service company might be better based on its progress of services being provided under the contracts and satisfied by the customer even though the customer has no control over the asset (service) yet.

133 ถนนสุขุมวิท 21 (อโศกมนตรี) แขวงคลองเตยเหนือ
เขตวัฒนา กรุงเทพมหานคร 10110
โทร : 0-2685-2500 แฟกซ์ : 0-2685-2501
http://www.fap.or.th E-mail : fap@fap.or.th

133 SUKHUMVIT 21 (ASOKEMONTRI) ROAD, KLONG TOEI NUA,
WATTHANA, BANGKOK 10110 THAILAND
TEL : 0-2685-2500 FAX : 0-2685-2501
http://www.fap.or.th E-mail : fap@fap.or.th

สภาวิชาชีพบัญชี ในพระบรมราชูปถัมภ์
FEDERATION OF ACCOUNTING PROFESSIONS
UNDER THE ROYAL PATRONAGE OF HIS MAJESTY THE KING

3. Do you agree with the boards' 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.

We agree with the definition of contracts and the inclusion of both written and implicit contracts.

We agree with the board's proposal to allow the performance of
a construction service company might be better based on its progress of services being provided under the contracts and satisfied by the customer even though the customer has no control over the asset (service) yet.

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? 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 with the boards' proposed definition of a performance obligation. However, additional guidelines should be given on:

- Definition of 'goods' and 'services'
- How to identify separate various performance obligations within the multiple-element arrangement.

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 because it would save the cost and time of separating all elements of the contract. However, as mentioned in Question 4, clearer guidelines are needed for distinction between goods and services and various elements in the contract.

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?

We agree because it is a promise to transfer an asset (service in this case) to the customer in the existing contract.

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

We agree because it is a promise to transfer an asset (goods or services) to the customer in the existing contract and is in consistent with IFRIC 13 Customer Royalty Programmes.

สภาวิชาชีพบัญชี ในพระบรมราชูปถัมภ์
FEDERATION OF ACCOUNTING PROFESSIONS
UNDER THE ROYAL PATRONAGE OF HIS MAJESTY THE KING

8. Do you agree that an entity transfers an asset 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 an alternative for determining when a promised good and service is transferred?

We agree but more guidelines on the definition of "control" are needed due to extensive coverage of the DP.

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.

As mentioned in Question 2, the proposal would not provide decision-useful information for entities engaging in long-term construction contracts.

10. In the boards' 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?

Yes, transaction price is the most relevant price available at inception. However, modifications on the original contract for extra work should as well be specifically mentioned in the standards to ensure that the total contract price can be changed and should be changed accordingly.

(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?

Yes, the concept is generally agreeable. However, the measurement of onerous contract should be made at the total contract level, not at each performance obligation level. Many businesses depend on bundling various components to attract customers with an intention to draw more business, so it might not unusual that certain components are at loss to attract an overall gain.

(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 DP suggest that subsequent changes to the contract price at inception should not be done except for the onerous contract. However, it should make clear that the change made to improve the estimate is allowed. Various performance obligations may not have the market selling value and hence must be based on estimates. If the estimates are proven inaccurate after the contract inception, changes should be allowed.

133 ถนนสุขุมวิท 21 (อโศกมนตรี) แขวงคลองเตยเหนือ
เขตวัฒนา กรุงเทพมหานคร 10110
โทร : 0-2685-2500 แฟกซ์ : 0-2685-2501
http://www.fap.or.th E-mail : fap@fap.or.th

133 SUKHUMVIT 21 (ASOKEMONTRI) ROAD, KLONG TOEI NUA,
WATTHANA, BANGKOK 10110 THAILAND
TEL : 0-2685-2500 FAX : 0-2685-2501
http://www.fap.or.th E-mail : fap@fap.or.th

(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.

We believe the proposed standard might not be useful to contract with high uncertainty, such as letter of guarantee, insurance, etc.

11. The boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. 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 charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?

Typically, the amount implicitly includes the entity's expected costs to transfer promised goods and services to customers and it reflects the amount an entity requires in exchange for taking on the related performance obligations. We agree the entity should measure performance obligation at the consideration amount.

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

The contract origination costs must be expensed as incurred, except when another standard permit their capitalisation. Origination costs do not meet requirements to be recognised as assets.

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 that the transaction price should be allocated to performance obligations based on stand alone selling prices of goods or services. The selling price is usually the transaction price determined by the agreement between an entity and its customer. If stand alone selling prices of the goods and services are explicitly specified, such stand alone selling prices should represent consideration for satisfying each of the performance obligations. This seems the most reasonable and objective approach to allocate transaction price. The cost of applying should not be excessive as the entity has the underlying pricing available on which to base any estimates and it is simple to apply

สภาวิชาชีพบัญชี ในพระบรมราชูปถัมภ์
FEDERATION OF ACCOUNTING PROFESSIONS
UNDER THE ROYAL PATRONAGE OF HIS MAJESTY THE KING

13. Do you agree that if an entity does not sell a good or service 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 constrainted?

We agree that an entity should estimate the stand-alone selling prices of the goods and services when these prices are not explicitly given, so far as the related performance obligations need to be separated because timing of transferring these goods and services differs. The uses of estimates should not be constrained.

Yours Sincerely,

Kesree Narongdej
Professor Emeritus
President, Federation of Accounting Professions of Thailand
Bangkok, Thailand

133 ถนนสุขุมวิท 21 (อโศกมนตรี) แขวงคลองเตยเหนือ
เขตวัฒนา กรุงเทพมหานคร 10110
โทร : 0-2685-2500 แฟกซ์ : 0-2685-2501
http://www.fap.or.th E-mail : fap@fap.or.th

133 SUKHUMVIT 21 (ASOKEMONTRI) ROAD, KLONG TOEI NUA, WATTHANA, BANGKOK 10110 THAILAND
TEL : 0-2685-2500 FAX : 0-2685-2501
http://www.fap.or.th E-mail : fap@fap.or.th