

From: Peter Gravestock [<mailto:psgravestock@talktalk.net>]
Sent: 19 October 2010 18:30
To: Pitman April
Subject: Revenue Recognition

2 Grasmere Avenue
Streetly
Sutton Coldfield
B74 3DG
19 October 2010

Sir David Tweedie
IFRS
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Sir David
Exposure draft on Revenue Recognition

Thank you for your letter of 12 August. I am responding on my own behalf and on behalf of my local district society, the Staffs, Salop and Wolverhampton Society of Chartered Accountants.

We all support the move to an international standard for Revenue Recognition and broadly agree with the Exposure Draft. Clearly extra guidance will be needed in specific areas and after implementation, so at this stage we are only concerned with concepts. As UK professionals we are used to principle based concepts, which can be used in an ever changing world, rather than a rules based system, which, in practice, rarely cope with new ideas. We believe that any standard introduced must be easily implemented, practical and intelligible.

The simple principle of requiring an entity to recognise revenue, being the consideration receivable, in exchange for the goods or service at the time of transfer must be correct (IN8). This accords to the natural instinct of a businessman and would be followed without advice. Instinctively profit should not be taken until the performance obligation is satisfied (IN20) and that accords to the ability to use or receive benefit from the goods or services (IN21). It is right that revenue should be recognised when a separate obligation is fulfilled. More detailed rules may well be required for continuous or long term contracts where the contract does not specify separate obligations (IN23).

It is our view that differing standards for different sized organisations only leads to confusion and increased costs for all. It is difficult to run an office where some members of staff are trained on one set of standards and others are apply differing rules. Equally it is difficult for a professional body to set examinations where more than one standard applies to the same transaction dependent on the status of the entity at a given time. Therefore we would wish to see the same standard applying to all entities. We understand that HMRC would wish to see a unified approach so that they could be certain of the standard that would apply for taxation.

Our major concern is that the standard as proposed will not be available for use in the UK for many years. Even after adoption and ratification by the EU it is our understanding that it will only apply to quoted companies. We would hope that the IFRS for SME's would incorporate the Revenue Recognition standard at an early stage and that it would be applied by the UK at the same time as any change for larger entities.

Even if the above occurred the standard would still not apply to the majority of entities in the UK which are covered by the FRSSE. These small businesses often do not have professional advice and many do not follow the UITF 40 rules, either because they have no external advice, or because their advisers are not aware of the changes introduced. This is clearly unsatisfactory for all. From the viewpoint of HMRC different methods of computing profits are being used, and businesses perceive the accounting professions as introducing unnecessary complications to their accounts which add to their costs. As we understand the position the FRSSE rules will not be amended until after the changes to IFRS for SME's are in force and after the EU proposals on micro-entities are known. This could be a decade or more.

We wish to make our view of endorsing the Exposure Draft known. We believe that many qualified accountants, particularly those in general practice with micro entities, would also endorse this view. Furthermore we wish to make known our concern about the potentially long delay of implementing the standard for micro entities.

It would be our belief that the proposed standard on Revenue Recognition could and should be implemented for all entities at the same time. Furthermore we would urge that this should take place sooner rather than later.

We do understand that many of our concerns are outside the remit of the International Accounting Standards Board, but they have been included in this letter so that you have a full appreciation of our concerns. We would be happy to meet with members of the Board or their team to discuss our views if this would be of help to you.

Yours sincerely

P S Gravestock

Past President Staffs Salop and Wolverhampton Society of Chartered Accountants.
Past President Association of Taxation Technicians

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Offices : 30 Cannon Street | London EC4M 6XH | UK | Telephone: +44 (0)20 7246 6410 | Fax: +44 (0)20 7246 6411 | email: info@ifrs.org | www.ifrs.org

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