

IASB

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Chief Executive: Eamonn Siggins

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To whom it may concern,

The Institute of Certified Public Accountants in Ireland welcomes the opportunity to comment on:

'ED/2010/6 Revenue from contracts with Customers'

Question 1

Paragraphs 12-19 propose a principle (price interdependence) to help an entity determine whether:

- (a) to combine two or more contracts and account for them as a single contract;
- (b) to segment a single contract and account for it as two or more contracts;
- (c) to account for a contract modification as a separate contract or as part of the original contract

Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?

We disagree that a principle of price interdependence should be the sole indicator of whether to segment or combine contracts. We also disagree with accounting for contract modifications based solely on price interdependence as part of the original contract.

(a) In relation to combining or segmenting contracts we recommend that as well as price interdependence other commercial factors, such as the performance of the obligations under the contract and review of specific conditions to the contract, should also be considered. (b) In relation to accounting for a contract modification we recommend that such modifications and/or renewals should be accounted for as a separate contract unless the modification amends a significant error in the original contract.

Question 2

The boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?

We do not agree that in determining whether a good or service is distinct consideration should be given to whether another entity sells an identical or similar good or service separately. We are of the view that such a determination should be confined to whether the entity sells a similar good or service separately. However it may be appropriate to account for goods and services as a combined contract if the performance obligation and timing of revenue recognition would yield the same result as accounting for them separately.

Question 3

Do you think that the proposed guidance in paragraph 25-31 and related application guidance are sufficient for determining when control of a promised good and service has been transferred to a customer? If not, why? What additional guidance would you propose and why?

While we agree with the definition of control outlined in paragraphs 25-31 in relation to the control of a good we are of the view that a further enhanced definition and guidance is required for the transfer of control in relation to a service or a situation of continuous transfer of goods for example under a construction contract. In that regard paragraphs 32 and 33 require additional guidance and examples.

Question 4

The boards propose that if the amount of consideration is variable, an entity should recognize revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

Do you agree that an entity should recognize revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognizing revenue when the transaction price is variable and why?

We agree that it may be appropriate in certain circumstances to recognize revenue on the basis of an estimated transaction price.

The criteria set out at paragraph 38 relating to whether the transaction price can be reasonably estimated are restrictive and do not take account of contracts entered into for new revenue streams in respect of which the entity or other entities may not have experience of.

Question 5

Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect how much revenue an entity recognizes when it satisfies a performance obligation rather than whether the entity recognizes revenue? If not, Why?

The issue of customer credit risk is a matter of consideration of the subsequent assets value.

Question 6

Paragraphs 44 and 45 proposed that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit) Do you agree? If not why?

We agree that it is appropriate to incorporate the time value of money into a contract in the above circumstances

Question 7

Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the standalone selling price [estimated if necessary] of the good or service underlying each of those performance obligations. Do you agree? If not when and why would that approach not be appropriate and should the transaction price be allocated in such cases?

We agree but it should be permitted to combine particular groups of performance obligations that amounted to no more than x% of the total value of the contract.

Question 8

Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition with other standards [for example IAS 2 or ASC Topic 330; or ASC Topic 360; and IAS 38 Intangible Assets or ASC Topic 985 on software) an entity should recognise an asset only if those costs should meet specified criteria

Do you think that the proposed requirements on accounting for costs of fulfilling a contract are operational and sufficient? If not why?

We agree but note the absence of a definition of a direct cost. Para (c) mentions depreciation of tools and equipment which might be defined as an indirect cost of the output/contract.



Question 9

Paragraph 58 proposes the costs that relate directly to the contract for the purposes of (a) recognising an asset for resources that an entity would use to satisfy performance obligations in a contract and (b) any additional liability for an onerous performance obligations

Do you agree with the costs specified? If not what costs would include or exclude and why?

A direct cost has been defined in some texts as "Those costs that can be specifically and exclusively identified with a particular cost object" If this is an appropriate definition of a direct cost then it might be argue that depreciation of the cost of an asset that is not exclusively used up on one particular cost object/contract is not a direct cost If it is not an appropriate definition then the standard should provide one.

Questions 10, 11 & 12 - Disclosure Requirements

Questions 10 to 12 deal with disclosure requirements. The disclosure requirements make specific recommendations for disclosures of both qualitative and quantitative information and the significant judgements made in applying the IFRS. Specifically, they require the following:

Aggregation and desegregation and .of information where it would be beneficial to users

Information about the amount, timing and uncertainty of revenues and cash flows

Reconciliation of opening and closing balances

Performance obligations and onerous performance obligations

Desegregation of revenue into type of good or service, geography, market, type of contract

Payment terms, returns and warranties

Term of contract broken down into < 1 year, > 1 year < 2 years, > 2 years < 3 years, > 3 years

Response to Questions 10, 11 and 12

The disclosure requirements should be appropriate to the size, materiality and the complexity of any given contract. The disclosure requirements seem very complex and may require a significant amount of judgement. There are two main groups of users for which detailed disclosure requirements are required 1) Banks and 2) Insurance companies or other finance house that provide performance bonds on the contracting company's behalf to the other party to the contract. The reality is that in most cases large construction companies will already have disclosure arrangements in place with banks and providers of performance bonds. These will normally be included in the Covenants section of the facility letter. Non provision of this information will normally be an event of default that could trigger a demand for payment. Additionally, there may be a significant amount of covenants built around the required disclosure information.

Given that the users (banks and bond providers) will normally have disclosures agreed we see no requirements for the detailed disclosure requirements as detailed in the exposure draft.

Question 13

Do you agree that an entity should apply the propose requirements retrospectively (i.e. as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods presented)? If not, why?

No. This may require very complex changes in accounting systems. We believe that a date for implementation should be set. Contracts that are signed after that date should be subject to the provisions of the exposure draft.

Question 14

The proposed application guidance is intended to assist an entity in applying the principles in the proposed requirements. Do you think that the application guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?

Yes we agree that the level of application guidance is sufficient to make the proposals operational.

Question 15

The boards propose that an entity should distinguish between the following types of product warranties:

A warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligations but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.

A warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract.

Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties.

Yes, we agree with the proposed distinction between the types of product warranties. Yes, we also agree with the proposed accounting for each type of product warranty.

Question 16

The boards propose the following if a licence is not considered to be a sale of intellectual property:

If an entity grants a customer an exclusive licence to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the term of the licence.

If an entity grants a customer a non-exclusive licence to use its intellectual property it has a performance obligation to transfer the licence and it satisfies that obligation when the customer is able to use and benefit from the licence.

Do you agree that the pattern of revenue recognition should depend on whether the licence is exclusive? Do you agree with the patterns of revenue recognition proposed by the boards? Why or why not?

Yes, we agree that the pattern of revenue recognition should depend on whether the licence is exclusive. Yes, we also agree with the patterns of revenue recognition proposed by the boards.

Question 17

The boards propose that in accounting for the gain or loss on the sale of some non-financial assets (for example, intangible assets and property, plant and equipment), an entity should apply the recognition and measurement principles of the proposed revenue model. Do you agree? If not, why?

Yes, we agree that in accounting for the gain or loss on the sale of some nonfinancial assets, an entity should apply the recognition and measurement principles of the proposed revenue model.

Question 18

[FASB only] Should any of the proposed requirements be different for non-public entities (private companies and not-for-profit organisations)? If so, which requirement(s) and why?

Yes, primarily for consistency reasons, we are of the view there should be no difference in the proposed requirements for non-public (private companies and not-for-profit organisations).

The Institute of Certified Public Accountants would be happy to discuss the above with you.

Yours sincerely,

Declan Nestor Chairperson, Financial Reporting Sub - Committee