

**From:** Murat ACAR [<mailto:macar@aselsan.com.tr>]  
**Sent:** 22 October 2010 12:52  
**To:** Commentletters  
**Cc:** Ahmet DEMİR; Gönül TETİK; Ajda CANEFENDİ; Burcu SARITAŞ  
**Subject:** ED "REVENUE FROM CONTRACTS WITH CUSTOMERS" ED/2010/6

To whom it may concern,

Please kindly find our comments on "Revenue From Contracts with Customers" exposure draft ED/2010/6 below:

1- Q3- Do you think that the proposed guidance in paragraphs 25-31 and related application guidance are sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?

**Aselsan Inc. Comment:** Although the sub-paragraph 30-d states the criteria for determining when control of a promised good or service has been transferred to a customer the control right of the customer, as the ability to direct the use of, and receive the benefit from, the good or service, the ability to prevent other entities from directing the use of, and receiving the benefit from, a good or service, we believe this should be explained in more detail, as the guidance in the ED is more broad and not specific enough as to how it can be applied to complex transactions across a wide range of industries, especially, companies involved in doing project work with government entities. For example, for companies doing business with public entities on project basis after a bidding process, the only supplier of the customer specific product is the winning entity. The contracts include mainly the research and development (R&D) phase which is not transferrable to another party anyhow and is very specific in this case. In these kind of contracts any party other than the customer cannot purchase or cannot use such products since these are customer specific. During the production process, the customer may get involved in the production process, while project manufacturing is going on just by claiming new needs and introducing additional requirements that may or may not result in changes made on the ultimate products. Here we believe the greatest challenge would be in determining whether revenue needs to be recognized while the manufacturing asset or lets say, project assets are being constructed. Some projects that are done for government authorities may take years to complete and it would be difficult to determine if the customer, who is the recipient of the partially completed asset controls or not the partially constructed asset. Such performances were accounted for on percentage of completion previously, based on progress achieved and there was no need to think if the customer had or not control over the partially completed asset, even though, there practically occurred no incidence whether the asset constructed in accordance with customer specification was never refused by the customer. So with the new ED, we believe it would be quite cumbersome to decide as to when and under what circumstances, customer will have assumed control on the asset before the final delivery, while the asset is still being manufactured.

In some cases, due to the special character of the customer (mainly Public Authority Customers), although the invoices of the goods are prepared but given that the related goods are not yet transferred, the ownership of the goods is not said to be realised by the customer side. In such cases, the revenue is advised not to be recognised unless the transfer of the good to the customer is realised.

We are in the opinion that even though the ED lists some indicators to assist in the determination of control, it does not state if all the indicators should be present or if only one or two will do in determining if the customer has obtained control of the goods or services.

The ED states that protective rights retained by the entity solely to protect it against the customer's failure to perform under the contract (for example, the customer's failure to pay) do not preclude a customer from obtaining control. We would like the standard to be more explicit on the issue of protective right and as to its application on entities doing project work for government entities.

**2-** Q11- The boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year. Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?

**Aselsan Inc. Comment:** We generally agree with the Board proposed disclosure requirements as to the amount of remaining performance obligations and the expected timing of satisfaction for contracts with an original duration expected to exceed one year should be disclosed. Since the contract durations may be much longer in some contracts (i.e: 8, 10 years), the time interval is advised to be as below:

Contract A: 0-1 yr

2-3 yrs

4-5 yrs

6-7 yrs

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**3-** Q13- Do you agree that an entity should apply the proposed requirements retrospectively (ie as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods presented)? If not why?

Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think is better.

**Aselsan Inc. Comment:** We are in the opinion that the application should be prospectively, rather than retrospectively, due to impossibility and albeit impracticality to decide on the control matters that had existed for past contract on a retroactive basis. Since these projects/ contracts were accounted for on percentage of completion in the previous periods, without much thought being given as to control was passed or not, under the old IAS 11, we understand that there will be inconsistent presentation of current year ( under the ED guidance) and comparative financials ( under the old IAS11) and we believe this might be dealt with by detailed disclosures given in the notes about the effect on previous financial statements, if estimable. Accordingly we believe for some projects the pros and cons and the previous year effects be mentioned in the notes to the financial statements without producing retained earnings effect.

Another matter of concern is that restating the previous financial statements, in the event the effect is of paramount amount, which would naturally be expected for entities that had reported under percentage of completion accounting previously, would lead to confusion and loss of investor

confidence. Also in jurisdiction whereby the distributable profits is based on IFRS figures reported to the public and filed with the stock exchange, this would give rise to confusion. It is a fact to note that the profit distribution policy of the Capital Markets Board of Turkey depends mainly on the profit obtained from IFRS financial statements. The retrospective restatement may give rise to more/(less) profit distribution disputes in stock exchange markets legally.

**4- Aselsan Inc. Comment:** A paragraph is advised to be added in the standard regulating the business process with public authorities. We believe some limitations or exceptions may be provided for disclosure requirements within the scope of the concept public secrecy. Some contracts are done in public secrecy principle. All of the disclosure requirements are not advised for being revealed. Some limitations may be permitted.

**5- Aselsan Inc. Comment:** In contract cost definitions part, between 57-63 paragraphs, there may be an explanation that raw material inventory intentionally purchased just for related contracts be included in the total cost of contracts both in the paragraphs stated above and in the disclosure definition paragraphs. And also, "the expected loss of a contract should be expensed when it is foreseen at the reporting date" definition is advised to be clearly stated in the "Contracts Costs" section of the standard.

Kind regards,

**aselsan**

**Murat ACAR**

Accounting Manager

ASELSAN Electronics Industries Inc.

Tel: +(90) 312- 592 1195

Fax:+(90) 312- 354 1701

e-mail: [macar@aselsan.com.tr](mailto:macar@aselsan.com.tr)



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