

My comment for exposure draft (ED/2010/6)

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A comment about software development for customers by contract.

Conclusion for this comment.

In Japan we now use "percentage-of-completion method" for software development for customers by contract (made-to-order software), but it's not suitable to apply this method for software development for customers by contract. Recognition of revenue must use "completed contract method" as described in this exposure draft. This comment is applied only to revenue with customers.

Reasons for this conclusion.

Softwares that developed for customers by contract are not "transferred continually," because software not completed are useless for customer, so it should not be applied "percentage-of-completion method." If one sub-system can perform all objectives with no connection to other sub-systems, this sub-system is independent, so it should be considered separate contract and should not be included in original contract.

Example

A company made contract with some customer about software system development as described below.

1. Define customer requirements with the customer and give deliverables to the customer.
 - 1-2. The customer approves deliverables.
 2. Design for software and create specifications for entire system and programs and give deliverables to the customer.
 - 2-2. The customer approves deliverables.
 3. Make coding and testing for developed code for each executable files.
 4. Test for entire system.
 5. Deliver entire system (= finished product) to user.
 6. User tests and approves entire system delivered by the company.
- The customer's revenue recognition points are 1, 2 and 6 only.

The company gives deliverables only at points 1, 2, and 5.
So the customer cannot recognize points 3 or 4. And point 5 is not approved point. Point 6 should be point of revenue recognition.
If the customer receives unfinished program source codes, those unfinished program codes are completely useless, so the company should not recognize revenue at points 3. or 4.