



## **RESPONSE TO INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) CONSULTATION ON THE EXPOSURE DRAFT ED/2010/6: REVENUE FROM CONTRACTS WITH CUSTOMERS**

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### **INTRODUCTION**

The Association of Accounting Technicians (AAT) is pleased to comment on the issues raised in the IASB consultation on the exposure draft ED/2010/6 “Revenue from contracts with customers” (IASB exposure draft).

We have over 48,200 full and fellow members and 71,200 student and affiliate members worldwide. Of the full and fellow members, there are approximately 3,100 Members in Practice who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.

The AAT is a registered charity whose objects are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law. In pursuance of those objects the AAT provides a membership body.

We make this representation following a discussion with the Association of Taxation Technicians, and our two bodies have come to very similar conclusions.

### **INTERESTS**

The AAT is participating in this consultation as part of our objects of contribution to advancing public education and promoting the study of the practice, theory and techniques of accountancy for the public benefit.

The AAT has a vested interest in the outcomes of this consultation because we have 3,100 licensed members in public practice who:

- are predominantly SMEs themselves
- provide accountancy and taxation services to over 256,000 businesses that are predominantly SMEs.

The AAT also has a public interest in the wider business community.

In responding to this consultation the AAT’s priority is to have an accounting standard that gives a true and view.

The AAT’s vested interest does not mean that we support the position of erring on the side of understating revenue. Similarly, we would argue against any view to overstate revenue.

### **EXECUTIVE SUMMARY**

The AAT is delighted to support the IASB exposure draft, which we feel is a balanced approach to revenue recognition whereby the principles and transactions reflect the nature of the contract.

It is clear to us that the IASB's aim was to produce a standard that arrived at a true and fair profit, or loss, and this is reflected in the exposure draft.

## **REVENUE RECOGNITION AND COMPETING INTERESTS**

Revenue Recognition is a contentious area because the interests of large companies and tax authorities are at odds with the interests of small companies.

There is a drive amongst some larger companies to declare the highest possible revenue figure, and corresponding profit figure. In these cases this may be motivated by, for example:

- performance related pay, where management remuneration is dependent on how well the company has performed financially
- a will to show the company's finances in a favourable light perhaps to provide comfort to investors.

In contrast, smaller companies especially those that are owner-managed are unlikely to be remunerated based on declared profit. The motivation for the smaller companies may be:

- that there is no incentive to artificially inflate declared profit
- to reduce the declared profit in order to defer the tax payable to the following year.

The AAT participates in the United Nations Conference on Trade and Development working group called ISAR. On a number of occasions, at the ISAR meetings a number of the representatives of various countries have asked questions that suggest that for their respective jurisdictions the accounting profit and taxable profit are the same. The tax authorities of these jurisdictions will want to protect their respective tax revenues.

In summary, the motivation to protect tax revenues or inflate/deflate revenue may have the unintended result that the IASB receives suggested accounting treatments that are over enthusiastic about how revenue should be recognised.

## **4<sup>TH</sup> AND 7<sup>TH</sup> ACCOUNTING DIRECTIVE**

We realise that the 4<sup>th</sup> and 7<sup>th</sup> Accounting Directives may not be within the control or influence of the IASB. Nevertheless, it is worth mentioning the European aspect that is likely to have an impact on accounting standards in the UK.

It will not have escaped the IASB's attention that France, Germany and a number of other European Countries are having difficulty with the proposed amendments to the accounting directives and the introduction of the IFRS for SMEs.

At the EC meeting on the directives earlier this year, it was clear that some European countries are simply not ready, and not willing, to change to using the IFRS for SMEs because of linkages between accounting, taxation, legislation and their business culture.



It appears to us, that the countries that are in favour of introducing the IFRS for SMEs have suggested a carve-out for micro-entities in a bid to placate the blocking votes.

The proposed carve-out may leave the UK with a three-tier system, of Full IFRS, IFRS for SMEs and the FRSSE. According to the field tests carried out by the ACCA the IFRS for SMEs and the FRSSE are very similar. This does not make sense for our members who would have to prepare accounts for small companies using international standards and for very small companies (micro-entities) using UK GAAP.

## **SUGGESTION CHANGES TO THE EXPOSURE DRAFT**

We mentioned previously that we support the IASB exposure draft, which we feel is a balanced approach to revenue recognition whereby the principles and transactions reflect the nature of the contract.

However, we do have a few suggestions that you may like to consider in relation to example 11 regarding a construction contract:

- retention money (In this context it is the consideration due to a contractor that has been contractually withheld for a specified period after the works have been completed so that any defects/snagging is rectified by the contractor.)
- inflation (The transaction price of a large construction project which may span many years may be based on prices, current, at the beginning of the contract. In such cases the contract specifies that the transaction price should be uplifted to include the effects of inflation in any progress payments.)

We feel that it might be beneficial to add an example of a “turnkey” contract. For example, a retailer with many high street stores offered a computer firm £5million to install a fully operational computer network within a three month period (this was an express condition within the contract). The computer firm was not able to install the computer network within the specified period and did not receive a single penny in consideration.

## **CONCLUSION**

The AAT supports the IASB exposure draft, which takes a balance approach to Revenue Recognition and is also a clearly written document that is relatively easy to understand.

It is our view that in the UK the proposed standard on Revenue Recognition should be implemented for all entities at the same time.