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22 October 2010

Exposure Draft 'Revenue from Contracts with Customers'  
International Accounting Standards Board  
30 Cannon Street, London EC4M 6XH  
United Kingdom

Dear Sir or Madam:

The Korea Accounting Standards Board (KASB) has finalized its comments on Exposure Draft 'Revenue from Contracts with Customers'. I would appreciate your including our comments in your summary of analysis.

The attached comments represent official positions of the KASB. They have been determined after extensive due process and deliberation.

Please do not hesitate to contact us if you have any inquiries regarding our comments. You may direct your inquiries either to me ([cwsuh@kasb.or.kr](mailto:cwsuh@kasb.or.kr)) or to Mr. Hyunseon Hong ([honghs@kasb.or.kr](mailto:honghs@kasb.or.kr)) and Ms. Hee-jin Hong ([hjhong@kasb.or.kr](mailto:hjhong@kasb.or.kr)), researchers of KAI.

Yours sincerely,



Dr. Chungwoo Suh  
Chairman, Korea Accounting Standards Board

Cc: Sungsoo Kwon, Director of Research Department

We are pleased to comment on the Exposure Draft ‘Revenue from Contracts with Customers’. Our comments include views from a public hearing and responses collected from the various associations. We finalized the comment letter through the due process established in KASB.

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### **Due process for comments on Exposure Draft ‘Revenue from Contracts with Customers’**

**Our comments reflect the view of the KASB and the views from 10 comment letters that the KASB received from the interested parties in Korea, which are the Financial Supervisory Service, Korean member firm of PwC, Korean member firm of KPMG, Korean member firm of Deloitte, the Korea Listed Companies Association, the Korean Institute of Certified Public Accountants, Construction Association of Korea, Hyundai Motor Company, Daewoo E&C and other personnel(Seolhee Song). Therefore we would like you to consider our comment letter as 10 separate comment letters in your statistics for comment letter analysis**

### **Overall Comments**

Through a control's united model, it is appropriate to simplify the revenue recognition and apply consistent accounting. However, aggressively applying the united model has limitation of applying every various transaction substances. Thus, we suggest supplementing such as revising the indicator, etc.

The method of applying the credit risk to the revenue measurement amount has great similarity with the financial instruments' impairment ED's expected loss model. We think ED should suggest enough logical evidences regarding this method like financial instruments' impairment ED.

Per current IAS 18, when the outcome of a transaction involving the rendering of services can be reliably estimated, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. This method can be used on construction contract as well.

There is concern that the companies who recognized revenue by applying the percentage of completion method in current IAS 18 cannot apply the method under ED's control model.

However, the BC33(d) describes that the principle of percentage of completion accounting in existing standards can be also consistent with the proposed recognition principles in many cases. Thus, there needs to be clarification on accounting continuity on this ED in order to relieve the above concern.

On this ED, the content, related to revenue recognition according to percentage of completion accounting, is continuous transfer of goods and services of paragraph 32 and 33. On transactions that are recognized with percentage of completion per current IFRS, when the united control model is applied and does not apply as continuous transfer, there is risk that the usefulness of information will be decreased than the current method. Moreover, detailed guidelines on components corresponding to percentage of completion method, similar to paragraph 30 and 31 of IAS 11, will be required in real operations.

For the non-cancellable contracts (Refer to IAS 39 firm commitment definition) which the result of long-term construction must be directed to the specified customers, there is need to be regarded as the indicator that the control is transferred continuously to customers according to construction activities.

*\* A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.(IAS 39 Financial Instruments: Recognition and Measurement)*

If not, for long-term construction that specific customers are designated, the revenue of its construction will not reflect company's status in financial statements in timely manner. Thus, the information users will not receive appropriate information which economic substance is applied.

Even though the ED deleted revenue recognition method based on activity, for this kind of firm commitment (or long-term contract), the indicator to use based on activity recognition principle is needed

ED requires deciding the control transfer from buyers' perspective. There is necessity to give possibility of deciding whether to transfer control from sellers' perspective, if it is not clear from buyers' perspective.

Pre-sale of apartment construction of Korea has following characteristics:

1) When 80% of buyers agree, it is possible to change the design after the approval of business plan.

- 2) The substantial property rights of seller are out of their control by the law once they sign the sales contract. The buyer is able to exercise reselling of construction unless there is administrative restriction.
- 3) In order to terminate sales contract, there must be seller's agreement. It cannot be terminated only by the buyer's intention after satisfying some conditions. If the contract is breached then the buyer must pay the penalty.
- 4) When the seller signed the purchase contract with the buyer, during the process of construction, the seller cannot sell, purchase, give as gift, or provide as collateral of related real estate.
- 5) During the construction, if the construction company is bankrupt, the buyer maintains the previous status on related real estate. Other construction company can be appointed to fulfill the remaining construction obligation by law for the buyers.
- 6) Related to the control, in order to protect the buyers, per regulation, when the percentage of completion does not meet the set-target, then the seller cannot receive the intermediate payment.
- 7) In principle, the resale of buyer's rights regarding apartment before completing construction is allowed, but due to government policies, there may be temporary restrictions on right to sale.

For some of pre-sales, if based on control principle, even when control is given to the customer not the company, the ED proposed indicator may result in different outcome. Thus, it is necessary to apply additional indicators (refer to comments of question 3 – non-substitutability of target asset) or examples (refer to proposed example of question 1)

We believe sufficient indicators and examples are needed regarding control's continuous transfer.

The published liability ED and revenue ED exclude probability of inflow and outflow on economic benefit in the stage of recognition. However, according to the paragraph 89 and 91 of current financial statement conceptual framework, on asset and liability's recognition, the probability of inflow and outflow on economic benefit is mentioned. Thus, the conceptual framework should be revised and achieve consistency.

Few disagreed that the rules on onerous performance obligations are included in revenue recognition standards. They argued that whether it is onerous performance obligation or not should be judged on overall contract's level rather than performance obligation level.

## **Recognition of revenue**

### **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; and**
- (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**

### **Response 1**

We agree in principle; however the following items need to be supplemented.

The allocated price of performance obligation which composes the contract is considered as the relative price of stand-alone selling price basis. It is appropriate to classify the contracts based on interdependence of many factors. However, it is not appropriate to judge the contracts only based on interdependence of price rather, it should be used as one of the indicators.

According to the paragraph 19, if the price of the modification and existing contract are interdependent, the entity shall recognize the cumulative effect of the contract modification in the period in which the modification occurs. However, in reality, due to great difficulty of objectively judging the interdependency on price of the modification and existing contract, there will be great subjectivity on deciding whether to combine or divide the contracts. Thus, the alternative may be modified contract considering as a new contract and may minimize arbitrary decision. Some constituents expressed concern that there can be subjectivity depending on the decision of significant discount. In addition, some others stated that

paragraph 13(a) ‘the contracts are entered into at or near the same time’ is not applicable in the scenario 2 of example 2(case of two years).

## 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?**

## Response 2

We agree but the following needs to be supplemented.

We believe it is appropriate to suggest principles that distinguish performance obligations according to whether it is possible to separately sell promised good or service. Moreover, it is appropriate to distinguish separate performance obligations when the entity can sell the good or service separately since promised good or service have distinct profit and function.

On paragraph 23, there is a need for clearer detailed definition regarding ‘distinct’. When an entity judges whether performance obligation is ‘distinct’ or not, it is need to be clarified whether it is from the perspectives of customers, market, or companies. For distinct function, since it is the obligation to the customers, it should be judged from customers’ perspectives.

In addition, there needs guidelines how far the performance obligation is to be segmented. Also, related to the above statement, the concept of unit of account needs to be developed. In this ED, estimated amount related with latent defects is required to exclude from revenue recognized. The unit of account is segmented further in case of repairmen than replacement according to ED.

There needs standard and scope (e.g. price, sales market, application technique) which can judge certain promised good or service are ‘similar’ regarding the paragraph 23 (a)’s ‘the entity, or another entity, sells an identical or similar good or service.’

### 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 or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?**

### Response 3

No

1) Even though the control model unifies the accounting treatment and this may be appropriate to confirm the consistency and simplification, only by the indicators of ED's control model, it is difficult to apply the accounting reality. For some long-term and pre-sale contract, according to the control basis, the judgment by the relevant indicator may differ even in the situations where the substantial control is given to the customers. Articulation of underlying framework for indicators of control transfer of goods or services is needed.

2) The long-term revenue recognition with reference to long term construction contract is a big issue in which AOSSG and many Asian countries are arguing. In Korea, according to Construction & Economy Research Institute of Korea, approximately 500,000 houses are constructed annually and apartment consists more than 90%.

3) Apartment construction pre-sale of Korea has following characteristics

(1) When 80% of buyers agree, it is possible to change the design after the approval of business plan.

(2) The substantial property rights of seller are out of their control by the law once they sign the sales contract. The buyer is able to exercise reselling of construction unless there is administrative restriction.

(3) In order to terminate sales contract, there must be seller's agreement. It cannot be terminated only by the buyer's intention after satisfying some conditions. If the contract is breached then the buyer must pay the penalty.

(4) When the seller signed the purchase contract with the buyer, during the process of construction, the seller cannot sell, purchase, give as gift, or provide as collateral of related real estate.

(5) During the construction, if the construction company is bankrupt, the buyer maintains the previous status on related real estate. Other construction company can be appointed to fulfill the remaining construction obligation by law.

(6) Related to the control, in order to protect the buyers, per regulation, when the percentage of completion does not meet the set-target, then the seller cannot receive the intermediate payment.

(7) In principle, the resale of buyer's rights regarding apartment before completing construction is allowed, but due to administrative regulations, there is temporary restrictions on right to sale.

4) Regarding above long-term contract, the benefit of price increase is vested to the buyer, thus, we think controls might be continuously transferred before completing construction.

5) The products related to the real estate have characteristics that cannot be substituted with other products..

6) There needs to be additional indicators displaying that the control is continuously transferred, if details related to apartments' location, facing direction and other comprehensive conditions like real estate construction are defined before construction.

7) In addition, for non-cancellable construction contracts, we believe that indicators that the control is transferred continuously to the buyers should be applied. (*Refer to IAS 39 Firm commitment definition: A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.*)

8) When it is uncertain who has control from buyers' perspective, the rules are needed to judge the determination of control authority from sellers' perspective.

9) Among proposed indicators, '(b) having legal rights of customers' and '(c) physical possession of customer' are not available to judge whether there is control transfer of majority of service transactions. There is necessity to provide additional indicators and examples to determine whether to transfer control in such cases. Moreover, additional examples are needed regarding continuous transfer of goods.

10) Like paragraph 25 of the current IAS 18, there needs various guidelines on recognizing service revenue.

## Measurement of revenue

### Question 4

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

### Response 4

We agree.

1) It is appropriate to recognize the revenue based on rational estimates. However, on situations when the level of uncertainty on considered variable assumption is high and when there are no basic information such as past experiences, it is difficult to find rational usefulness on estimates. Thus, the standards on paragraph 38 seem to be appropriate.

2) However, there needs to be a statement to base on companies' past experiences, but future forecasted variables must be considered. On paragraph 49, 50 of IAS 37 state to apply the expected future events when measuring.

### IAS 37

*49 Expected future events may be particularly important in measuring provisions. For example, an entity may believe that the cost of cleaning up a site at the end of its life will be reduced by future changes in technology...*

*50 The effect of possible new legislation is taken into consideration in measuring an existing obligation when sufficient objective evidence exists that the legislation is virtually certain to be enacted...*

3) 'Transaction price' is generally used to define the amount agreed by both parties that are stated in the contract. But the term used in this ED means the amount of consideration reflecting collectability including customer's credit risks. It might cause confusion to the users. It is appropriate to use other term except for the 'transaction price'.

4) Few expressed that when recognizing revenue, best estimates should be allowed other than the probability-weighted average of possible outcomes

### 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?**

### Response 5

We partially agree.

1) Since the customers' credit risk is not relevant to performance obligation, it is appropriate to apply in measuring revenue rather than influencing whether to recognize revenue.

2) Applying the credit risk to the revenue measurement amount has great similarity with the financial instruments' impairment ED's expected loss model. According to the financial instruments ED, in order to apply the expected loss model, profound discussion and rational are suggested. However, on this Revenue ED, there is lack of this kind of theoretical rational. Thus, enough theoretical reasons on why the customers' credit risk should be applied in measuring revenue are needed.

3) Per ED, the consideration collectability is applied at initial recognized revenue amount. The subsequent accounting should be treated consistently and the changed price of assumption should be applied in revenue rather than other income or expenses.

4) Applying the effect of credit risk to revenue is difficult to apply the reality and purpose of transaction (value received from selling goods). The revenue should be recognized with the total contract price for information usefulness. The effect of credit risk should be applied as assessment of receivables later. (Refer to example 20)

5) Estimating respective customer's credit risk is very difficult for non-financial entities. So it is more practical to reflect credit risk to receivable portfolio level other than respective customer's receivable level.

### Question 6

**Paragraphs 44 and 45 propose 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?**

### Response 6

We agree, however, the following items should be supplemented.

1) There needs to be an additional consideration on how far is it realistically possible to find interest rate (BC104) that is to be used in financing transactions between the entity and customers (especially for non-financial institutions).

2) Few expressed that the amount of revenue recognized is greater than the cash received from customers according to example 22. In this case, the issue of whether to recognize the part due to currency fluctuation related to foreign currency advance in sales will be caused.

3) Revenue ED represents it is required for management to use its judgment to assess whether the effects of the time value money are material to the contract (refer to BC105). As insurance ED does not allow reflecting time value in case of under one year, revenue ED is needed to be consistent with insurance ED.

### 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 stand-alone 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 how should the transaction price be allocated in such cases?**

#### **Response7**

We agree.

1) When revenue is recognized based on the 'cost' of goods and services, the profit rate of overall contract will be applied ignoring good or service's value. It is possible to reliably apply the respective margin of goods or services which are confirmed to allocate the transaction price based on stand-alone selling price. The allocation method based on price can appropriately apply that goods and services' market value and profit are different on revenue recognition. For example, when recognizing high margin rate performance obligation, it is more appropriate to recognize the revenue relatively high as well.

#### **Contract costs**

#### **Question 8**

**Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards(for example, IAS 2 or ASC Topic 330; IAS 16 or ASC Topic 360; and IAS 38 Intangible Assets or ASC Topic 985 on software), an entity should recognize an asset only if those costs meet specified criteria.**

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

#### **Response 8**

The following needs to be applied.

1) We believe suggesting a detailed example that is to be recognized in asset per this ED (not recognized in asset under other standards) will help in understanding

- 2) It is appropriate to preferentially apply the other asset standards on accounting costs of obtaining a contract.
- 3) Similar with incremental acquisition cost being regarded as asset, it is appropriate that bidding cost relating winning project is also considered as asset.
- 4) Some disagreed on revenue recognition standard having guidelines regarding the cost.

### **Question 9**

**Paragraph 58 propose the costs that relate directly to a contract for the purposes of (a) recognizing an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognized for an onerous performance obligation.**

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

### **Response 9**

We agree partially but the following needs to be supplemented.

- 1) The items noted in paragraph 58 might be interpreted variously regarding the directly related costs.
- 2) Related to the paragraph 58(c), even though it is 'costs that relate directly to the contract', detailed explanations of situations of additionally allocating the cost are suggested.

### **Disclosure**

### **Question 10**

**The objective of the boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing and uncertainty of revenue and**

**cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?**

### **Response 10**

We agree.

1) Generally, the related disclosure requirements may provide qualitative and quantitative information, in order to help understanding the revenue from contracts with customers, amount, timing and uncertainty of cash flows. Moreover, requiring disclosing additional information of its purposes (paragraph 71) may provide sufficient information when information users make a economic decision.

2) Few suggested decreasing disclosure requirements from cost-benefit perspective, since disclosure requirements are excessive

### **Question 11**

**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?**

### **Response 11**

We agree.

1) Through related information's disclosure, the users of financial information can acquire information on expected revenue amount that companies will recognize in future due to remaining performance obligations. However, for period over 1 year, measuring amount and period required to satisfy the remaining performance obligation of time may act as a burden to companies.

2) Few expressed doubt that disclosure requirements (paragraph 78) of remaining performance obligations are practically applicable.

**Question 12**

**Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors? If not, why**

**Response 12**

We agree.

1) If the entity disaggregate revenue into the categories that best depict, this will increase users' understanding and usefulness of managing information related to revenue recognition. There should be more consideration on what kind of method is needed to present this disaggregated information to the information users.

**Effective date and transition****Question 13:**

**Do you agree that an entity should apply the proposed 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?**

**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 it is better.**

**Response 13**

We disagree.

1) When retrospectively applied, the disclosure and revenue recognition on long-term contracts will be great burden on the companies.

2) We believe that the method, separately displaying contents which are required to be retrospective and not, is one of alternative methods in which satisfying two purposes, to relieve company's burden and to apply changed contents, can be achieved.

- 3) It is appropriate to separately suggest the contents on effective date and transition.
- 4) Few agreed on retrospective application of ED and permitting early introduction of current first adopted company and existing IFRS applied companies.

## **Application guidance**

### **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?**

### **Response 14**

We agree in general but we disagree on the following:

- 1) We believe it is inappropriate to judge that the control is not transferred according to the only indicator that authority of changing main design is limited on individual buyer.
- 2) Generally, even if a part of goods are designated to the customers, it may be difficult for a customer to directly participate in design if a customer does not have professional knowledge on designing. Moreover, there may be concern whether the revenue accounting substance should be differed between the construction that buyer employs the designer and the construction that company employs the designer.
- 3) We believe it is inappropriate to use the design participation of customer as an indicator of control transfer. Especially the ED's example 17 has risk of judging the economic substance according to the indicator of design participation rather than judging based on the principles of control transfer.
- 4) Moreover, this example includes the current IFRIC 15 IE7 but does not include example of IE8. According to the ED's example 17, the construction of apartment has possibility of not recognizing as the existing the percentage of completion method. For balance, we believe suggesting the example related to IE8 is needed.

- 5) We suggest including following example related to the characteristics of apartment construction (non-substitutability, refer to Question 3)

Example 17-2 Pre-sale of apartment construction(continuous transfer of control)

The seller and buyer sign the non-cancellable contract of apartment. Before signing the apartment contract, the buyer sets the comprehensive conditions of apartment: specific floor level, location, facing direction (e.g. east side or west side). Thus, when the company does not transfer that unique contracted apartment, then the company will result in breaching the contract. In other words, the specific unit (e.g. #501) cannot be replaced with the other unit (e.g. #1501) - non-substituting attribute of goods). Above notes that control is transferred to the buyer before completing the construction.

- 5) ED's standards were made in order to substitute standards including the IAS 11. We believe the contents related to existing IFRS on revenue, such as details of the percentage of completion method, are needed.
- 6) Especially we expect sufficient indicators and examples on continuous transfer of goods and services are greatly needed in order to help in practice.

### Question 15

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

- (a) a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.**
- (b) 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 and why?**

### **Response 15**

We agree in theory but the following items should be considered in addition.

1) Generally, the promise to transfer the goods without defects to customers is included in initial performance obligation. Thus, it is difficult to view that the warranty of latent defects is separate additional performance obligation. However, for warranty of the defects after the product is transferred to customers, it is appropriate to view this as additional performance obligation in theory. However, distinguishing these warranties in operation might cause great difficulty to the companies. Moreover, the cost of distinguishing will be greater than the benefit.

2) Paragraph B15 mentioned that the unit which does not recognize as revenue differs depending on the product warranty method (replace or repair). Related to the warranty for latent defects, the original performance obligation is to transfer the goods without defects to the customers. This performance obligation is composed on product level basis. Thus, it is appropriate to view defects on some parts of a product are not fulfilling the performance obligation of its product level. Thus, the unit of revenue recognition does not have to differ depending on warranty method due to not fulfilling the performance obligation.

3) Some constituents suggested not distinguishing between latent defects and post-delivery faults and to treat all additional performance obligation. Moreover, for warranty obligation, it should be viewed as separate provision rather than deferring revenue due to following reasons: decrease in reliability, liability presentation on financial statements, and cost and benefit of producing accounting information.

### **Question 16**

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

**(a) 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; and it satisfies that obligation over the term of the licence; and**

**(b) 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?**

### **Response 16**

We disagree.

1) We believe it is difficult practically to find substantial differences of realistic performance obligation from the entity's perspective between non-exclusive licensing and exclusive licensing. If there is no substantial difference on performance obligation that provides licensing, the revenue recognition should not depend on the method of whether non-exclusive or exclusive, and should be accounted consistently. Preferentially, whether there is additional performance obligation or not during the licensing period should be discussed.

2) We believe accounting in accordance with the concept of lease provider model by Lease ED will solve inconsistency accounting problem according to type of asset.

3) Few suggested that even if the revenue regarding non-exclusive licensing should be recognized all at once, when the performance obligations are continuously satisfied during contract period, the revenue should be recognized along that period.

### **Consequential amendments**

### **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? In not, why?**

### **Response 17**

We agree.

1) It is difficult to find proper reason to apply different revenue recognition model that is applied in contracts with customers regarding non-financial assets.

### **Non-public entities**

#### **Question 18 [FASB only]**

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

### **Response 18**

We agree.

We do not believe that the characteristics of contracts regarding revenue recognition differ based on types of companies

### **Additional comments**

Some constitution suggested expression revision of ED as follows

1)'Though' is more appropriate than 'if', since paragraph 57 intends to allow the exception when certain requirements are satisfied even if the costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with another IFRS.

Paragraph 57
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If the costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with another IFRS (for example, IAS 2 Inventories, IAS 16 Property, Plant, and Equipment or IAS 38 Intangible Assets), an entity shall recognise an asset only if those costs:

→ Though the costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with another IFRS (for example, IAS 2 Inventories, IAS 16 Property, Plant, and Equipment or IAS 38 Intangible Assets), an entity shall recognise an asset only if those costs:

- 2) Revise paragraph 58(e) to present tense so that the consistency with (c) and (d) is increased.

Paragraph 58

(c) allocations of costs that relate directly to the contract or contract activities (for example, .....);

(d) costs that are explicitly chargeable to the customer under the contract; and

(e) other costs that were incurred only because the entity entered into the contract(for example, .....).

→ (e) other costs that are incurred only because the entity entered into the contract(for example, .....)

- 3) On IFRS, there are various words describing possibility. It is difficult to distinguish its level from users' perspective. Thus, simplifying the words describing possibility might increase the understandability.

Paragraph B53

If the terms of the put and related facts and circumstances make it virtually certain that the customer will exercise the put option(for example, because the customer is a financial institution and would incur a significant loss if it does not exercise the option), the entity would recognise a repurchase liability for virtually the full amount of consideration

received from the customer

4) Since the expression of 'deliver' is redundant, we believe deleting the following 'delivery' will make the sentence clearer.

Paragraph B59

... In most contracts, that will be when the product is either delivered to the customer's delivery site or shipped to the customer, depending on the terms of the contract, including delivery or shipping terms.

→... In most contracts, that will be when the product is either delivered to the customer's site or shipped to the customer, depending on the terms of the contract, including delivery or shipping terms. ....

5) Revision in presentation

Example 27

The entity determines the amount to allocate to the option at the end of the first and second years as follows.

→ The entity determines the amount to be allocated to the option at the end of the first and second years as follows.