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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Dear Sir

Management Commentary: Revenue Recognition in Contracts with Customers

Taken as a whole we support the concept of a single revenue recognition model as it streamlines and standardises current processes for revenue recognition.

However our concerns centre on the practical challenges of implementing the model in the Telecommunications environment in which we operate. We have therefore felt the need to contribute to the discussion by commenting on questions 1 to 9.

Question 1

The proposal allows an entity to combine two or more contracts and account for them as a single contract if the prices of the contracts are interdependent.

The opportunities for combining contracts are therefore restricted to the stipulated and very limited criteria with very little room for flexibility. This imposes serious practical application issues from a telecommunications environment perspective.

The biggest issue is that our IT systems (for both mobile and fixed line), will not be able to track thousands or millions of customers under the different tariff plans.

Counter- proposal

We would like to propose a portfolio approach where the calculations are performed collectively not per customer (i.e. using the total number of customers for each package).

Question 2

We agree with the proposal, on condition that a portfolio approach is adopted for accounting for similar contracts.

Question 3

We believe that the application guidance is sufficient

Question 4



We agree with the concept of recognising revenue on the basis of an estimated transaction price. Again the issue for us is the volume of transactions that we deal with and the impracticality of going through the estimation process for each single contract. Going forward further complications will arise from the convergence of fixed line and mobile (enabling users to have one contract which will cater for both fixed line and mobile).

Question 5- Effect of the customer's credit risk (Collectability)

Clearly this is not practical given the large volumes of customers. To determine the recoverability per customer requires a very sophisticated system or credit control which is very costly to obtain. Management will also need to make significant judgements and estimates and past experience has revealed that there is a huge potential for manipulation.

The following example is an illustration of some of the challenges of applying probability weightings to the amount that a company expects to receive from the customer in determining the transaction price at inception.

If for example, the credit risk assessment awards a customer a score of 50/50 and the sale is for R1 000, we need to Debit the debtor with R500, Credit revenue with R500, but send the customer an invoice of R1, 000.

In this example there are a number of considerations. Firstly, this will require a total revamp of our billing and accounting systems. Again cost benefit considerations should be taken into account.

There are also VAT issues to be taken into consideration. The VAT on the invoice will be higher, but the actual sale recorded will have to reflect a lower output VAT (not matching with the invoice issued), resulting in complications.

Of concern is the fact that these estimates may need to be updated over the life of the contract with corresponding adjustments made to the performance obligations.

Counter proposal

Continue with the current practice of making a provision for bad debt based on the invoiced amount. However, the provision is played off against revenue, rather than as an expense, if the idea is to give a better view of revenue earned. This will alleviate the confusion around billing the customer one amount and booking a totally different revenue number. In the same breath, potential complications relating to VAT issues will be avoided.

Question 6: Time value of money considerations

While the concept of taking the time value of money into consideration when its effect is material is a current practice, application of the same to prepaid advances is a new concept which presents some practical challenges. Firstly the impact would be significant for long term contracts but for the standard medium term contracts in the telecommunications sector, this adds a lot of complexity without necessarily adding value (Cost benefit analysis).



Secondly, if the amount is prepaid – then surely there is no impact on the revenues based on time value and if the price does not change irrespective of the payment term, then how can this impact the revenues?

Besides the manual calculations, tracking, as well as accounting entries will be necessary to account for the interest proposed by the ED, and a total revamp of our systems is necessary in order to accomplish this.

Counter proposal

Do away with the requirement to incorporate the time value of money for short to medium term pre-payments.

Question 7: Allocation of the transaction price to all separate performance obligations

It is practically impossible to identify performance obligations per contract given the volumes involved in virtually all aspects of our business.

Counter proposal

The solution again is to follow a portfolio approach which entails grouping like transactions and making blanket assessments.

As an example, Telkom has identified installation of fixed telephone lines as a performance obligations linked with the supply of fixed line services to customers. It will be almost impossible to work out the Customer Relationship Period (CRP) for each customer since we have 4million + customers and these customers take different products which are billed in different billing systems. Installation fees are deferred over the expected CRP. Customers for similar products are grouped together to work out CRP.

Question 8

Agree with the proposals

Question 9

The determination of onerous services is not practical in an industry where it is normal (especially in a regulated environment) for products to be used to cross subsidize based on regulatory regime the access deficit being a key point. If we have to declare all access revenues as onerous due to the access deficit, but still carry all the profits of the voice calls (that is currently used to cross subsidize) then we do not understand what the end result will look like on the income statement and balance sheet. In instances where such prices and services are regulated, this approach does not make sense and is definitely not practical either to do per customer.

Other issues

Definition of significant discount



The concept of "Significant discount" as it relates to bundles is not properly defined. Lack of proper guidance will result in discrepancies in the use of this clause in the industry, which will go against what they are trying to achieve with the ED. We therefore recommend that significant be defined or a process to determine significance be discussed somewhere in the examples

Yours faithfully
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