



MEYERS NORRIS PENNY LLP

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IFRS Foundation/IASB  
30 Cannon Street  
London, EC4M 6XH  
United Kingdom

*And*

Mr. Peter Martin  
Director, Accounting Standards  
Accounting Standards Board  
277 Wellington Street West  
Toronto, ON M5V 3H2

Dear Sirs

**RE: Exposure Draft – Revenue from Contracts with Customers**

Thank you for the opportunity to comment on the above noted document. We have reviewed the proposed International Financial Reporting Standard and are in agreement with most of the proposals of the Exposure Draft. Although we generally support the proposed changes, we have identified areas where further guidance would be beneficial to ensure consistent and comparable application of the standard. Our response does not address all the questions specified in the exposure draft but those areas where additional guidance should be considered.

One general observation that we wish to communicate before our detailed response is with regards to construction and other long-term contracts that are currently accounted for in accordance with IAS 11 using the percentage of completion method. It is our understanding that although the Exposure Draft does not make reference to the percentage of completion method, accounting for the continuous transfer of goods and services in accordance with paragraph 32 and 33 will result in a similar fundamental concept as IAS 11. We agree with this concept in principle and support the fact that the accounting results for construction and other long-term contracts should be relatively similar applying the percentage of completion method of accounting versus the new proposed continuous transfer of goods and services method.

***1) [Question 1] Do you agree with the principle on price interdependence to help an entity determine whether to combine or segment contracts?***

We agree with the proposed principle, however, we would recommend that the Board include further guidance to demonstrate its intention regarding what would constitute a 'significant discount' as referred to in paragraph 15(b). Example 1 in the application guidance illustrates a scenario where the customer receives a discount for buying product A and B together, compared to no additional discount for buying products A and B together with C. We recommend that the Board expand on this example to illustrate a scenario where the discount would not be considered significant or further clarify what it is that makes the discount on products A and B qualify as significant.



2) ***[Question 2] Do you agree with the principle proposed in paragraph 23 for determining when a good or service is distinct?***

We agree with the proposed principle, however, we feel that the guidance is somewhat unclear in its application to large construction contracts where the customer takes control of the work in progress. We recommend the Board develop further guidance on the application of this principle to construction contracts given that an overwhelming number of separate goods and services could potentially qualify as distinct under this type of contract, depending on how the concept of 'distinct' is interpreted.

3) ***[Question 5] Do you agree that a customer's credit risk should affect how much revenue an entity recognises when it satisfies a performance obligation rather than whether the entity recognises revenue?***

We do not support the proposal that credit risk should be considered in determining the amount of revenue to be recognised. In our view, it is more appropriate and practical to account for credit risk in the fair value of the receivable through the provision for doubtful accounts.

Example 20 of the application guidance illustrates that after recognition of the receivable, further impairment is recognised as an expense and not as a reduction in revenue; however, paragraph 53 states that subsequent changes in the transaction price allocated to satisfied performance obligations should be recognised as an adjustment to revenue. This appears to be in contradiction with example 20, as changes in the transaction price could be perceived to include changes in collectability (credit risk). This creates confusion as to how to account for the receivable in accordance with IFRS 9 (as required by paragraph 66) but also adjust revenue for changes in credit risk. We recommend this be clarified by the Board if it is concluded that consideration of credit risk will be included in determining the amount of revenue to be recognised.

4) ***[Question 13] Do you agree that an entity should apply the proposed guidance retrospectively?***

We do not agree that full retrospective application should be required. We recommend a transition approach similar to the IFRS 1 exemption for retrospective application of share-based payment transactions. We recommend a transition date of one year before the effective date of the standard and only contracts with unsatisfied performance obligations as at that transition date be accounted for retrospectively. All contracts entered into after the transition date should be accounted for in accordance with the new revenue recognition standard. This approach will provide the benefit of comparative disclosure in the first year of adoption but eliminate the cost of full retrospective application, which could prove to be excessive.

5) ***[Question 14] Do you think that the application guidance is sufficient to make the proposals operational?***

We feel that the application guidance is a significant improvement from the limited guidance in IAS 18 and IAS 11; however we recommend that the Board include additional guidance on:

- the Board's interpretation of a "significant discount" as referred to in paragraph 15(b);
- distinct goods and services in relation to the construction industry;
- the accounting for changes in credit risk as an expense vs. a reduction in revenue; and
- the impairment of contract assets, as discussed below.

*Impairment of contract assets.* In regard to paragraph 63, we feel that the wording of this paragraph makes it difficult to understand the intention of the Board. In particular, where the Board refers to "less the costs that directly relate to satisfying those performance obligations (as described in paragraph 58)", we feel that it is unclear whether this is in reference to costs in terms of paragraph 58 that were not capitalised because the requirements of paragraph 57 (b) or (c) were not met, or to future costs expected to be incurred in satisfying those performance obligations. We would recommend that the Board include an example to illustrate how to recognise an impairment loss on assets recognised in accordance with paragraph 57.

We are pleased to offer our assistance to the International Accounting Standards Board in further exploring issues raised in our response or in finding alternative solutions to meet the needs of financial statement users.

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Yours truly,

**MEYERS NORRIS PENNY LLP**

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