

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
UK

Oslo, 22 October 2010

Dear Sir/Madam

## **ED/2010/6 Revenue from Contracts with Customers**

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) is pleased to comment on the exposure draft on *Revenue from Contracts with Customers* (“the ED in the following). Please find our comments to the questions in the order suggested by you in the appendix to this letter. In addition to commenting on the questions in the ED we also comment on other issues that we believe the boards should pay particular attention to.

In summary, we support the boards’ proposal to replace the existing standards dealing with revenue recognition with one based on a single revenue recognition principle. However, we are not sure whether the proposed customer contract-based revenue recognition principle meets the objective of financial reporting, namely to provide decision useful information to the primary users of the financial statements. Therefore, we do not offer full support to the proposal in the ED.

According to the ED, revenue recognition should be recognised when an entity has satisfied a performance obligation under a contract with a customer. A performance obligation is satisfied when control of the asset involved, a good or a service, is transferred to the customer. The control transfer may very well be occurring at other times than the activities producing the goods or services are being transferred. Thus, the proposed principle will not necessarily reflect the revenue generating activities. We believe that information about the revenue generating activities is decision useful. Moreover, we are not convinced that control transfer information is decision useful.

On this basis we ask the Board to reassess whether the transfer of control concept is the conceptually best concept with regards to revenue recognition in all instances. We find the reasons given by the Board in BC33 to reject an activity based model unconvincing. If a gradual fulfilment of a contract obligation is conceptually impossible for revenue recognition, the proposed standard for lease accounting seems doubtful. And the argument about possible abuses under an activity based model is hardly compatible with some other standards, such as fair value accounting for investment property and biological assets, or revaluation of fixed assets.

In our answers to your stated questions in the appendix we do not repeat our overall scepticism towards the general solution of the ED.

Postboks 2914 Solli, 0230 Oslo  
Telefon +47 23 36 52 00

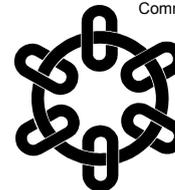
E-mail: [nrs@revisorforeningen.no](mailto:nrs@revisorforeningen.no) – Web: [www.regnskapsstiftelsen.no](http://www.regnskapsstiftelsen.no)



Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,

Erlend Kvaal  
**Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse**



## Appendix – NRS’ responses to the questions asked in the ED

### 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?*

We agree with the principle of price interdependence to help the entity determine whether to combine two or more contracts and account for them as a single contract. Moreover, we agree with the logic of applying the same principle conversely to segment a single contract and account for it as two or more contracts.

Contract modifications are structured in various ways and under current requirements revenue recognition of modifications are to some extent susceptible to an entity’s subjectivity. We agree that the principle of price interdependence would help to ensure similar accounting for similar rights and obligations, regardless of the form of a contract.

#### 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?*

We generally support the proposal that only a promised good or service that is distinct should be identified as a separate performance obligation. Moreover, we agree that the best evidence that a good or service is distinct is when the good or service is sold separately. However, we are concerned that the criteria set out in paragraph 23 (a) would result in segmentation of a contractual arrangement into multiple separate performance obligations, in cases where the economics of the arrangement are better reflected from an overall perspective. We do not agree that a good or service or a bundle of goods or services are distinct whenever another entity sells an identical or similar good or service separately. In many cases supply and installation are services closely related to other deliveries within a contract and should jointly be regarded as a single performance obligation, even if components of the contract could be



sold separately by another entity. Hence, we suggest that the Boards place more emphasis on an entity's own customary business practice in determining whether a good or service or bundle of goods or services are distinct.

### **Question 3**

*Do you think that the proposed guidance in paragraphs 25–30 and related application guidance is 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?*

In general, we believe that the need for extensive guidance to clarify a principle is evidence for either the principle not being sufficiently robust, or the principle being poorly formulated. Hence, the need for extensive guidance to clarify the control concept is in our opinion an indication of this concept either not being sufficiently operational or not being adequately formulated for the purpose of revenue recognition in all instances.

Having said that, we believe the proposed guidance in paragraphs 25 – 30 and related application guidance provide useful guidance for determining when control of a promised good or service has been transferred to a customer in many instances. However, the proposed guidance may not be sufficient for determining when control has been transferred to a customer for all contract arrangements. In particular, we believe it is often difficult to determine when control has been transferred to a customer for services.

According to paragraph 26 of the ED control of a good or service is obtained when the customer has the ability to direct the use of, and receive the benefit from the good or service. Paragraph 30 presents four indicators as guidance for determining if the customer has obtained control of a good or service. Moreover, paragraph 31 explains that two of the indicators presented in paragraph 30 (physical possession and legal title) would not be relevant to services.

We would like to illustrate the difficulty of determining transfer of control for services by giving an example from the shipping industry. In so-called voyage charters, the performance obligation is a promise to deliver goods at a specific site. As an example of a voyage charter a customer orders shipment of goods from Port A to Port B within 60 days. Based on the guidance in ED it is unclear whether control of the service has been transferred to the customer in this shipping example. During the voyage the customer may have no control over how the service is performed, and may not receive any benefit from the good being transported. Under current industry practice, revenue is recognised on a discharge-to-discharge basis. That is, revenue is recognised during the voyage. It is not clear to us whether revenue recognition during the voyage would apply also under the proposed requirements in the ED.

We propose that paragraph 31 is added to the end of paragraph 30 to make it clearer that 31 do only reflect back to that paragraph.



## 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 an entity should meet to be able to reasonably estimate the transaction price.*

*Do you agree that an entity should recognise revenue on the basis of an estimated transaction price? If so, do you agree with the criteria in paragraph 38? If not, what approach do you suggest for recognising revenue when the transaction price is variable and why?*

We agree that revenue from satisfying a performance obligation should be recognised only if the transaction price can be reasonably estimated. We would however like the Board to clarify in which circumstances using “a best estimate” approach would not give a conceptually sound solution. We would also like the Board to clarify whether an expected value approach or a probability weighted approach should be used or whether both these methods are acceptable.

### Question 5

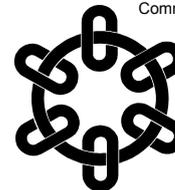
*Paragraph 43 proposes that the transaction price should reflect the customer’s credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer’s credit risk should affect how much revenue an entity recognises when it satisfies a performance obligation rather than whether the entity recognises revenue? If not, why?*

We agree that the customer’s credit risk should be included in the determination of the transaction price and that this should affect the amount of revenue that is recognised when a performance obligation is satisfied. We believe that the last sentence relates to a financial instrument and should not be covered in this standard.

### 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?*

We agree that the amount of promised consideration should be adjusted to reflect the time value of money, and that such an adjustment is only warranted when the financing component is distinct. We recommend not including the word material in the wording of paragraph 44 as including material in some paragraphs might create confusion as to the application of materiality to other paragraphs. We believe that the last sentence relates to the presentation of revenue from a financial instrument and should be covered in IFRS 9 or a standard on presentation of financial statements.



### 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?*

We have some doubts regarding paragraph 50. This would in some instances give rise to onerous performance obligations although the contract which the performance obligation is related to is profitable. We question whether such an approach would result in decision useful information for the primary users of the financial statements. We would therefore ask the Board to reassess whether onerous performance obligations should give rise to day 1 losses in situations where the entity is making profit on the contract to which the performance obligation belongs.

## 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 recognise 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?*

We agree with the proposed requirements in paragraph 57 and we believe that those requirements are operational and sufficient. We believe the Board should not develop a more detailed guidance with respect to which costs that should be capitalised since this in our view creates more questions than answers.

### Question 9

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

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

We agree with the costs specified.



## DISCLOSURES

### 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?*

We agree that the proposed disclosure requirements will help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. However, we are concerned that entities that have entered into numerous contracts with different characteristics will be required to disclose an extensive amount of information.

Paragraph 70 proposes that an entity shall consider the level of detail necessary to satisfy the disclosure requirements and how much emphasis to place on each of the various requirements. Basically we agree with this proposal but we are concerned that the level of judgement latitude will reduce comparability of information in disclosures within certain industries such as the construction industry.

### 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?*

We agree with the proposed disclosure requirement as we believe information of remaining performance obligations will be useful for users of financial statements in order to understand how long term contracts will affect future financial reporting.

### 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?*

We agree with the proposal.



## EFFECTIVE DATE AND TRANSITION

### Question 13

*Do you agree that an entity should apply the proposed requirements retrospectively (that is, as if the entity applied the proposed requirements to all contracts in existence at the effective date and in the comparative period)? If not, why?*

*Is there an alternative transition method that would preserve trend information about revenue but at a lower cost to preparers? If so, please explain the alternative and why you think it is better.*

In principle we agree with the proposal to apply the requirements retrospectively. However we believe this should be assessed on a cost/benefit basis. For many entities it could be burdensome to apply the requirements retrospectively, especially in circumstances where they have to present two years of comparative figures. Based on this we would like the Board to only require retrospective application for one year of comparative figures.

## 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 proposal operational? If not, what additional guidance do you suggest?*

We believe it is difficult to evaluate whether the application guidance is sufficient to make the proposal operational. However, we refer to our answer in question 3.

### 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?*



We agree with the proposal to distinguish between product warranties with coverage for latent defects in the product and product warranties with coverage for faults that arise after the product is transferred to the customer.

### **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*

*(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 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?*

We agree with the proposal. However, we encourage the boards to align the requirements for revenue recognition of exclusive licences with the requirements of a lessor in the proposed leases standard.

## **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? If not, why?*

We agree that the requirements for recognition and measurement of gains and losses on the sale of some non-financial assets should be consistent with the requirements of the revenue recognition standard.