



立信会计师事务所(特殊普通合伙)
SHU LUN PAN CERTIFIED PUBLIC ACCOUNTANTS LLP

SHU LUN PAN CERTIFIED PUBLIC ACCOUNTANTS LLP
11th F.No.61.Nan Jing Dong Road
Shanghai
China
200002
Tel: 86-21-23280023
Fax: 86-21-63214580
E-mail: lx_tech@bdo.com.cn

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Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EX4M 6XH

Re: Exposure Draft – *Revenue Recognition – Revenue from Contracts with Customers*

Dear Mr. Hans Hoogervorst,

We appreciate that the IASB always seeks views from relevant countries, organizations or individuals in an open way. As an accounting firm of Emerging Economies, we are very pleased and eager to comment on the ED – *Revenue Recognition – Revenue from Contracts with Customers*, and provide you with thoughts of accountants from Emerging Economies, which are formed from unique perspectives of Emerging Economies.

For your convenience of reading our statements, “Questions” listed below are those stated in the consultation questions. Our opinions are listed under “Answers”.

Question 1:

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and



recognises revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

Answer 1:

We agree with the ED's proposal on "when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time". This proposal would address different accounting practices in the current accounting standards in terms of same or similar businesses; hence it standardizes the recognition criteria.

However, we still think there are following issues relating to the recognition criteria:

The recognition criteria of performance obligations satisfied over time of this proposal are relatively loose. Because on condition that at least one criterion is being met, the entity can recognize the obligation as a performance obligation satisfied over time, which will change the revenue recognition criteria of certain performance businesses. However, we do not think this change is totally appropriate, such as some OEM businesses (e.g. clothing OEM, beverage bottling OEM etc), whose performance durations are normally quite short (possibly only one or two months), and revenues from which are recognized as sales of goods under the current standards. However, based on ED's recognition criteria, the customer controls the work-in-progress and the contract constraints the alternative use of this asset by the entity; therefore the business is within the scope of the performance obligation, and revenues should be recognized according to the progress. As a consequence, the accounting workloads and cost inputs of entities for such types of business will increase. Furthermore, because its performance duration is too short, the relevant revenue will be recognized within a short time period no matter which method is used. Indeed, it doesn't make sense to change existing revenue recognition criteria.

According to ED, another example is advanced sales contract for real estate that is within the scope of performance obligation satisfied over time. Thus revenue recognition criteria for some industries might change.

We suggest the IASB to reduce the application scope of performance obligation satisfied over time, or to increase its flexibility. For those performance obligations



satisfied over time within the short period, the entity shall be permitted to have different options, in order to avoid unnecessary change in accounting method in practice, which better satisfying the cost-benefit principle.

Question 2:

Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

Answer 2:

We disagree with the proposal of presenting consideration that is uncollectible as a separate line item adjacent to the revenue line item.

We appreciate the objective that the IASB intended to achieve through the proposal. However, we don't think presenting consideration that is uncollectible as a separate line item adjacent to the revenue line item will achieve that objective.

Impairment loss of receivables is the uncollectable amount determined by the balance of the receivables with the consideration of the customer's credit risk. However, the receivables are not totally derived from the current period's revenue, and revenue from prior periods might also be involved. Therefore, impairment loss of receivables of the current period is not always associated with the current period's revenue. Merely separate presentation of consideration that is uncollectable in the other comprehensive income statement cannot accurately reflect its relationship with revenue. Only in combination with the aging analysis of receivables can users of financial statements get better understanding the relationship between impairment loss of the receivables and each period's revenue. We think that users of financial statement who don't thoroughly understand the relationship between impairment loss and the revenue might misinterpret information presented in the financial statements and will not be able to make proper evaluation on the current period's recoverable amount.

Question 3:

Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

Answer 3:

We agree with the above stated proposal.

We think the proposal of “the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled” would eliminate the possibility of exaggerating revenues caused by non-human factors. At the same time, ED has stipulated criteria for evaluation of the expected amount to which the entity is reasonably assured to be entitled, which eliminates material uncertainty of recognized revenues due to the entity's lack of experience (or unavailability of other evidences).

However, the above mentioned proposal doesn't eliminate delays of revenue recognition which are caused by human factors. For instance, if the entity has experience with similar performance obligations (or has other evidences), but he does not predict the amount of consideration entitled to the entity, thus rendering incomparability between the cumulative recognized amount of revenue recognized by the entity and the entitled consideration. We suggest IASB to consider this matter.

Question 4:

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognise a liability and a corresponding expense if the

performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

Answer 4:

We agree with the proposed scope of the onerous test. Our reasons are: From cost-benefit considerations, if the onerous test is performed for a performance obligation that an entity satisfies over a period of time less than one year, the entity's relevant workloads and costs might increase considerably from a cost-benefit perspective. Meanwhile, due to larger quantities of the tested performance obligations, relevant predictive data can be difficult to obtain, therefore it could result in significant uncertainty of the test outcome; on the other hand, although limiting the scope of tests on onerous performance obligations will cause inconsistency of their treatments, we don't think it will have big impact on its financial statements if the entity doesn't test and account for the loss for performance obligation satisfied over time within one year, which is a relatively short period.

In addition, there is no explicit definition of "a period of time over one year"; which might cause confusion in practice. As such, timing of the performance obligation might include: date of signing the contract, starting date of the performance obligation which is stated in the contract, actual starting date of the performance obligation, ending date of the performance obligation which is stated in the contract and possible ending date of the performance obligation which is expected by the entity etc. Therefore we suggest IASB to clarify this issue.

Question 5:

The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports.* The disclosures that would be required (if material) are:

- The disaggregation of revenue (paragraphs 114 and 115)
- A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
- An analysis of the entity's remaining performance obligations (paragraphs 119–121)
- Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)
- A tabular reconciliation of the movements of the assets recognized from the costs to



obtain or fulfill a contract with a customer (paragraph 128).

Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

Answer 5:

We agree with IASB’s proposal on “entity should be required to provide each of those disclosures in its interim financial reports”.

On the basis of 2010’s ED, the IASB limits or simplifies the scope the disclosure of the relevant information with adequate considerations on the cost-benefit principle and the importance of disclosure of relevant information mentioned above (e.g. An analysis of the entity’s remaining performance obligations is only required for contracts with an original expected duration of more than one year). We think the required disclosure of the information mentioned above is quite important for users of financial statements in evaluating the entity’s interim financial performance and financial prospects. As such, users of financial statements should obtain interim information that is consistent and comparable with that of the annual report. While performing cost analysis of obtaining the above information, most of it can be collected directly from the entity’s accounting system (e.g. The disaggregation of revenue; A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfill a contract with a customer; A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period; Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period;). Although it is still necessary to input costs to collect some information (such as “An analysis of the entity’s remaining performance obligations”), we think these costs can be justified by the importance of the information disclosed, and are acceptable to the entity.

Question 6:

For the transfer of a non-financial asset that is not an output of an entity’s ordinary



activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements on control to determine when to derecognise the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition of the asset.* Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

Answer 6:

We agree with this proposal. We believe that adherence to the proposal on transfer of non-financial assets would standardize and clarify all the recognition principle and measurement requirement of revenues from contracts with the customers and facilitate the preparation of Financial Statements as well as users of financial statements could gain accurate information from it.

Sincerely

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