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Mr. Hans Hoogervorst, Chairman  
International Accounting Standards Board  
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**Subject: Exposure Draft – Revenue from Contracts with Customers**

Dear Sir,

We appreciate the opportunity to comment on specific matters raised by the board in connection with public discussion of the said Exposure Draft.

The Institute of Professional Accountants of Russia (IPAR) is a largest professional body for accountants in Russia. We strongly support the processes of dissemination of the IFRS and the efforts on international convergence. In our work with IFRS we mainly focus on the task of good understanding of norms of IFRS and sharing of appropriate application practice by the means of educating the accountants that, we believe, is crucial for the quality of financial statements on IFRS, especially in the emerging economies.

As you know Russia has fully adopted the IFRS in the year 2011, with mandatory effect for companies of a public interest starting from the reporting year 2012. And so, it is highly topical for Russian professional community to provide its relevant contribution into the standard setting process.

We welcome the project on elaboration of a common standard on Revenue recognition undertaken by the boards and believe that it should be a regulation of a high quality that meet the interests of preparers and users of the financial statements on IFRS with regard to the issues of the modern economies. Below, we are pleased to provide our comments on the Exposure Draft questions raised by the boards.

***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?

**Response:** In general we agree with the proposed criteria. And we highly appreciate the work done by the boards on elaborating these concepts as we can see from the paragraphs BC82- BC103 of the Basis for Conclusions.

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But taking into consideration the reasoning presented in the paragraphs BC87, BC90 and BC91, we would advise to amend the current wording of paragraphs 35 with a prominent remark that it applies to both variants of transfer to the customer control of the asset as it is created or enhanced: either in the process of creation or enhancing (e.g. gradual transfer of control of work in progress), either on completion of this process (e.g. transfer of control of finished asset or work). In our opinion, such adjustment will preclude any possible misunderstanding that is especially relevant for entities of construction industry that currently use a percentage of completion method under IAS 11.

At the same time we acknowledge that the criteria in paragraphs 35 and 36 are quite complicated and theoretical, and that additional industry guidance on their application will be required (for such industries as: construction, entertainment and media, healthcare etc.).

***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?*

**Response:** We cannot fully agree with the proposals because of our following position.

We suppose that revenue should be recognised at the amount to which the entity reasonably expects to be entitled without any specific adjustments for expectations about the collectibility of the promised consideration at the moment of recognition (once the criteria for recognition are met).

We suppose that the collectibility as well as the customer's credit risk are the notions that relate to the accounts receivable and should be accounted for any impairment losses (and reversals) of accounts receivable in accordance with IFRS 9 or IAS 39.

We cannot agree that the profit or loss arisen from adjustments to customer's credit risk should be presented as a separate line item adjacent to the revenue line item, for the following reasons.

- If we consider the accounts receivable as financial instruments then this way of presentation will rise inconsistency with accounting of impairment loss (and reversals) due to credit risks of other financial assets (e.g. loans).
- Revenue is an important analytical indicator that reflects the actual volume of the entity's operational activity and there is more sense in measuring it at the amounts to which the entity is reasonably entitled upon selling goods or rendering services.
- In practice it is often not possible (or too costly) to evaluate the credit risk of a particular customer at the moment of selling goods or rendering services.
- The proposed way of presentation will raise issues with subsequent accounting of impairment loss (and reversals) due to credit risks of accounts receivable, when the profit or loss related to the sales of previous period will adjust the revenue from sales of the reporting year.
- According to the proposed way of presentation it is possible that the top line of the Statement of comprehensive income will be negative (when losses from subsequent adjustments on credit risks related to the sales of previous periods will exceed the revenue of reporting year) or positive without real sales in the reporting year (when profit from subsequent adjustments on credit risks related to the sales of previous periods will be recognised).

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- The net amount of revenue according to the proposed way of presentation will be incomparable with the corresponding cash flows for the reporting period.

As an alternative we propose to continue use the current way of presentation of profit or loss arisen from adjustments to customer's credit risk, i.e. as other operational gains and losses.

**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?*

**Response:** In general we agree with the proposed criteria. At the same time we should attract you attention to the following points.

- To some extent the proposed constraint discriminates against the newly-organised entities that do not have predictive experience with similar performance obligations.
- The decision on evaluating the entity's experience and recognition of variable consideration are of highly judgmental nature that creates a field for potential manipulations with revenue.
- The proposed concepts will require from auditors to apply additional resources for evaluation of judgments made by the management that will increase the overall costs on financial reporting.

**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?*

**Response:** We cannot fully agree with the proposals and would advise to elaborate the accounting concepts for the onerous contracts with customers with regard to the following consideration.

According to our understanding the adoption of Exposure Draft in its current wording will lead to a significant limitation of scope of onerous contracts accounting. The onerous contracts are currently accounted for in accordance with regulation of IAS 37. But according to the paragraph D21 of this Exposure Draft the IAS 37 will not to the rights and obligation arising from contracts with customers. Thus the accounting of onerous contracts with customers should be fully regulated by this Exposure Draft, and we would advise to extend its scope to the following cases:

- Onerous performance obligation that is satisfied at a point in time (for example when an entity at or after the inception of a contract for supply of goods evaluates this contract as onerous according to the set criteria, regardless whether these goods already exist in the entity). Such consideration also makes sense and adds consistency in case, when an entity enters in a bundle of performance obligations both satisfied at a point in time and satisfied over a period of time one of which is onerous.

- Onerous performance obligation that is satisfied over time, not with a period greater than one year, but with period overlapped over the reporting date. As a practical expedient the purpose of interim reporting, in IAS 34 it could be provided that an entity need not to apply the onerous test for the performance obligation that is satisfied over time but not overlapped over the year reporting date.

We do not agree that the onerous test should apply at the performance obligation level. In our opinion, it does not correspond with the well-elaborated and reasonable approached to contract identification and combination, as well as a logic of allocation of profit margin among the performance obligation within a contract. We would advise to apply the onerous test the contract level.

We suppose that the composition of costs to satisfying performance obligation should include a rational allocation of overhead production costs (or an analogue for non-production industries), but not only costs that relates directly to a contract that listed in paragraph 92.

**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 fulfil 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.*

**Response:** We do not agree with the proposals. We suppose this requirement for such an extensive disclosure does not meet the cost constraint on useful financial reporting and will be too burdensome both for public and non-public entities. We suppose that the disclosure listed requirements should not be applicable to the interim financial reports. As a compromise variant (that still will not fully satisfy the preparers) we could advise to amend IAS 34 with requirements to disclose a condensed set of information about revenue and contracts with customers.

**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?*

**Response:** We fully agree with the proposals.

Thank you for considering our comments and, please, do not hesitate to contact us will you have any questions.

Yours faithfully,  
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