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March 5, 2012

Via website posting: <http://www.iasb.org/>

Re: Exposure Draft: **A revision of ED/2010/6 Revenue from Contracts with Customers(ED/2011/6)**

Dear Sir/Madam:

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the Exposure Draft: **A revision of ED/2010/6 Revenue from Contracts with Customers(ED/2011/6)**. We have also provided additional comments on certain related matters.

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?

Comment:

We agree with the requirements of paragraphs 35 and 36. We believe that these two paragraphs will respond to concerns related to the original 2010 ED where the proposals, as stated therein, did not result in revenue being recognized over time, although this approach was believed to provide the most useful information; and also that revenue could be recognized without the entity being reasonably assured of having a right to consideration.

We appreciate and agree with the guidance provided by paragraphs 35 and 36 for resolving these issues. We consider it an improvement over the current requirements which stipulate that percentage-of-completion accounting in many cases shall be applied for a long-term contract, although the contract neither deals with the construction of a significantly customized good, nor meets the criteria of IAS 18 for percentage-of-completion accounting. We also believe that the proposed requirements appropriately limit the revenue figure to amounts that the entity is reasonably certain to be entitled. Hence, the revised proposals will correspondingly result in decision-useful information.

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?

Comment:

We agree with the proposal to provide guidance on the presentation of uncollectible amounts for achieving consistency, and believe that such guidance should be included in the revenue recognition standard itself, and not in IAS 1, so as to render a major and critical standard such as revenue recognition self-contained.

We further note that receivables are included in the scope of IFRS 9, while contract assets are not, and hence a distinction should be made between receivables and contract assets. Receivables should be accounted for in accordance with the requirements for financial instruments, while contract assets should be accounted for under guidance that should be included in the revenue recognition standard.

We also believe that the impairment losses on receivables should be presented separately from impairment losses on contract assets, because presenting the impairment losses on financial instruments together with impairment losses on contract assets would seem inconsistent with the distinction that IAS 1 makes between gains, losses and costs arising from financial instruments and non-financial instruments. Also, impairment should be assessed differently for contract assets and receivables, in order to maintain current practice in relation to contract assets.

We also concur with the proposal, as per the paragraph 69, for presenting impairment losses in a line item adjacent to the revenue line, because we believe that such presentation would provide useful information about the gross revenue and the associated collectability. As regards to cost benefits trade off, we note that, to the extent that impairment losses are not material, it may not be necessary to apply complex methodologies for making the estimates that are otherwise required for financial instruments.

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?

Comment:

We are in general agreement with the proposal. However, we make the following observations.

- Paragraph 81 should clarify that contingencies should be accounted similar to variable amounts.
- We do not believe that the length of time for resolving the uncertainty is relevant for deciding whether or not an entity's experience (or other evidence) is predictive of the amount of consideration to which the entity will be entitled. Hence, we do not concur with the indicator specified in the paragraph 82(b).
- The scope of paragraph 85 should be expanded to include not only sales-based royalty but also production-based royalty, as there is little logical justification for distinguishing between them.

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?

Comment:

We do not find rationale for this proposal, per BC207, convincing, and hence do not concur with this proposal because:

- The proposal stipulates the *onerous obligation* test at the performance obligation level, rather than at contract level. We believe that the losses at the performance obligation level will not meet the definition of a liability under the IASB Conceptual Framework. Also, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* prohibits recognition of future operating losses and applies at the contract level, and not at performance obligation level.
- As proposed, there will be no *onerous obligation* test for the performance obligations that are satisfied over a period of time of less than one year or satisfied at a point in time in the future. We believe that this outcome is arbitrary.

In view of the above, we suggest that *onerous obligation* test should be applied at the contract level, without any scope restrictions. Also, when a performance obligation becomes *onerous* after the initial allocation of the transaction price, the loss on one performance obligation within an overall profitable contract should be allocated to the remaining performance obligations, based on their respective margins, so that no loss on an overall profitable contract is recognized. We believe that such accounting treatment reflects more accurately the business and economic realities for contracts, and also provides more useful information.

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 recognised 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.

Comment:

We note that the proposals aim to enhance the extant disclosure requirements under IAS 34 *Interim Financial Reporting* as part of the revenue recognition project. We believe that any perceived deficiencies in the current IAS 34 should be addressed by a separate and independent project, and not in piecemeal manner and indirectly by proposing modifications through other standards such as revenue recognition.

Without prejudice to the aforementioned, it is believed that the proposed disclosures are excessive and will, more likely than not, fail to provide incremental useful information to the users without imposing undue burden on the entities. We suggest maintaining the *status quo* for the disclosures relating to revenue recognition in the interim financial statements, because we believe that the costs-benefits ratio for any such enhancement is not favorable.

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?

Comment:

We agree with the proposal as it will achieve internal consistency, eliminate diversity in practice, and serve to expand convergence with US GAAP. We further note that, as per the extant wording of the proposal, in case of ordinary activities of the entity, the constraint of "reasonable assurance" will apply only when the consideration is variable. However, in case of transfer of non-financial assets, such constraint applies in all the instances. We suggest rectifying this anomaly.

Additional Comments:

We consider the revised draft an improvement over the previous, but do nevertheless harbor some additional concerns. We believe that the standard should provide guidance on how to ascertain if the contract is with a customer, and hence within the scope of the standard, but not with a collaborator, and hence not within the scope of the standard. We also suggest additional guidance on allocation of different payments to various transfers of promised goods or services, when time value of money is to be accounted for because of financing components being significant to the contract. We also do not concur with the application guidance in appendix B of the revised proposal that specifies different accounting treatments for:

- (a) sale with a right of return (paragraphs B2 – B9);
- (b) repurchase agreements (put options) (paragraphs B43 – B48); and,
- (c) customer acceptance (paragraphs B55 – B58).

It is contended that it is not possible, or pragmatic, to distinguish between these three types of transactions, and hence the proposed amendments may result in dissimilar accounting for similar transactions.

We appreciate that revenue recognition is one of the most pervasive and complex accounting standards, entailing significant deployment of resources by entities for its implementation. Hence, we suggest that the effective date for this standard should not be earlier than three years after the final standards is published.

Should you wish to discuss the contents of this comment paper or require further elaboration on any of the items presented herein, please do not hesitate to contact Kamallesh Gosalia at kgosalia@cga-canada.org or alternatively the undersigned at rlefebvre@cga-canada.org.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Lefebvre". The signature is fluid and cursive, with a prominent initial "R" and a long, sweeping tail.

Rock Lefebvre, MBA, CFE, FCIS, FCGA
Vice-President, Research & Standards