



Chartered Institute of Management Accountants,
26 Chapter Street,
London,
SW1P 4NP
Tel: 020 7663 5441
Fax: 020 8849 2468
www.cimaglobal.com

Mr Hans Hoogervorst
International Accounting Standards Board
30 Cannon St
London
EC4M 6XH

By email to: commentletters@ifrs.org

13 March 2012

Dear Mr Hoogervorst

Revenue from Contracts with Customers

The Chartered Institute of Management Accountants (CIMA) is pleased to have the opportunity to comment on this consultation. CIMA, founded in 1919, is the world's leading and largest professional body of Management Accountants, with 195,000 members and students operating at the heart of business in 176 countries. CIMA is committed to high quality, global, principle-based, neutral financial reporting standards and supports the widespread adoption of International Financial Reporting Standards.

Overall this exposure draft is much better than the previous version, the illustrative examples are good and we generally support the revised proposals. We attach responses to the individual questions raised in the discussion paper but would like to draw your attention to some of the specific points we make.

We are still concerned with the interaction of the 'change of control' and 'satisfaction of performance obligations' concepts especially in relation to long-term construction contracts and the 'alternative use' restriction. We believe that the IASB should include further illustrative examples of revenue recognition for a range of long-term contracts, for example those that are satisfied largely from common manufactured elements or where the asset only becomes specific to a customer part way through the production cycle.

We do not agree that the onerous performance obligation test should only be applied to contracts of more than one year; we would prefer that the test is applied to contracts that span a financial reporting period-end and which would materially affect the results for the period.

We would be pleased to discuss with you any aspect of this letter that you may wish to raise with us.

Yours sincerely

Nick Topazio

Nick Topazio
Head of Corporate Reporting Policy,
CIMA
London

Charles Batchelor

Charles Batchelor
Chairman
Financial Reporting Development Panel
CIMA
London



Responses to the specific consultation questions:

Question 1: Paragraph 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?

We believe that paragraph 35 a) may present some practical application problems but expect that the more straight-forward paragraph 35 b) will be relevant to the majority of business transactions.

We also foresee practical application problems in relation to the alternative use provision in paragraph 36 especially in relation to assets that for a substantial portion of their construction phase have a range of alternative uses (or end customers) but which, at a point in time, became unique to a specific contract. For example, our understanding of aircraft manufacture is that a number of basic airframes can be in manufacture at any point in time with the view to satisfying a number of orders. It is only at an advanced stage in this process that the airframes are identified as the particular variants for specific contracts. Our understanding of paragraph 36 implies that no revenue should be recognised from these contracts until the point of specific identification. This does not seem to reflect the business reality. We would like the IASB to include illustrations in their final guidance of how to recognise revenue in similar unusual circumstances.

We are also concerned that paragraph 37 could lead some preparers to conclude that revenue could be recognised based upon the pattern of payments received which we do not believe is appropriate or the intention of the IASB.

Question 2: Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39 if the entity has not yet adopted IFRS9) 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?

We agree with the proposed treatment.

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. 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?

Whilst we agree with the concept of such a constraint we believe that identifying it as a separate restriction is overly prudent. We believe that the test could and should be built into the guidance given in relation to the measurement of expected revenue.

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?

We do not agree that the 'onerous test' should only be applied to contracts of greater than one year. We believe that the key criterion should be whether the contract spans a year-end. It should be stressed that this test should only be applied to material contracts.

Furthermore, if on initial recognition one performance obligation of an otherwise profitable contract is shown to be onerous the first step should be to reconsider whether the allocation of revenue is reasonable and recognises commercial reality.

It is possible that disclosure of a contingent liability might be more applicable.



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. Do you agree that an entity should be required to provide each of the disclosures in its interim financial reports?

We are concerned with the continued growth in disclosures and would like the guidance to stress the need to apply a materiality test to the disclosures. The IASB should only proceed with the additional interim disclosures if it is convinced that the potential benefits to users clearly exceed the costs to preparers.

Question 6: for the transfer of a non-financial asset that is not an output of an entity's ordinary activities 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? If not what alternative do you recommend and why?

We agree with the proposed amendment to other standards.