

Exposure Draft ED/2011/6

A revision of ED/2010/6 *Revenue from Contracts with Customers*

# **response to exposure draft**

13 March 2012

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

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International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH

Submitted electronically to [www.ifrs.org](http://www.ifrs.org)

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Dear IASB secretariat

**Exposure Draft ED/2011/6, Revenue from Contracts with Customers**

CIPFA is pleased to present its comments on the matters discussed in this Exposure Draft, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

**General comments**

This ED takes forward material developed in Exposure Draft ED/2010/6, which in turn took forward a December 2008 Discussion Paper, *Preliminary Views on Revenue Recognition in Contracts with Customers*.

CIPFA considered that the proposals in the Discussion Paper were clearly and logically presented, and provided a useful basis for the development of an IFRS. CIPFA also considered that the 2010 ED made useful progress but that further development was required.

This revision provides further development, responding to comments from CIPFA and other stakeholders. By and large we consider that the proposed standard is successful in taking these forward to produce an improved standard.

**Comments on the scope of the proposed standard**

The proposals in ED 2011/06 expand on the scope exclusions set out in paragraph 6 of ED/2010/06. The latter mainly scoped out transactions covered by other more specific IFRS, also excluding certain types of asset exchange which would not be carried out on normal commercial terms. ED/2011/06 takes this further, and paragraph 10 makes it clearer that the treatment developed for *Revenue from Contracts with Customers* is intended to apply to commercial customer-supplier exchanges where the commercial substance is straightforwardly expressed in the contract. This therefore excludes certain contractual arrangements with counterparties who are partners or collaborators rather than customers.

CIPFA agrees that this is helpful clarification that the proposed standard is designed for a specific commercial or economic context, and may not apply directly to circumstances outside of this remit.

We recognise that the standard is not principally designed for financial reporting by not-for-profit entities. Whilst the standard will cater for income earned from contractual arrangements by charities and other not-for-profit entities obtain, it does not address income from non-exchange transactions and the fulfilment of constructive obligations. Examples of these include:

- (a) Gifts, grants and donated goods and services,
- (b) arrangements with partners and collaborators, and
- (c) other contractual or quasi-contractual arrangements not involving the supply of goods and services.

Similar issues arise in respect of non-exchange transactions by public sector entities preparing financials statements under IFRS.

### **Specific comments**

Responses to the questions in the Exposure Draft are attached. Some of the comments reflect CIPFA's specific interest in the financial reporting of not-for-profit entities and of public sector entities. These comments may impact on future development by the Board in respect of reporting by not-for-profit entities, or may be relevant to other standard setters whose standards are substantially informed by IFRS and IASB development, such as the International Public Sector Standards Board or the UK specific standard setting of the UK Accounting Standards Board. I hope this is a helpful contribution to the development of the Board's guidance in this area.

Yours faithfully

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## Draft CIPFA answers to questions for respondents

**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?

CIPFA agrees with this proposal.

**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?

CIPFA agrees with this proposal.

**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?

CIPFA agrees with what we believe is the intention of this proposal, but we found the drafting in terms of 'reasonably assured' insufficiently clear. It also introduces the term 'reasonably assured' which may cause confusion with the reasonable assurance terminology of independent audit. It is important that the standard be capable of consistent interpretation and application. The proposed wording of paragraph 81 is quite complex, and may be sufficiently ambiguous that it will give rise to a much greater variety of interpretations and applications than the board intends. An alternative approach may be to require the entity to establish its accounting policy for recognising cumulative revenue with respect to the criteria given in 81 (a) and 81(b), 82 and 83.

**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?

CIPFA agrees with this proposal insofar as it applies to revenue from contracts with customers within the scope of the proposed standard.

As noted in our covering letter, the ED proposals may not always generalise to other types of contracts, particularly where non-exchange revenue or expenditure is involved, as might be undertaken by not-for-profit or public sector entities. We would specifically note that the proposals for tests of 'onerousness' will not transfer readily to circumstances where a contract is bundled with related non-exchange transactions, where the non-exchange transaction aspects might be deemed if expressed in commercial terms as onerous at inception.

**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.

CIPFA has no observation to make on the application of these proposals to the circumstances of profit focussed public interest entities.

It is currently rare for not-for-profit entities to produce interim statements. However, this may become more common. We do not consider that the proposed disclosures are appropriate to the circumstances of such entities, nor that they are sufficiently useful to

readers of those financial statements. We would therefore disagree with the application of the proposed disclosures to not-for-profit entities, and would suggest that simpler disclosures would need to be developed.

**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?

CIPFA agrees with this proposal.