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International Accounting Standards Board
30 Cannon Street
LONDON
EC4M 6XH

Dear Sir/Madam,

Re: Discussion paper - *Preliminary Views on Revenue Recognition in Contracts with Customers*

We welcome the invitation to comment on this Discussion Paper and write on behalf of Cobham plc, a UK based FTSE 100 and S&P Europe 350 company. We operate globally in the Aerospace and Defence sector.

Overall we are supportive of the desire to address some of the inconsistencies between current accounting standards on revenue recognition, although we have some concerns on some of the impacts of the proposals made in this discussion paper.

Our responses to each of the questions are recorded below:

Question 1

Do you agree with the boards' proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

We agree in theory to the Board's proposal. This does address the current inconsistencies seen between existing standards although does present some practical challenges. These are considered in more details below.

Question 2

Are there any types of contracts for which the boards' proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

For Cobham, there are no contracts which would need to be dealt with in a different way in order to provide decision-useful information.

Question 3

Do you agree with the boards' definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

We agree with the board's definition of a contract.

Question 4

Do you think the boards' proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

The Board's definition of a performance obligation is consistent with the proposed methodology on revenue recognition. We are supportive of what the Board is trying to achieve but recognise some practical difficulties. In particular the discussion paper identifies warranty obligations as a separate performance obligation. In many instances, warranties are viewed primarily as part of the obligation to deliver a product in a condition and to a standard that makes it fit for purpose. They are therefore seen as part of quality assurance and we would therefore maintain that they are part of the performance obligation to deliver the product. We recognise that other situations such as extended warranty options are different to the situation described above and would in substance be a separate performance obligation.

There are also practical difficulties surrounding the identification of separable performance obligations in "indefinite delivery indefinite quantity" contracts.

Question 5

Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

We agree.

Question 6

Do you think that an entity's obligation to accept a returned good and refund the customer's consideration is a performance obligation? Why or why not?

We disagree with the above. If control has passed to the customer then any risks associated with a return should be accounted for as a provision.

Question 7

Do you think that sales incentives (eg discounts on future sales, customer loyalty points and 'free' goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

Consistent with our response to question 6, if control of the use of the sales incentives has passed to the customer then these should be accounted for as liability exposures.

Question 8

Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.

We agree with the above.

Question 9

The boards propose that an entity should recognise revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

We agree with this proposal but would appreciate some examples of how this would be applied in practice, particularly in respect of how to interpret a "unit" of delivery in the case of the provision of services in.

Question 10

In the boards' proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.

- (a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?
- (b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?
- (c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.
- (d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.

We concur with the proposal that revenue should not be recognised at conception of a contract. We also agree that if the cost of a performance obligation exceeds the revenue allocated to it then it should be deemed onerous and remeasured. However, this may not present decision useful information if parts of the contract are loss leading for commercial reasons while the contract as a whole is profitable. We are also unclear on the impact on indefinite delivery indefinite quantity contracts.

Question 11

The boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (e.g. selling costs) are included in the initial measurement of the performance obligations. The boards propose that an entity should recognise those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.

- (a) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?
- (b) In what cases would recognising contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.

We agree that this proposal is appropriate.

Question 12

Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

We would find it impossible to establish stand alone selling prices for some of our performance obligations given the specialised nature of some of our products. We believe that using a planned or standard costs basis with an equitable distribution of the margin between the performance obligations to be the most appropriate way of accounting for these contracts.

Question 13

Do you agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?

We would agree with the proposals made in respect of the use of stand alone selling prices, where these are available. However, where a stand alone selling price is not available then the use of

planned or standard costs to estimate a consistent margin for each performance obligation should be an acceptable alternative approach.

Please contact Stephen Morris or Paul Kemp if you need any further clarification in respect of these comments.

Yours faithfully,

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