

Institute  
of Certified  
Public Accountants  
in Israel

ל ש כ ת  
רואי חשבון  
ב י ש ר א ל



1906/20521

June 18, 2009

International Accounting Standards Board  
30, Cannon St.  
London EC4M6XH  
United Kingdom  
By: [www.iasb.org](http://www.iasb.org)

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

In response to the Discussion Paper - Preliminary Views on Revenue Recognition in Contracts with Customers, please find below the comments of the Institute of Certified Public Accountants in Israel which are focused on the questions included in the Discussion Paper.

**Question 1**

Do you agree with the Board's 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?

**Generally speaking, we are in favor of a single revenue recognition principle. However, in certain industries, like long-term construction, a different application approach is required to meet the unique characteristics of these industries in recognizing income.**

### **Question 2**

Are there any types of contracts for which the Board's 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?

**The type of contract for which the Board's proposed principle would not provide decision-useful information is mainly long-term construction contracts, like construction of buildings, ships and airplanes.**

### **Question 3**

Do you agree with the Board's 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.

**Yes, we generally agree with the Board's definition of a contract; it should be noted, that in certain jurisdictions a contract with regard to real estate may take place only in the form of a written document.**

### **Question 4**

Do you think the Board's 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.

**We do believe that the Board's proposed definition of performance obligation would help entities to identify consistently the deliverables in a contract.**

### **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?

**Yes, we agree. However, the definition of the term "transfer" is not clear enough and it should be further improved.**

### **Question 6**

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

**We believe that an entity's obligation to accept a returned good and refund the customer is a performance obligation. It may be considered as a "Put option" which means that the contract was not accomplished upon delivery as the product may still be returned.**

### **Question 7**

Do you think that sales incentives (e.g. 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?

**We think that sales incentives give rise to performance obligations. This approach is not much different than the current practice in Israel.**

### **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 believe that the term "control", is not clear enough and should be re-defined. An improved definition may also relate to the ability of the customer to use or operate the promised good independently.**

**There may be various possible conditions, mainly when the promised good is in the possession of the customer though he is not able to use the good asset because of a critical component's absence.**

**In this case, although the current definition of control points towards a transfer of control, the customer cannot in fact use the good without the missing component.**

### **Question 9**

The Board proposes that an entity should recognize 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 the Board's proposal that an entity should recognize revenue only when a performance obligation is satisfied.**

### **Question 10**

In the Board's 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?

**Yes, we agree that performance obligations should be measured initially at the transaction price, as long as it reflects the parties' will.**

- (b) Do you agree that a performance obligation should be deemed onerous and re-measured 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?

**Yes, we agree.**

- (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.

**We think that the proposed measurement approach, based on performance obligations, will not provide decision-useful information when applied in long term contracts, at each financial statement date. If, however, performance obligations in long term constructions contracts will be regarded as settled along the construction period (although the physical control was not), transferred, it will produce better decision-useful information at each financial statement date.**

- (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? Why or why not? If so, please provide examples and describe the measurement approach you would use.

**As we mentioned before, long-term construction contracts should be addressed subject to another measurement approach, as detailed in (c) above.**

#### **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 obligation. The boards propose that an entity should recognize 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?

**Yes, we agree.**

- (b) In what cases would recognizing 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 are not aware of such cases.**

#### **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?

**Yes, we agree.**

**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 agree with the above approach. The use of estimates should be constrained if and only if there is no data of the selling price of any component at all.**

Sincerely yours,



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Adir Inbar, Vice President  
Chairman, The Professional Council



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Arnon Ratzkovsky  
Chairman, The Financial Reporting Committee