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International Accounting Standards Board
30 Cannon Street
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Exposure Draft “Revenue from contracts with customer”

Dear Sir or Madam:

Pan-China Certified Public Accountants Ltd. (PCCPA) is pleased to respond to the above Exposure Draft (hereinafter the “ED”).

We appreciate the effort and attempt made by IASB and FASB to develop a common revenue standard that would remove inconsistencies and weaknesses in existing revenue recognition standards and practices. We believe that some proposals will enhance the quality of revenue standard, however we still query some proposals which we think it is impracticable, it is costly without commensurate benefit of incremental useful information for the users of financial statements.

Our comments on the specific questions raised in the ED are attached. Should you wish to discuss the contents of this letter with us, please contact Yingling Shen at syl@pccpa.cn

Yours Sincerely,

Pan-China Certified Public Accountants Ltd.

Appendix

RESPONSE TO SPECIFIC QUESTIONS IN THE EXPOSURE DRAFT

Revenue from contracts with customer

This Appendix sets out PCCPA's responses to the questions indicated in the exposure draft's Invitation to Comment.

Recognition of revenue

Question 2

The boards propose that an entity should identify the performance obligations to be accounted for separately on basis of whether the promised goods or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligation and why?

Reply: We agree with the proposal based on the following reasons:

1. The proposed principle is based on the basic attributes of goods (ie value and useful value), it fully reflects the nature and connotative attributes of goods and service, embodies the nature of transaction, meets the authenticity requirements of accounting.
2. If the promised goods or service is distinct, an entity can obtain the stand-alone selling price and cost of the goods or service. Hence, the transaction price of the contract can be allocated to each performance obligation in proportion to the stand-alone selling prices of the relevant goods or service. So, the entity can recognize revenue when each performance obligation has been satisfied, we think that the accounting treatment is practicable.
3. If a good or service meet the above judgment principle, it can be transferred to customer separately. Since whether a good can be transferred is usually regarded as one condition of control right transferring, we think that determining whether a good or service is distinct according to proposed principle can be helpful to judge whether control right is been transferred on revenue recognition.

Measurement of revenue

Question 5

Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect *how much* revenue an entity recognizes when it satisfies a performance obligation rather than *whether* the entity recognizes revenue? If not, why?

Reply: We don't agree with the proposal based on the following reasons:

1. We consider that the proposal may face a lot of issues: firstly, it will raise the workload and subjectivity in accounting if an entity determines the transaction price based on each customer's

credit risk; secondly, the accuracy of customer's credit risk evaluation will directly affect the revenue recognition, if the customer's real credit risk is lower than the evaluated one (ie the entity receives more money than the recognized transaction price net of credit risk), how does an entity account for this situation? Whether should the entity adjust retrospectively or defer the difference to next accounting period? Lastly, reasonably estimating the effects on the transaction price of customer's credit risk is difficult and manipulative in practice.

2. Although in theory, the proposal is practicable. It will result in inconsistencies with the current value added tax and sales tax levy and regulation pattern in China. When an entity writes an invoice, is the invoice amount according to the transaction price or the transaction price net of credit risk? If it is based on the transaction price, it may result in the phenomena that the amount of revenue recognition is lower than the amount of invoice, if it is based on the net of credit risk price, it may result in the phenomena that the amount of invoice received by customer to deduct value added tax is less than the amount that the customer think they should pay to the seller. Hence, it will result in a leak in tax regulation and will do no help to the tax levy.

So, we think that an entity recognizes revenue based on the real transaction price when it meets the revenue recognition condition is more practicable, and the customer's credit risk can be adjusted by estimating allowance for doubtful accounts.

Question 6

Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?

Reply: We agree with the proposal based on the following reasons:

1. Financing and ordinary sale activities belong to two different business cycles, they are two kinds of economic activities which can be accounted for separately. So we think that it is unreasonable to regard the material financing and ordinary sales activities as a single transaction event, otherwise, the accounting information couldn't faithfully represent the transaction or event.
2. If a contract includes a material financing component and the entity adjusts the amount of promised consideration, the entity will recognize revenue according to the consideration excluding the financing component, in that case, it would embody the nature of revenue and meet the definition of revenue stipulated in IAS 18.
3. Meanwhile, we note that calculating of time value of money exists complexity and the professional level of accountants is low in some developing countries, plus consideration the cost versus benefit principle, we suppose only to separate the longer than one duration (eg over 1 year) financing and selling activities.

Disclosure

Question 11

The boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year. Do you agree with that proposed disclosure requirement? If not, what if any, information do you think an entity should disclose about its remaining performance obligations?

Reply: We agree with the proposal based on the following reasons:

1. From the perspective of an entity, the duration of a contract is longer, the latent risk is higher. For contracts with an original duration expected to exceed one year, the performance and its result of remaining performance exist many uncertainty. According to the proposal of revenue recognition step, an entity should only recognize revenue for the satisfied performance obligation part in the current period. Since the remaining performance obligations is a component of the contract, whether it is performed will affect the whole contract result, and it will affect the financial statement presentation.
2. If an entity discloses the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year, we believe that it will be helpful for the users of financial information to predict the future financial position, performance results and cash flow of the entity, and it will better satisfy the decision-making needs of the financial information users.
3. Considering the high implementation cost to disclose the above information, also it may result in some redundant information. We suppose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for *material* contracts with an original duration expected to exceed one year. And the materiality can be judged by the nature and the amount of the contract, the effects of remaining performance obligation to the contracts and the financial statements.

Effective date and transition

Question 13

Do you agree that an entity should apply the proposed requirements retrospectively (ie as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods presented)? If not, why? Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? Please explain the alternative and why you think it is better.

Reply: We don't agree with the proposal based on the cost versus benefit principle, if an entity retrospectively applies the proposed requirements, it is costly without commensurate benefit of incremental useful information for financial statement users.

We suppose that if an entity think the information of retrospectively adjustment is important for the users of financial statement, it can complement an additional financial statement in some circumstance (eg, under requirement of regulation department).

Application guidance

Question 15

The boards propose that an entity should distinguish between the following types of product warranties:

- 1) a warranty that provides a customer with coverage latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.
- 2) a warranty that provide a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract.

Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?

Reply: We agree with the proposal based on the following reasons:

1. Latent defects in the product means the product doesn't include the usual value and utility or the promised quality specified in the contract. Latent defects in the product usually raises the breaching contract duty issues, when seller is responsible for the latent defects, buyer usually can terminate a contract or require to decrease the payable. So we think that a warranty that provides a customer with coverage latent defects in the product, it means that the goods transferred to customer do not meet the requirements stipulated in the contract, and it doesn't satisfy the performance obligation, the control right of the product doesn't transfer to the customer either. So, we think that this does not give rise to a separate performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract. In practice, we suppose that an entity should recognize revenue according to real situation, and estimate the warranty probability according to the historical experience.
2. A warranty that provide a customer with coverage for faults that arise after the product is transferred to the customer, it means that the product is good when it is transferred to customer and meets the requirement specified in contract. The entity has already satisfied the performance obligation. So, we think that this gives rise to a separate performance obligation, and the entity should recognize a provision when it provide a warranty to customer with coverage for faults that arise after the product is transferred to the customer.

Question 17

The boards propose that in accounting for the gain or loss on the sale of some non-financial assets (for example, intangible assets and property, plant and equipment), an entity should apply the recognition and measurement principles of the proposed revenue model. Do you agree? If not, why?

Reply: We agree with the proposal based on the following reasons:

1. According to IAS18, the principle of revenue recognition and measurement should be applied in the following transactions and events: 1) the sale of goods; 2) the rendering of services; 3) the use by others of entity assets. Although the definition and purpose of property, plant and equipment (hereinafter the 'PPE') is different from the goods, when an entity decide to sell the 'PPE', the purpose of the 'PPE' has been changed to obtain cash inflow just as the sale of goods. So we think that the sale of 'PPE' is similar with the sale of goods, so the entity can apply the recognition and measurement principles of the proposed revenue model when it sell the PPE.
2. If an entity apply the different principle in accounting for revenue arising from the sale of goods and non-financial assets, it will result in difference in the amounts and timing of revenue recognition arising from the sale assets of inventory or 'PPE', the entity may manipulate the profit of loss in some accounting period by adjusting the assets classification.
3. If an entity apply the different principle in accounting for revenue arising from the sale of goods and non-financial assets, it may add the difficulty to understand the accounting information for the users of financial statements.