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International Accounting Standards Board 30, Cannon Street
London
United Kingdom

October 21, 2010

Subject: Comments on Exposure Draft - Revenue from Contracts with Customers

Dear Sir / Madam,

Thank you for giving us an opportunity to comment on the subject Exposure Draft (ED). General Comments.

We note that the new standard has adopted a "one size fits all approach". We are not in agreement with this approach as businesses such as construction cannot be clubbed together with other normal businesses. We also question the need to improve the "comparability of revenue recognition across industries". Everybody understands the vast difference between a company selling retail products and a company erecting a huge dam and differences in accounting policies are to be expected if justice is to be done to both whilst reporting their financial performance. To the best of our knowledge capital providers are comfortable with different revenue recognition principles for businesses where delivery of goods and services stretch over more than one accounting period.

We urge the IASB and FASB to make allowances for industries where the physical transfer of goods happens over long periods. Our reasons are based on both conceptual and practical considerations. On the conceptual front our view is that whilst the physical delivery of a good (E.g. an highway) may not have taken place at the end of the reporting period, the company would have still satisfied performance targets as per the milestones set out in the contract. In fact, the customer releases stage payments to the construction company only after each milestone is reached satisfactorily. Therefore, there is every reason to accrue the income related to the completed stage. This policy would also be in conformity with paragraph 27 of IAS 1.

On the practical side, denying construction companies the right to recognise income progressively would seriously impact their financial statements and their ability raise funds from the capital markets. This problem would be very acute in developing countries which are still in a nation building stage and whose private construction companies need humungous amounts of funds. The proposed standard would be very harsh on such jurisdictions and it is likely many of them would permit relaxation in the adoption of this standard. There are already press reports in India that the standard setting authorities here are favourably inclined towards allowing construction companies to continue with their current percentage completion method for recognising revenue.

It would, therefore, be more desirable to introduce a proviso to paragraph 25 of the ED that states that in cases where the time period required to effect the physical transfer of the goods or service is estimated to cover more than one accounting year, then the entity may recognise revenue based on the percentage of the work completed satisfactorily.

Specific Comments

With the hope that both the Boards would favourably consider our above suggestion, we broadly agree with most of the other principles included in this ED. We, therefore, give below replies to only those few questions where we have a somewhat differing view.

Question 1: Paragraph 19 proposes the principle (price interdependence) to help an entity to determine Whether

(c) to account for a contract modification as a separate contract or as part of the original contract. Do you agree with this principle? If not what would you recommend and why?

Answer. It would be very difficult to evaluate every contract modification to apply this standard in its present form. And, very often, different conclusions could be drawn from the same set of facts. For instance, in Example 2, Scenario 2 given as part of this ED it can very easily be argued that the modification is a separate contract. This principle would result in two problems. One, every modification would involve a manual accounting intervention and automated computer systems would fail. And it would lead to disputes between the entity and its auditors. The costs would far outweigh the benefits from this standard.

We recommend that the standard should specify that every modification is a separate contract and should be treated as such. Or alternatively, at the very least, remove all examples lest a principle based standard becomes a rule based standard.

Question 2: The Boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised goods or services are distinct. Do you agree with this principle? If not, what principle would you specify for indentifying separate performance obligations and why?

Answer. We are in agreement with the need to identify performance obligations that should be accounted for separately. We would like to only emphasis that this requirement should be triggered only when the distinct performance obligation is materially large say 10% of the parent obligation. For instance, in India, it is a market practice to tag along an one year free service promise or a certain number free maintenance checks after a high value good is sold. Such services are also available on a paid basis from such entities. But compared to value of the good sold (e.g. an automobile); the value of the free checks tagged along is negligible. The benefit of separating this obligation would not justify the cost of doing so.

Question 5: Do you agree that the customer's credit risk should affect how much revenue an entity recognises when it satisfies a performance obligation rather than whether the entity recognises the revenue? If not why?

Answer. Nobody sells goods or services with the expectation of a default from the customer. Hence, we think it is odd to recognise bad debt up front. We do not agree that the transaction price should factor in credit risk of a particular customer unless the entity has a practice of differential pricing for the same goods based on the credit profile of the customer.

Yours sincerely Balan Wasudeo Consulting CFO