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22nd October 2010

International Accounting Standards Board 30 Cannon Street London EC4M 6XH United Kingdom

E-mail: commentletters@iasb.org

Dear Sir

Comments on Exposure Draft – Revenue from Contracts with Customers

The Zambia Institute of Chartered Accountants welcomes the opportunity to comment on the International Accounting Standards Board (IASB)'s Exposure Draft – Revenue from Contracts with Customers.

Our comments on the questions on the exposure draft are as follows:

Recognition of revenue

Question 1

Paragraphs 12-19 propose a principle (price interdependence) to help an entity determine whether:

- a) to combine two or more contracts and account for them as a single contract;
- b) to segment a single contract and account for it as two or more contracts; and

c) to account for a contract modification as a separate contract or as part of the original contract.

Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as separate contract?

Comment

We do agree with the principle proposed by the boards. However, we have some concerns on the application guidance provided on the principle. How would we deal with the following?

- a) What would happen if the discount on the Products A and B was say CU2 or CU3?
- b) What if Product A and C could be sold together? Would that change the interdependence of the prices?
- c) Suppose the discount of say CU1, CU2, CU5 or CU8 was given for buying the product together, how would we measure the significance of the discount for the purpose of contract segregation?

We believe the boards need to provide further examples of different situations for easy of application of the principle

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 good 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 obligations and why?

Comment

We believe the principle for determining when a good or service is distinct is fine.

However, guidance B12 example is not straight forward. It not clearly as to how the three products expected to be returned are arrived at. Also on the 100 products mentioned, are they all of the same type or quality? A simpler example would have sufficed.

Question 3

Do you think that the proposed guidance in paragraphs 25-31 and related application guidance are sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?

Comment

We believe the proposed transfer of goods or services principle based on control is alright and in line with the assets definition. However, we believe the examples given in the guidance should have illustrated how each indicator of control is relevant or not relevant to each example. Paragraph 31 states that not one of the indicators determines by itself whether the customer has obtained control of the good or service and that some indicators may not be relevant to a particular contract.

Measurement of Revenue (paragraphs 34 – 53)

Question 4

The Boards propose that if the amount of consideration is variable, an entity should recognize revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

Do you agree that an entity should recognize revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognizing revenue when the transaction price is variable and why?

Comment

While we do agree with the proposal to recognize revenue on the basis of the estimated transaction price, we have concerns with the wording of the conditions to be met for the price to be reasonably estimated.

In condition (a), it makes reference to access to the experience of other entities if an entity has no experience of its own while in (b) its states that the entity's experience is relevant to the contract because the entity does not expect significant changes in circumstance. How could then the experience of other entities be relevant to the experience of an entity?

We further note in Example 19 of the guidance on the variable consideration, the boards requires that where an entity can not reasonably estimate the probabilities of the outcomes during the contract, the uncertain amounts should not be included in the price. Instead the certain amount should be used until the uncertainty is resolved. We believe that the accounting for the changes in uncertainty of the contract requires further simplification.

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?

Comment

Though the principle of collectability is consistent with the principle of measuring revenue in Q4 above, we have issues which the boards need to clarify as the guidance in B79 does not address all the accounting issues:

- a) Given that the failure to pay is simply a chance, will the entity issue an invoice with CU1000 or CU900?
- b) the guidance indicates that the receivable and revenue to be recognized is CU900, what happens to CU100 difference in price consideration?
- c) if the customers pays in full after one month, how do we account for the CU100 which was originally not accounted for a receivable?

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?

Comment

We do agree with the boards' proposals for an entity to adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component.

Question 7

Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the stand-alone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?

Comment

Though we agree with the boards' proposal, the guidance provided need to be simplified further.

Contract costs (paragraphs 57 – 63)

Question 8

Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (for example, IAS 2 or ASC Topic 330; IAS 16 or ASC Topic 360; and IAS 38 Intangible Assets or ASC Topic 985 on software), an entity should recognize an asset only if those costs meet specified criteria.

Do you think that the proposed requirements on accounting for costs of fulfilling a contract are operational and sufficient? If not, why?

Comment

We do agree with the proposals.

Question 9

Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognizing an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognized for an onerous performance obligation.

Do you agree with the costs specified? If not, what costs would you include or exclude and why?

Comment

We have no objection to the proposals.

Disclosures

Question 10

The objective of the boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?

Comment

We agree with the disclosure requirements suggested by the boards.

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?

Comment

We agree with the proposal provide the contracts are material to the entity.

Question 12

Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors? If not, why?

Comment

We have no objections to the proposals.

Effective date and transition (paragraphs 84 and 85)

Question 13

Do you agree that an entity should apply the proposed requirements retrospectively (i.e. 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? If so, please explain the alternative and why you think it is better.

Comment

We agree with retrospective application in line with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Application guidance (paragraph B1 – B96)

Question 14

The proposed application guidance is intended to assist an entity in applying the principles in the proposed requirements. Do you think that the application guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?

Comment

Though we do agree with the guidance given, in some cases as we have mentioned above, the boards need to relook at the examples given either to simplify the principle or to provide further guidance on certain areas.

Question 15

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

a) a warranty that provides a customer with coverage for 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.

b) a warranty that provides 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?

Comment

We agree with the proposals.

Benefits and costs

Question 16

The boards propose the following if a licence is not considered to be a sale of intellectual property:

- a) if an entity grants a customer an exclusive licence to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the term of the licence; and
- b) if an entity grants a customer a no-exclusive licence to use its intellectual property, it has a performance obligation to transfer the licence and it satisfies that obligation when the customer is able to use and benefit from the licence.

Do you agree that the pattern of revenue recognition should depend on whether the licence is exclusive? Do you agree with the patterns of revenue recognition proposed by the boards? Why or why not?

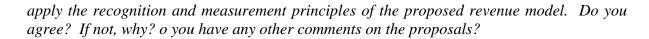
Comment

No comment.

Consequential amendments

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





We do agree with the boards' proposal.

Non-public entities

Question 18

[FASB only]: Should any of the proposed requirements be different for non-public entities (private companies and not-for-profit organisations)? If so, which requirement(s) and why?

Comment

No comment.

The Institute will be ready to respond to any matters arising from above comments.

Yours faithfully

Modest Hamalabbi

Technical and Standards Manager