

International Accounting Standards Board 30 Cannon Street London EC4M 6XH

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13 March 2012

Dear Sirs

Consultation response - Exposure Draft ED/2011/6 Revenue from Contracts with Customers

ACCA (the Association of Chartered Certified Accountants) is pleased to comment on the above further Exposure Draft (ED).

SUMMARY

ACCA welcomes a number of clarifying changes in the ED, both as described below, such as aspects of the recognition of revenue where goods or services are provided over time, and elsewhere in the ED, for example the recognition of revenue from the provision of warranties. We also support certain other changes, such as the presentation of credit risk as a separate figure rather than being a deduction from revenue, and the setting of a period of one year before the time value of money must be accounted for.

We also point out that in some respects, the views of respondents could have been considered further, particularly with respect to the application of the onerous test at the overall contract level, and the amount of detailed disclosure required. In some instances, there would appear to be at least insufficient explanation of why the IASB considers a proposal to be practical.

The ED has been designed as a set of principles applicable to a wide range of transactions with customers. It would consequently be expected that little additional guidance is necessary, and the Guidance Section to the ED (Appendix B) is not excessively lengthy. However, to provide further clarity, the guidance on warranties and licensing agreements should, in our view, be moved to the main body of the



proposed standard. This is because the guidance, as worded, constitutes required accounting, and warranties and licensing agreements are as widespread (if not more widespread) than certain matters already covered in the main body of the ED, such as variable consideration.

RESPONSES TO THE IASB'S QUESTIONS

Question 1

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a

performance obligation and recognises revenue over time. Do you agree

with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

ACCA agrees overall with the revised criteria for the recognition of revenue, insofar as it reflects the overall framework for revenue recognition set out by the IASB. We welcome the inclusion in paragraph 35 (b) of recognition factors which can apply where a recognisable asset has not yet been created, including the scenario where an entitlement to payment can be established.

However, we note that control by the customer must be direct (paragraph 35 (a)), or inferred through the absence of an alternative use to the entity, and this may give rise to anomalies. For example, the timing of revenue recognition would consequently differ between projects for the construction of houses which are highly customised, and those which are not. In the latter case, the outcome would potentially be very different to a percentage of completion method.

Question 2

Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to



account for amounts of promised consideration that the entity assesses to

be uncollectible because of a customer's credit risk. The corresponding

amounts in profit or loss would be presented as a separate line item

adjacent to the revenue line item. Do you agree with those proposals? If

not, what alternative do you recommend to account for the effects of a

customer's credit risk and why?

ACCA supports the presentation of the credit risk deduction, if it is material, separately from the revenue figure, but close to it. We believe that this treatment makes the reporting of revenue more understandable to users of the financial statements, compared to the earlier proposal to deduct the credit risk element from the revenue figure itself.

We also believe that it will assist users if the notes to the financial statements disclose any material element of the credit risk deduction which reflects revenue generated in previous accounting periods.

Our view is that it will be more meaningful if the credit risk element is presented as a separate line item below the income figure. The credit risk element would then be reported consistently with other deductions in the income statement. We do not support the columnar presentation adjacent to the income figure.

Question 3

Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that



experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

ACCA welcomes the removal of the requirement to use a probability-weighting to measure the transaction price, where consideration is variable. We support instead a management prediction process, as is set out in the ED.

We also acknowledge that to avoid bias and uncertainty, the process requires appropriate parameters which are suitable for its adoption, and also for subsequent assessment of the judgements made (for example, by an entity's external auditors). Paragraph 81 of the Exposure Draft ("ED") specifies that past experience should enable management to make predictions which enable it to establish the amount of consideration to which it is reasonably assured to be entitled. Paragraph 82 then sets out a limited, but in our view comprehensive, list of key indicators of experience which would be insufficiently predictive. We consider that these paragraphs do provide the necessary parameters.



Question 4

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognise a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

ACCA agrees that re-measurement should be performed, when required as a result of an onerous test. However we do not agree that the test should only be applied to performance obligations expected to be fulfilled over the course of more than one year. We believe that the test should apply to all obligations, whether short- term or long-term.

In the Basis for Conclusions (paragraph BC208) the period of one year is described as a "practical expedient", and consistent with IAS 11 Construction Contracts. However, we do not believe that the period should, apparently, be considered practical by reference to a standard on construction contracts, when the ED is intended to be applicable to many more types of revenue stream. Furthermore, there are relatively few entities where we believe that this practical expedient will be of significant assistance in reducing undue extra work.

Furthermore, ACCA believes that the IASB has not fully addressed the concern expressed by respondents about the situation where one onerous performance obligation results in the recognition of a loss on a contract expected to be profitable overall (either by itself, or in combination with closely-related contracts), thereby creating a distorting effect. Whilst the basic principle is to measure revenue at the level of the performance obligation, we believe that this potential for distortion means that the onerous test should be applied at the contract level.

The Basis for Conclusions (paragraph BC207) considers that the application at contract level adds complexity, but in our view, it is insufficiently specific about this reservation. The same paragraph expresses the concern that the same goods and services may be provided through one or more than one contract, potentially giving different results under the onerous test. This risk (which ACCA does



not regard as great) would in theory affect the ED in general, as the starting point for revenue recognition is to identify a specific contract, and the performance obligations after that.

Question 5

The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports.* The disclosures that would be required (if material) are:

- The disaggregation of revenue (paragraphs 114 and 115)
- A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
- An analysis of the entity's remaining performance obligations (paragraphs 119–121)
- Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)
- A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfil a contract with a customer (paragraph 128).

Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not



appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

ACCA supports a certain amount of disclosure in interim financial statements, but believes that the proposed level represents too high a cost for the preparers of interim financial statements, even in an area as important as revenue. Furthermore, the proposals appear to depart from the general principle in IAS 34 Interim Financial Reporting that as a minimum, interim financial statements provide a general update on the latest complete set of annual financial statements (although an entity may provide more disclosure if it wishes).

Overall, ACCA believes that the minimum disclosure in interim financial statements should be no more than that which is sufficient to update the reader on the view given by the detailed disclosures with regard to revenue in the latest complete set of annual financial statements. Particular examples of disclosures in this context could be suggested, in line with paragraph 15B of IAS 34 in respect of other areas (for example, a material increase in onerous obligations recognised since the last annual financial statements).

If the content of IAS 34 is deemed to be unsatisfactory in this regard, then we believe that the requirements in that Standard should be subject to an overall review. We do not support amending the disclosure requirements in IAS 34 through other individual standards.

Question 6

For the transfer of a non-financial asset that is not an output of an entity' s ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements on control to determine when to derecognise the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition of the asset. Do you agree



that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

ACCA supports the proposal to amend the accounting standards for non-financial assets in accordance with the requirements in the ED. The provisions of the ED are suitable for transactions in such assets, and the ED contains applicable extra guidance. The proposed amendment will also ensure consistency across a range of asset classes.

We believe that the derecognition gain or loss on non-financial assets should be included in the section of the Income Statement which deals with the entity's operating activities.



If there are any matters arising from the above on which you would like further clarification, please let me know.

Yours faithfully

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