



Chartered Accountants House
47-49 Pearse Street
Dublin 2

Tel +353 1 637 7200
Fax +353 1 668 0842
Email ca@charteredaccountants.ie

www.charteredaccountants.ie

Project Manager
International Accounting Standards Board
1st Floor
30 Cannon Street
London EC4M 6XH
United Kingdom

22 October 2010

Dear Sir/Madam

**RESPONSE OF THE ACCOUNTING COMMITTEE OF CHARTERED ACCOUNTANTS
IRELAND**

EXPOSURE DRAFT: REVENUE FROM CONTRACTS WITH CUSTOMERS

The Accounting Committee ('AC') of Chartered Accountants Ireland is pleased to have the opportunity to comment on the proposals contained in the above document. AC welcomes the proposed standard on revenue recognition and agrees with the main thrust of the proposals as outlined subject to the comments below.

The proposed standard is intended to deal with the accounting requirements of 'revenue from contracts with customers'. All transactions with customers constitute contracts in one form or other and therefore the title is all encompassing, although this may not be initially evident to the reader.

The appendix to this letter provides responses to the questions asked in the document.

Should you wish to contact us about any of our comments please feel free to do so.

Yours faithfully

Mark Kenny

Secretary to the Accounting Committee

Appendix

Recognition of revenue (paragraph 8-33)

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 a separate contract?

AC considers that price interdependence is a key but not the only indicator in determining the overall commercial effect of the contract and hence whether to combine or segment contracts. AC also considers that the discussion of interrelatedness of contracts should not be confined to contracts with the same counterparty. There will sometimes be a third party involved in contracts (e.g. financing or principal/agent relationships) and this needs to be considered in determining whether to combine or segment contracts.

AC further considers that the wording of paragraph 13 of the ED does not fully support the principle that the commercial substance of the arrangements should determine the appropriate reporting of the arrangements. AC suggests that paragraph 13 be made consistent with the wording of paragraph 33 of IAS 27 *Consolidated and Separate Financial Statements*, on loss of control. IAS 27.33 states:

“...One or more of the following may indicate that the parent should account for the multiple arrangements as a single transaction:

- (a) They are entered into at the same time or in contemplation of each other.
 - (b) They form a single transactions designed to achieve an overall commercial effect.
 - (c) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.
 - (d) One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements...”
-

AC considers that paragraph 13(a) of the ED should reflect not just that the contracts are entered into at or near the same time, but also contracts entered into in contemplation of each other. AC also believes that guidance on the combination or segmentation of contracts should make reference to whether or not a contract has commercial substance on its own, or whether a contract needs to be considered in conjunction with one or more other contracts in order to have commercial substance.

AC believes that additional guidance is needed on when to combine contracts and had difficulty in applying paragraph 14. AC debated for some time whether an extension/modification to an existing contract in order to retain a particular customer relationship should be accounted for in line with scenario 2 of example 2. Some AC members proposed that it might, in certain circumstances, make economic sense for an entity to offer the extension of the contract at very significantly discounted rates, or indeed at a loss, in order to maintain the relationship with a customer. They argued that, on the basis that there is commercial rationale to offering such favourable terms to an existing customer, this extension should be accounted for as a separate contract. Other members argued that such a significant discount on market rates would be a strong indicator of the interdependence of the contracts and that unless the arrangements were such that a recognisable intangible asset is created, then the impact of the modification should be recognised immediately with retrospective 'catch-up' adjustment to revenue in the year of modification. This would, in their opinion, also be the case where the seller obtains significant benefits from the customer, such as free advertising or other services. AC members did not reach agreement on whether the retrospective catch up in the year of the modification is appropriate. AC concluded that this inability to reach agreement may be attributable to a lack of clarity in the ED as to whether, and to what extent, paragraph 14 of the ED would apply in such scenarios.

In summary, AC considers that the guidance on interdependence is not sufficiently advanced as it is defined in terms of price interdependence only; it needs to be defined more broadly to include contract interdependencies. Accordingly, AC considers that significant additional guidance is required in order to make the proposals operational.

Finally, AC assumes that it was not intended that the wording of paragraph 11 should be read to mean that if a contract contains a clause that permits a termination without penalty then such a contract should be excluded from the scope of the standard irrespective of whether or not the contract is performed or unperformed. AC suggests that it would be clearer if the sentence order of the paragraph is reversed.

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?

AC agrees that the proposed principle is appropriate.

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?

AC agrees with the concept of the transfer of control as the basis for revenue recognition. However, AC considers that the indicators describing where a customer has control as set out in paragraph 30 of the ED are not fully consistent with the principle of transfer of control. Paragraph BC62 sets out that the customer must have the ability to direct the use of and receive the benefit from a good or service and this is a different measure of control than described by the indicators in paragraph 30. Further, the indicators described are primarily those that apply to goods and there should be more consideration of indicators for supply of services. AC considers that the guidance set out in BC62 should be in the main body of the proposed standard and that there should be specific indicators of transfer of control in the case of services.

AC does not agree that the customer would obtain control merely because “the design or function of the good or service is customer specific” (paragraph 30(d)). The example in this paragraph assumes that the entity would require the customer to obtain control of and pay for the asset as it is being created. While this may be so in some cases, it will not necessarily be the case in all contracts for customer specific goods or services. AC considers that there are many circumstances whereby the customer may not have control of a customer specific asset as it is being created unless there are specific contractual provisions to that effect, such as an unconditional obligation to pay throughout the creation process, perhaps as milestones are reached, or that the customer obtains possession of a partially completed asset should the contract be terminated.

Furthermore, AC suggests that guidance be given on the appropriate accounting where assets are completed and, where the assets are moveable, have potentially been delivered into the physical custody of the customer but require commissioning as at the reporting date. This is particularly relevant where a period of time is required for the commissioning process to be fully completed to the customer’s satisfaction. This can be aligned with paragraph BC62 which sets out that the customer must have the ability to direct the use of and receive the benefit from a good or service. Customer satisfaction and acceptance is an integral part of the delivery process. In the case where installation and commissioning is an integral part of the delivery process, and cannot be separated from supply, then revenue recognition does not apply until completion of the process. Alternatively, where commissioning and installation is a generic service that may be independently procured, revenue recognition for the manufacture and delivery of the asset may be appropriate in line with the provisions of paragraph 23 of the ED regarding distinct goods and services. Specific guidance on such services which may be joint or distinct would be welcome for users.

AC also considers that the ED has introduced a new performance obligation concept in example 7 in respect of non-refundable upfront fees, whereby upfront fees are not a separate performance obligation and should be amortised to revenue over the period of the membership. AC has mixed views as to whether this is in fact a separate performance obligation. However, notwithstanding this point, AC considers that the introduction of such a

concept should not be dealt with in an example; rather it should be dealt with in the main body of the proposed standard. AC also questions whether this is consistent with extant guidance contained on the issue in IFRIC 18 and, if not, suggests that the basis for the change to current practice be explained, as there is no discussion of these paragraphs in the Basis for Conclusions.

AC considers that there may currently be inconsistency in accounting for upfront booking fee charges, with some entities deeming the fee to be a charge for the acceptance of a booking for a capacity constrained event (e.g. reservation of a place at a concert, aircraft, etc) which is not refundable if the event does not take place. In other cases, the fee may be fully refundable if the event does not occur. AC believes that additional guidance is needed on the separation of performance obligations and the associated revenue recognition.

Measurement of revenue (paragraphs 34-53)

Question 4: The boards propose that if the amount of consideration is variable, an entity should recognise 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 recognise 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 recognising revenue when the transaction price is variable and why?

AC agrees that an entity should recognise revenue where it can be reasonably estimated and concurs with the criteria in paragraph 38.

AC also suggests that example 18 in paragraph B76 is expanded to provide guidance on how the entity would account for the 10% fee in published interim financial statements. Given that the fee is only earned if there is a positive movement in the index between the beginning and end of the year, is the entity precluded from recognising any element of the fee until the last day of the financial year when the market risk is removed? Alternatively, does the entity report the revenue that would be earned during the interim period as measured based on the movement in the index between the beginning of the year and the end of the interim period, or perhaps as measured using some probability estimate at the interim reporting date, based on the previous track record of consistently achieved hurdle performance rates?

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 recognises when it satisfies a performance obligation rather than *whether* the entity recognises revenue? If not, why?

AC considers that the guidance with regard to credit risk should refer to groups/classes of customer with similar risk profiles/characteristics rather than referring to an individual customer.

AC agrees that the entity should recognise revenue at the amount it expects to receive.

AC agreed that adjustments for impairments made subsequently should be recorded in other income or expense.

AC was divided on whether the recovery of an initial provision for uncollectable revenue represents a revision of the original revenue estimate that should be credited to revenue or to other income. Some AC members agreed that it should be credited to other income.

Other AC members consider that the distinction between the non-recognition of revenue because of an inability to reasonably estimate it (paragraph 41) and an expectation of collection difficulties (paragraph 43) can often be artificial. In the former case, the revenue ultimately collected will be recorded in the revenue line, while in the latter case it will be credited to income. For example, a professional services entity may contract to perform an assignment with a fee based on the time expended and the hourly rate. If the assignment takes considerably longer than anticipated, the entity will be faced with the difficulty of how much, if any, revenue to recognise in advance of agreeing the amount to be billed. Numerous factors will impact on the ultimate amount agreed, including the terms of the contract, the degree of customer satisfaction with the work performed, the value which both the customer and entity perceive to have been delivered, the ability of the customer to pay, the potential for an ongoing relationship, etc. One possibility is that a) the entity records the contracted revenue (the hours by the rate) together with a reduction to the estimated collectable amount, with some or all of that reduction deemed a credit risk adjustment to reflect the anticipated refusal or inability of the customer to pay; another is that b) the entity is unable to conclude that it will receive in excess of a specified amount. In both cases, the entity would record the same amount of net revenue initially, however any excess revenue ultimately agreed and hence recovered in the former case a) would be credited to income and in the latter case b), to revenue.

AC also suggests that example 20 in paragraph B79 is expanded to specifically outline the accounting treatment applying if the entity ultimately receives the full proceeds of €1,000.

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?

AC agrees with the adjustment of the consideration for the time value of money. AC suggests that the standard should indicate where the effect of the financing should be recorded in the body of the proposed standard (paragraph 45 merely states that it should be shown separately from revenue from goods or services). Whilst it can be determined from a reading of the Application Guidance (B84 - Example 22) and from the Basis for Conclusions notes (BC 102-105) that it should be included in interest income or expense, the standard should be explicit for the sake of clarity on this point.

The Basis of Conclusions states that the financing rate to be used should be the rate that would be used in a financing transaction between an entity and its customer that did not involve the provision of goods or services because that rate would reflect the characteristics of the parties to the contract and the customer's creditworthiness (BC104). However, the majority of entities are not financial institutions and determining the appropriate interest rate will require the exercise of significant judgement. Accordingly, AC believes that additional guidance, including examples, is needed in this proposed standard on how to determine the appropriate rate to help users apply this principle.

AC also notes that the Boards decided not to specify a minimum acceptable credit period beyond which the impact of the time value of money would be estimated (perhaps the normal course of business) (BC105). In theory, this results in the entity having to estimate the effect of the time value of money for all contracts, if for no reason other than to determine the materiality. Whilst some members agreed with the Boards' conclusion that the assessment of when the time value of money is material should be left to the judgement of management, others believe that this creates an excessive burden on preparers of financial statements and suggest that an acceptable cut-off point should be defined beyond which the effect of financing should be considered, such as the normal trading terms, or possibly a defined time period, for instance one year.

In addition, AC notes the reference in the ED to the use of discounting where the effect is material. The time value of money for substantial contracts with normal credit terms could be material to certain line items in the financial statements but not to the overall contract value and, accordingly, AC recommends that additional guidance is included on the applicability of materiality to this area.

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?

AC agrees that an entity should allocate the transaction price to all material separate performance obligations in proportion to the stand-alone selling prices.

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 Topic 985 on software), an entity should recognise an asset only if those costs meet specified criteria.

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

AC agrees in principle with the requirements set out in paragraph 57. However, paragraph 57 allows costs to be recognised as an asset for "... a specific contract under negotiation..." This contrasts with paragraph 59(a) which states that an entity should treat "... the costs of obtaining a contract (for example, the costs of selling, marketing, advertising, bid and proposal, and negotiations)..." as expenses when incurred. In the example at B90 it is presumed that the costs of design and migration will be capitalisable as they are a required step to enable future performance. Whilst in principle it would seem reasonable to capitalise such costs, it is possible that a contract under negotiation may not ultimately be finalised into an executable contract. If this is the outcome, it is inappropriate to recognise any costs as an asset as it is not possible to determine if these costs will be recoverable as no performance obligation exists. Excessive optimism by entities could give rise to capitalisation of significant amounts in anticipation of securing contracts which ultimately have to be written off if the contracts are not obtained and this will distort results where such write-offs cross over reporting period ends. Such costs should be capitalised only if they meet the criteria of an asset in their own right and are therefore recoverable, and not simply because a contract is under negotiation and has not been finalised. AC suggests that this latter point be clarified in the application guidance.

Question 9: Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognising an asset for resources that an entity would use to satisfy performance obligations in a contract and (b) any additional liability recognised for an onerous performance obligation.

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

AC agrees in principle that the costs outlined in paragraph 58 are reasonable.

It is important that the definitions are consistent across all accounting standards. For example, in certain cases interest costs are capitalisable. AC is unclear why there is no reference in paragraph 58 to interest costs. To ensure consistency across standards, it may be appropriate to define capitalisable costs in one standard, and to refer to that definition in all other standards, or alternatively to conduct an exercise to ensure that similar wording is used across standards.

Question 10: The objective of the board's 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 not?

AC agrees with the objective of the Boards to help users of financial statements to better understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. However, AC members differed as to whether the proposed reconciliation of contract balances would meet the stated objective. Those members that supported the reconciliation believe that it will provide valuable information to users of financial statements with regard to evidence of previous estimates which have required revision, to how closely contracts and cash inflows are related, and to non-cash elements of revenue. Those members who question whether the reconciliation will meet the stated objective consider that, whilst the disclosure requirements are very generic in nature and should be easily implemented by many entities, it may be more difficult for entities with more complex business activities to achieve an appropriate balance between meaningful disclosures and excessive detail.

Whilst AC supports disclosures in respect of significant judgements, some members are concerned that the disclosures required in paragraph 81 may result in the development of boiler plate disclosure statements and as a result limit their usefulness. For example, in the context of large diverse groups with a significant variety of contracts, they believe this will likely result in either a) aggregating the information to be disclosed, making it less understandable and relevant to the users, or alternatively b) provide information that is too detailed to be meaningful to the users. On the other hand, other members point to the principle of aggregation and disaggregation in paragraph 70 and consider the proposed requirements to be appropriate in developing a financial reporting standard for revenue recognition.

AC agrees that it is important that entities should describe the substantive issues around the significant judgements made in the various transaction classes.

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 the proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?

AC agrees with the Boards' proposal that an entity should disclose the amount of its remaining performance obligations and the expected timing of satisfaction for contracts with an original duration expected to exceed one year. Given that the information will be available, we consider that remaining performance obligations expected to be satisfied in less than one year should also be included in the table to complete the reconciliation.

Question 12: Do you agree that an entity should disaggregate revenue into categories that best depict how the amount timing and uncertainty of revenue and cash flows are affected by economic factors? If not, why?

AC is not clear how this will provide additional information to the user of financial statements over existing disclosure requirements under segmental reporting and suggests that the Boards re-evaluate this requirement.

Question 13: Do you agree that an entity should apply the proposed adjustments retrospectively (i.e. as if the entity has 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.

AC agrees with the general principle that the proposed standard should be implemented retrospectively; to do otherwise would have a significant impact on comparability, both in terms of industry wide comparison and in terms of performance trends of the reporting entity over time, because prospective application would result in different revenue recognition standards being applied to contracts purely based on whether the contract was entered into before or after the application of the proposed new standard. Prospective application could lead to some reporting entities having to apply more than one standard for a lengthy period of time. AC acknowledges, however, that for some industries this requirement may impose a significant burden and cost. This is particularly the case for industries with large volumes of transactions with varying terms and where deferred revenue principles are already an established accounting practice, albeit that those principles are not necessarily the same as those proposed in the draft standard, for example in the technology and software industries.

Should the Boards mandate retrospective application of the standard, AC recommends that an adequately long timeframe is allowed for implementation to facilitate entities with a significant number and variety of contracts.

Some members of AC preferred a prospective application approach, and whilst they would agree with a retrospective approach as long as the appropriate lead-in time is included, they are not convinced that the benefits justify the burden required to retrospectively implement the standard, particularly as the benefit of hindsight is likely to be used to determine the restatement, thereby leading to an inherent lack of comparability between future performance and restated past performance. These members believe that there will be a period of time where results will not be comparable across reporting entities, whether a retrospective or prospective approach is used; they are, therefore, not convinced that it is appropriate to require companies to incur the cost of applying the standard retrospectively. They suggest that an alternative approach would be to allow entities to choose their preferred implementation method.

Application guidance (paragraphs 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?

AC acknowledges that the application guidance set out in Appendix B is helpful in understanding how to implement the standard. However we consider that the guidance is limited as it provides interpretations for discrete transactions. We recommend that more detailed guidance and examples are developed by the Board to demonstrate:

- (a) how recognition and measurement criteria can be applied for a range of transactions across a number of different industry segments to facilitate particular issues in those segments. The intent is not to provide prescriptive industry guidance within the standard but to help those industries to apply the broad principles in the proposed standard in their specific circumstances;
- (b) how disclosure requirements would apply in practice where entities will be required to describe the total picture in a reporting period which is the aggregation of multiple contracts across multiple business units, operating segments or legal entities, both with similar and dissimilar business activities and with a range of outcomes in the reporting entities.

AC also notes that a number of application guidance examples appear incomplete and recommends that these examples are worked through to completion of the transaction and, in particular, should indicate the treatment applying if the result of the transaction is different to that assumed (e.g. in example 25, if the discount vouchers are not used; e.g. in example 1 if the renewal prices are not the same as the standalone prices; etc). As many of the examples in the application guidance are simplistic, AC suggests that the guidance be expanded to include more complex and complete examples. AC would like to see examples which depict difficult judgement areas in practice and would also suggest that, where the Boards perceive that certain industry sectors are likely to present particular difficulties in revenue recognition, examples specific to such difficulties could be developed and included in the guidance.



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?

AC agrees with the Boards' proposal to distinguish between quality assurance warranties arising where the product is defective at the time of supply and extended warranties to cover subsequent failures.

However, AC believes that there should be a rebuttable presumption that all failures arising within a reasonable period following delivery arise from a latent defect existing on delivery, regardless of whether the law in the relevant jurisdiction imposes a warranty requirement. The fact that one jurisdiction requires a warranty for a product which, under paragraph B18(a) "indicates that the warranty is not a performance obligation", while another does not, should not, in AC's opinion, determine the applicable accounting.

AC accepts that there is a difference between a quality assurance warranty and an insurance warranty. In many cases, the insurance warranty is sold separately. However, in cases where the price of the product includes an extended warranty, AC agrees with the allocation of an element of the price to the warranty service.

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 non-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?

In summary, the effect of the proposed treatment is that revenue from a five year exclusive licence is recognised as revenue over the five years, while the revenue from a five year non-exclusive licence is recognised up front. AC does not believe that this treatment is logical or appropriately reflects the nature of the business transaction. In both cases, there is an obligation to permit the use of the property over the term of the licence and AC does not believe that there should be a difference in accounting depending on whether the licence is exclusive or not. AC considers that where contractual performance is delivered over a specific period of time, then revenue should be recognised over that period.

Where a customer can use the licensed product indefinitely, recognition of a sale is likely to be appropriate, regardless of the exclusivity or otherwise of the license.

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 apply the recognition and measurement principles of the proposed revenue model.

Do you agree? If not, why?

AC concurs with this proposal.



Other comments

1. AC is unclear what is intended by the reference in paragraph 47 to accounting for a contribution of goods or services by the customer as non-cash consideration. In large software development projects, it is common for the customer's staff to be an integral part of the project team, working under the direction of the entity's project manager. AC does not believe that it is appropriate that the consideration for the project should be grossed up for the value of the labour and, furthermore, questions how that value could be determined given that the entity will not have access to the cost of that labour.
2. AC recommends that example 1 is expanded to indicate the accounting that would apply if the total price of buying all three products was CU30 (i.e. a further discount CU6 from buying all three products together). Presumably the contract would not be segmented under paragraph 15.
3. AC recommends that example 25 is expanded to indicate the accounting that would apply if the discount vouchers are not used and, specifically, the manner in which the unused reserve is to be dealt with.
4. AC notes that paragraph 11 excludes from the scope of the standard wholly unperformed contracts which can be cancelled without penalty and defines a wholly unperformed contract as one "under which the entity has not transferred any goods or services and the customer has not paid any consideration". A contract may contain a clause whereby it can be cancelled without penalty if certain conditions are not met by a specified date. While the entity may not have transferred anything to the customer, it may have completed a significant element of the work required and incurred substantial costs, which presumably are being accounted for as an asset. AC believes that guidance is needed on how such a contract is to be accounted for if it is excluded from the scope of this proposed standard.
5. AC notes that the December 2008 discussion paper included the concept of economic compulsion when considering the enforceability of obligations (see for example paragraph 3.6 and 3.7 of the DP dealing with enforceable promises) whereas the definition of a contract in the ED refers to enforceable without specifying whether this refers to both legally enforceable contracts and contract provisions enforceable due to economic compulsion. The definition of 'performance obligation' in appendix A and paragraph IN12 of the introduction refer to enforceable promises being both explicit and implicit, but the paragraphs of the proposed standard dealing with identifying separate performance obligations do not.
6. AC notes that paragraph 6(e) refers to non-monetary exchanges between entities in the same line of business, but considers that it should explicitly state that the non-monetary exchange relates to 'similar items', rather than doing this by way of the example in brackets.