

The IASB has requested comments on its revised exposure draft on “Revenue from contracts with customers” and in my capacity as Senior Independent Director for Wolfson Microelectronics plc and Psion plc, I would like to make some comments which I hope will be taken into account as part of the overall debate.

At the outset, I endorse the importance of ensuring that the principles surrounding Revenue Recognition are clear and consistently applied, always allowing for the varying nature of contracts in different industries. I have read with interest the Ernst & Young publication “IFRS Insights” circulated on 24th November and I enclose a copy as an appendix (see link below) on the basis that I agree with most of the comments made by E&Y highlighting areas where further clarification is required and some of their concerns on the degree to which judgements need to be made (for example, the criteria driving the recognition of services transferring over time).

However, my major concerns lie probably in three areas:

1. Whatever principles are applied by any company, the most important thing is that they are very clearly explained within that company’s accounting policies and that it does not just mean re-hashing the words of the Standard when it is finally released. Of course it is important that companies apply the final Standard, but inevitably there will be “grey areas” and every company should, however complex its business, be able to explain in less than half a page in clear English how it has approached revenue recognition.
2. Nowhere is it explicitly stated that in looking at any contract for sale (including one or a series of contracts) should the “substance over form” principle be applied. This, to my mind, is crucial because what we are trying to do is to ensure that it is the guts of the transaction which informs how it is regarded not the legal semantics.
3. I found it curious that so much time is being devoted to nailing down a standard of revenue recognition without looking at any standard on related costs. If a set of accounts is to have any coherence, it seems to me that costs relating to revenue as it is recognised should be properly matched in order to show a true and fair view of the economic outcome of the contract. I know the old accounting principle of “accruals/matching” has fallen by the wayside, but this would be an extremely good opportunity to re-emphasise its importance in producing a coherent picture.

I hope this submission is helpful.

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