

Hans Hoogervorst

Chairman

International Accounting Standards Board
1st Floor, 30 Cannon Street
London EC4M 6XH
United Kingdom
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Dear Sir-

Sub: Invitation to comment – IASB Exposure Draft ED/2011/6 Revenue from Contracts with Customers

At the outset, I would like to thank you for providing the opportunity to comment on the Exposure Draft on Revenue from Contracts with Customers ('the ED'). The Board's initiative to re-expose the ED is much appreciated and I believe that compared to the exposure draft issued in June 2010, the revised ED has clarified quite a few positions. **In general, the overall proposal mooted in the ED is agreeable.**

However, I believe there are still quite a few aspects and issues that I would like to highlight for the Board's consideration. My comments on the ED are enunciated below:

I. Constraint on the amount of revenue

Paragraph 85 of the ED provides that if the amount of consideration is based on the customer's subsequent sales of a good or service (for example, a sales-based royalty), the entity is not reasonably assured to be entitled to the additional amount of consideration until the customer's subsequent sales occur.

In my opinion, application of the above guidance would result in reporting losses even when the entity is reasonably certain regarding the sales of their customers. This will not depict the true and fair picture of entity's performance.

I propose that the Boards may consider removing paragraph 85 and instead follow the general principle of recognizing revenue in case the entity is reasonably assured to be entitled based on the past sales pattern of the customer and other guiding factors.

II. Onerous test

In principle, I disagree with the proposal to apply the onerous test at the performance obligation level rather than to the whole contract. Application of the onerous test at the performance obligation level would result in recognition of loss for loss making performance obligation even if the overall contract is expected to be profitable. This would not provide meaningful information to the users of the financial statement. Presently, IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' require performance of the onerous test at the contract level and providing for an obligation accordingly. The principle enunciated in the ED is not consistent with that of IAS 37.

III. Performance obligation satisfied at a point in time

The ED specifies that if a performance obligation is not satisfied over time, then it is satisfied at a point in time when control of the goods or services passes to the customer. Paragraph 37 lists down certain indicators for determination of the point of transfer of control to the customer. The indicators given in the ED are illustrative thereby encouraging the involvement of management judgment. I am of the opinion that the Boards should consider making this list exhaustive, thus limiting the inconsistency in their application by the preparers of financial statements.

IV. Time value of money

Paragraph 61 requires adjusting the consideration received from the customer to reflect the time value of money. The discount rate to be applied to the consideration should be the rate that would be applied in a separate financing transaction between the entity and the customer. That rate would reflect the credit characteristics of the party receiving financing in the contract as well as any collateral or security provided by the customer or the entity, which might include assets transferred in the contract.

Determination of the rate that would be applied in a separate financing transaction will be quite an onerous task because most of the entities may not enter into separate financing arrangement with their customers. Instead a better approach would be to use the incremental borrowing rate applicable to the entity as the rate to be used for discounting.

V. Sale with a right of return

B3 of the ED provides that in case of transfer of a good with a right to return, an entity shall recognise (i) the revenue for the transferred products; (ii) a refund liability; and (iii) an asset with a corresponding adjustment to cost of sales.

The ED does not provide guidance on how the above requirement would be applied to services that are subject to refund, as the ED simply states that the similar guidance would be applicable for services without further elaboration.

The Boards should also clarify how the asset representing the contractual right to recover the product from the customer should be presented in the statement of financial position preferably by way of an illustration.

VI. Breakage

B27 of the ED provides that an entity may receive a non-refundable prepayment from a customer that gives the customer the right to receive goods or services in the future. Common examples include purchase of gift vouchers and non-refundable tickets. In such transactions, typically some customers do not use their right, which is referred to as breakage. The breakage amount is proposed to be recognized as revenue in the ED.

In my opinion, in cases like non-refundable tickets, the entity cannot re-sell the tickets which have been allotted earlier. Therefore, in these types of cases, I agree with the Boards proposals to recognize the breakage amount as revenue. However, in cases like non use of gift vouchers, breakage amount should not be recognised as revenue, rather it should be recognised as other income since the entity can re-sell the goods to other customers as part of normal sales. Therefore, in such cases, if the breakage amount were allowed to be recognized in revenue, it would result in duplication of revenue recognition.

VII. Disclosures in interim financial reports

The ED provides a long list of detailed and prescriptive disclosure requirements for interim financial statements which may result in cost and efforts of obtaining the information exceeding the benefits and would cause hardship on the entities as collation of information will involve complexities. The Boards should consider limiting the level or volume of information required to be disclosed in the interim financial statements. The entities should be allowed to apply the general principle given in IAS 34 'Interim Financial Reporting', that an entity discloses information about significant changes in financial position and performance of the entity since the last annual reporting period to determine the disclosures for revenue contracts with its customers.