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Project Manager
International Accounting Standards Board
30 Cannon Street
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13 March 2012

Dear Sir/Madam

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

ED/2011/6 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The Accounting Committee ('AC') of Chartered Accountants Ireland welcomes the opportunity to comment on the proposals contained in the above exposure draft.

AC commends the IASB for the work undertaken in deliberating on the responses to the previous ED and addressing the concerns of respondents and interested parties. AC acknowledges that substantive revisions have been made to the exposure draft recognising some of the practical difficulties raised by preparers of financial statements.

AC is broadly supportive of the proposals in the exposure draft in relation to the questions asked in the document. AC's responses to those questions, along with some additional comments on the proposals, are set out in the appendix to this letter.

Should you wish to discuss any of the views expressed, please feel free to contact me.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Mark Kenny'.

Mark Kenny
Secretary to the Accounting Committee

APPENDIX

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?

AC agrees with the approach proposed. A company should be able to recognise revenue over time only if the criteria specified in the proposed requirements are met. AC concurs with the criteria specified in respect of the control of the asset and also the criteria in respect of assets without alternative use. AC agrees that in all other cases, a company would recognise revenue at the point in time when the customer obtains control of the promised good or service.

AC suggests, however, that the meaning of ‘alternative use’, as discussed in paragraph 36, needs further elaboration. Also, AC considers that the last sentence in paragraph 36 should be amended to read “substantive reason” rather than “substantive terms”. Otherwise, there is a risk that terms without commercial substance could be included in agreements to achieve particular aims with regard to revenue recognition.

In considering the principle of ‘distinct’ goods or services for identifying separate performance obligations in a contract, AC considers that there may be some difficulty for users in identifying the separate performance obligations in cases of repetitive rights e.g. delivery of the same service on a daily basis. AC recommends that more clarity is provided in the Application Guidance on what is meant by ‘distinct’.

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?

AC agrees with the approach proposed. AC considers that the prior proposal would have been difficult to implement and that the proposed revision, to reflect the consideration the company expects to receive and its location in the income statement, is an appropriate response and provides more easily understood information to the reader of financial statements.

AC notes, however, that the final sentence in paragraph 69 outlines the appropriate treatment where the contract does not have a significant financing component. AC suggests that the paragraph is expanded to outline the treatment where there is a significant financing component.

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?

AC agrees with the approach proposed. AC considers that the application of the constraint to the cumulative amount of revenue recognised is appropriate and the introduction of the term ‘reasonably assured’ requires management to evaluate objectively rather than in a mechanical calculation format and, in our view, the indicators as to an entity’s predictive experience as set out in paragraph 82 are clear.

AC discussed the meaning of ‘reasonably assured’ and whether it was understood to be closer to/equivalent to ‘virtually certain’ or closer to ‘probable’. It was agreed that there is a lack of clarity with regard to the meaning of the term, which could cause some difficulty for preparers. AC suggests that the intended meaning of the term should be clarified.

AC also noted that paragraph 19 on *contract modifications* refers to an entity having an “.... expectation that the price of a modification will be approved”. AC considers that, consistent with paragraph 81 of the proposed standard and other similar requirements, an entity should be “reasonably assured” that the modification will be approved, rather than merely having “an expectation”, before recognising revenue arising from the modification.

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?

AC was divided on this item. Restricting an onerous assessment to contracts that are satisfied over a period greater than one year is a reasonable approach to cost benefit concerns. However, AC considers that there is some risk that this may result in an inconsistency in approach, as it does not deal with contracts which straddle year-ends or for entities producing half-yearly or quarterly reports.

Whilst AC also agrees that the proposal to recognise a liability and expense is appropriate in circumstances where the contract is onerous, there were divergent views on whether the onerous test should be applied at the performance obligation level rather than at the contract level. Some members expressed reservations on the principle of recognising onerous obligations at the performance obligation level when a contract is expected to be profitable on an overall basis and that this could cause issues for certain service oriented industries. Other members were of the view that, where revenue is to be recognised at the performance obligation level, it is appropriate to also consider whether individual performance obligations are onerous. It was also suggested that, due to bundling, an onerous obligation at the performance obligation level may not be a very common occurrence in practice.

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.

AC considers that the disclosures proposed in this ED for interim financial reports would be useful to readers of such interim financial reports.

However, AC is concerned that the inclusion of such disclosure requirements in individual standards could result in the volume of disclosures in interim reports becoming excessive and creating an undue burden for preparers. While IAS 34 requires interim financial reports to apply the accounting policies applicable as at year-end reporting, AC's preference is that a separate project should consider the required contents of interim reports, from time to time, in order to ensure that the objectives of interim reports are met, whilst also ensuring that there is an appropriate balance between the burden on preparers and the reasonable expectations of users.

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?

If the entity no longer controls a non-financial asset, it is logical that it should derecognise it and record a gain or loss. Accordingly, AC concurs with the proposal.

OTHER ISSUES

AC has a number of additional comments on the exposure draft, suggesting:

- i. Changes in wording in order to avoid unintended consequences;
- ii. The inclusion of guidance contained in certain basis of conclusions paragraphs, in the text of the standard/application guidance; and
- iii. The consideration and inclusion of guidance dealing with revenue recognition where two or more entities collaborate, other than by way of a joint venture.

Suggested wording amendments

AC suggests wording amendments to the following paragraphs:

- **Paragraph 1:** The phrase in the first sentence "other than those relating to contributions from equity participants" refers both to changes in equity and ordinary activities and, accordingly, AC suggests that the phrase is moved to the end of the sentence, i.e. that it would read "...that result in increases in equity, arising in the course of an entity's ordinary activities, other than those relating to contributions from equity participants".
 - **Paragraph 10:** AC is concerned that the wording on this paragraph could result in all contracts with a customer (other than those excluded in paragraph 9) being covered by the proposed standard, whereas the intention is that it should only apply to sales made in the ordinary course of business.
 - **Paragraph 14:** AC queried whether the position of a supplier selling to an intermediary, but having an obligation to the ultimate customer, is dealt with in the proposed standard. In this case, the supplier will not have a contract directly with
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the ultimate customer; however it would be logical that an element of revenue is deferred.

- Paragraph 17: AC believes that contracts should be combined when negotiated as a package with a single commercial objective, rather than when they are entered into. An indicator, but not necessarily conclusive, of whether this has occurred may be if they are entered into at or near the “same time”.
 - Paragraph 30: AC agrees with the first sentence that refers to the “same pattern of transfer”. However, the example in the second sentence refers to transferring services “over the same period of time”. AC believes that the period of time should not be the determinant in the appropriate accounting and, instead, the language referring to patterns of transfer in the first sentence should be repeated in the second sentence.
 - Paragraph 46: There is an inconsistency between the language in paragraph 46 and that in paragraph BC 122. BC 122 states that the entity “**should**” recognise revenue in the circumstances outlined, whereas paragraph 46 states that the “best depiction of the entity’s performance **may be**...” to recognise revenue. AC recommends the replacement of “may be” in paragraph 46 by “is”, given that the relevant circumstances are explicitly set out in the paragraph.
 - Paragraph 50: The implicit assumption in this paragraph is that transactions are at arm’s length between unrelated entities. AC believes that guidance is also needed on the treatment of off market transactions between entities under common control. AC notes that paragraph 50 refers to “the amount of consideration” rather than “the fair value of consideration”. In these transactions, the transaction price may contain a disguised distribution which should be accounted for as a distribution/capital contribution rather than as part of normal trading.
 - Paragraph 85: AC was unclear whether the intention is that this paragraph only applies to licensing of intellectual property and, if it does, why this should be so. AC also noted that, if general application of this paragraph was intended, it may be inconsistent with the wording of paragraph 54 on variable consideration. If it is intended that the requirements of paragraph 85 apply to licences other than intellectual property, AC suggests that this apparent inconsistency be addressed and that the words “for example” are inserted in the second line of paragraph 85.
 - Paragraph 117: AC suggests that a further line item be included to cover ‘disposals’.
 - Paragraph B18: AC believes that “inventory risk” in paragraph B18(b) should be defined, particularly as it relates to “during shipping”. For example, a transportation company could argue that it has an inventory risk during shipping within the terms of this paragraph and that it should therefore include purchases and sales in respect of goods being transported for a third party. AC does not believe that this is intended and, accordingly, an illustrative example would be helpful.
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- Paragraph B21: AC is unclear why this paragraph only applies to “more than one performance obligation” and suggests that the opening sentence is reworded to refer to one or more performance obligations.
- Paragraph B39: AC was unclear why this paragraph only refers to “unconditional” rights and obligations and suggests that guidance is also given on conditional rights and obligations.

Guidance contained in Basis of Conclusions paragraphs

AC believes that the following paragraphs contain useful guidance meriting inclusion in the final text of the standard:

- BC 34(b) - “If there is significant doubt at contract inception about the collectability of consideration from the customer, that doubt may indicate that the parties are not committed to perform their respective obligations under the contract and thus the criterion in paragraph 14(b) may not be met.”
- BC 73(a) - Clarification regarding the district criteria in paragraph 28(b) “...the good or service is an asset that, on its own, can be used, consumed, sold for an amount other than a scrap value, held, or otherwise used in a way that generates economic benefits.”
- BC 101 and 102 - The Boards’ clarification of what is meant by “right to payment” in BC 101 and illustrative guidance in BC102.
- BC 144 - The guidance relating to prepaid phone cards and customer loyalty points and why they do not contain a significant financing component.
- BC 155 - “the Boards noted that an entity would re-evaluate the effects of the time value of money when there is a change in the estimated timing of the transfer of goods or services to the customer.”
- BC 232 and 233 - The guidance regarding recognising revenue using the cost-to-cost method when the vendor has significant learning curve costs.
- BC320 – The guidance on a conditional right to repurchase an asset.



Guidance on collaborative agreements

AC suggests that guidance is given on the appropriate accounting for revenue where one entity is dependent on the performance of another before becoming entitled to be paid, in a collaborative relationship which does not constitute a joint venture. AC considers that the recognition of revenue would need to be considered on a contract by contract basis and that simply entering into a collaborative agreement on the understanding that the partner would be able to fulfil its obligations under the contract would not be sufficient for the entity to be reasonably assured that it is entitled to its portion of the revenue.