



ZAMBIA INSTITUTE OF CHARTERED ACCOUNTANTS

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**International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom**

E-mail: commentletters@iasb.org

Dear Sir,

Comments on ED/2011/6 – Revenue from Contracts with Customers

The Zambia Institute of Chartered Accountants welcomes the opportunity to comment on the ED/2011/6 – Revenue from Contracts with Customers.

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?

Comment

We do agree with the proposal that an entity transfers control of a good or service over time when the entity's performance creates or enhances an asset of the customer and when the entity's performance does not create an asset with alternative use to the entity.

The basis of conclusion paragraphs 90 – 103 clearly illustrates each of the proposals.

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?

Comment

We do agree with the proposal. Revenue should be measured at the amount to which the entity expects to be entitled ('gross amount'), which therefore would not reflect any adjustments for amounts that the entity may not be able to collect from the customer.

Any adjustment to the amount to be collected should be presented as a separate line item to the revenue line item so that those losses on contracts with customers could be easily compared with the revenue recognised (BC169). Though this approach is a complete departure from the current accounting treatment of losses on short term receivables (bad debts which are shown under expenses), it is welcome move to ensure that revenue is measured at gross amount and not on a net basis.

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?

Comment

Though we do agree with the proposal to constraint the amount of revenue that an entity would recognise for satisfied performance obligations, we have a concern on criteria 81 (b) requiring that the entity's experience is predictive of the amount of consideration to which the entity will be entitled. The use of prediction means the entity is still uncertain about the revenue. Therefore, recognition of revenue in such circumstances will be subjective and might lead to abuse by some entities in an effort to boost their revenue line.

Though 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, the example (IE3) in the illustrative examples on how an entity would apply the predictive experience of an entity does not adequately illustrate the principle. This is because one might still argue and say the fact that the policy is subject to cancellation by the policyholder, then the revenue for the additional commission is subject to a third party decision outside the control of the entity.

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?

Comment

We agree with the proposal scope of the onerous test that 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, the entity should recognise a liability and a corresponding expense. This is in line with the Board's views that the recognition of a liability does not depart from the current practice on some types of contracts and to the fact that this would achieve greater convergence between IFRSs and US GAAP on the margins reported from some contracts with customers.

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.

Comment

Disaggregation of revenue - this information should be provided in the interim financial statements. The disclosure achieves an appropriate balance between the benefits of the information and the cost of obtaining the information.

Tabular reconciliation of contract balances for assets and liabilities - the information is useful to the users of the financial statements and so should be provided. By not requiring a gross reconciliation of contract balances, the disclosure is cost-beneficial.

Analysis of entity's remaining performance obligations - the information is useful for indicating the amount of revenue expected in future on contracts with duration of more than one year and the timing of such revenues. However, we have a concern as to the option allowed to the entity to disclose this information on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations. Allowing each entity to decide on the time bands might not allow for comparability of such information among entities.

Onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period – this information is useful and is in line with the onerous contract disclosure requirement currently in IAS 37.

Tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfil a contract with a customer – the information is useful and cost-beneficial.

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?

Comment

Yes we do agree with applying 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

The Institute will be ready to respond to any matters arising from the above comments.

Yours faithfully

Modest Hamalabbi
Technical and Standards Manager