



20 Aljunied Road, #06-02,
CPA House, Singapore 389805
Tel 65 6749 8060 Fax 65 6749 8061
cpasingapore@icpas.org.sg
www.icpas.org.sg

13 March 2012

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

(By email: commentletters@ifrs.org)

Dear Sirs,

RESPONSE TO EXPOSURE DRAFT – REVENUE FROM CONTRACTS WITH CUSTOMERS

The Institute of Certified Public Accountants of Singapore (ICPAS) appreciates the opportunity to comment on the above exposure draft (ED) issued by the International Accounting Standards Board (IASB) in November 2011.

Our comments on the specific questions in the ED are as follows:

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 recognizes 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?

We agree with the principle for the recognition of revenue over time when an entity transfers control of a good or service over time. We acknowledge the difficulties in addressing the transfer of control of a good or service over time, specifically for construction contracts as noted in the proposed Basis for Conclusion paragraph BC87. Hence the criteria set out in paragraph 35 to determine the transfer of control is fairly prescriptive and rule-based. However, this may diverge from the framework of principle-based financial reporting standards to reflect the economic substance of transactions. In addition, there are no clear

linkages to the concept of control which determines the transfer of the good or service to customer so as to recognize revenue.

Based on our understanding of paragraph 35, we believe that there are two broad principles for revenue recognition over time, as follows:

1. The customer receives or consumes benefits over time [paragraphs 35(a), 35(b)(i) and 35(b)(ii)]; and
2. The seller's performance does not create an asset with alternative use and the customer cannot avoid paying for the seller's performance [paragraph 35 (b)(iii)].

Hence we propose that paragraph 35 be redrafted to articulate these two principles to be followed in recognizing revenue.

We would like to draw the Board's attention to the following:

- Use of the term "asset(s)":
In paragraph 32, the term "assets" is defined as "goods and services" while in paragraph 35(b)(ii), the term "asset" seems to refer to tangible assets since work in progress has been used as an example of such an asset not controlled by the entity. Therefore the term "asset" has been used too broadly but may result in different interpretations.
- Interpretation of the phrase "right to payment":
The Board should consider providing clarity over the test for the "right to payment for performance completed to date" as stated in paragraph 35(b)(iii) on the interpretation of the phrase "right to payment". For example, in practice, does the "right to payment" entail the entity seeking to legally enforce the right to payment or simply whether the customer is obliged to compensate the entity for work done to date. There may be situations where it is not in absolute terms that there is a right to payment and that there are occasional challenges to the legal enforceability of the contracts. Hence it may be useful if the standard can clarify on such ultra vires situations.

Furthermore, in the event that the contract does stipulate the timing of payments which may be deferred till completion of the work, the Board should consider if this may then result in the contract not satisfying the test for the "right to payment" under paragraph 35(b)(iii) of the proposed ED, which then makes the definition of "right to payment" all the more important.

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?

We are of the view that the difference between the initial measurement of the receivable and the corresponding amount of revenue recognized ("credit adjustments at initial recognition") should be presented as a separate line item adjacent to revenue if they are material.

We have noted apprehensions from our constituents on distortions in profit margins arising from the presentation of credit adjustments at initial recognition and subsequent impairment/measurement adjacent to the revenue line item. However we acknowledge the Board's concerns over the difficulties faced in differentiating credit adjustments resulting from initial recognition and those resulting from subsequent impairment/measurement. Nevertheless, such concerns may be alleviated given that an entity would typically not recognise a loss on initial recognition if the contract with the customer does not include a significant financing component which is consistent with the Board's expectation in the proposed Basis for Conclusion paragraph BC171.

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 recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

We are generally agreeable with the proposed constraint in the cumulative amount of revenue to which an entity recognises to date, not exceeding that of which the entity is reasonably assured to be entitled. However we have our reservations on the use of the term "reasonably

assured” since this is not a term normally used in the International Financial Reporting Standards (IFRSs). This may lead to different interpretations by the preparers and potential for abuse.

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 recognize 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?

We are of the view that the use of a practical expedient for the application of the onerous test may result in inconsistent basis of measurement for onerous performance obligations. It seems to imply that the length of time is used as a yard stick to determine onerous performance obligations. When the entity has onerous performance obligations which are satisfied over time but less than a year, the entity is not required to recognise a liability or expense and hence mislead the users of the financial statements in believing that the entity's financial position is better than actual. Hence we propose for the application of onerous test for all performance obligations satisfied over time.

In addition, we do not think that limiting the scope of the onerous test will address the concerns of the application of onerous test at the performance obligation level. Paragraph 30 in the proposed ED does allow the entity to combine performance obligations if those goods or services have the same pattern of transfer to customer. Hence we believe that the Board should consider providing entities the choice to apply the onerous test at either performance obligation level or contract level, whichever is more appropriate.

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 recognized from the costs to obtain or fulfill 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.

We are of the view that the considerations for disclosures in interim financial statements should be evaluated via a separate review of IAS 34 *Interim Financial Reporting*. This should entail an evaluation of the usefulness of the information for users of the interim financial statements as a whole as opposed to the assessment of merits by the respective standards on its own.

In addition, our constituents have commented that the above disclosure requirements may significantly increase the volume of disclosures required in financial statements and hence financial reporting costs, given the reporting deadlines for interim reporting are usually shorter than year-end reporting.

Notwithstanding the information provided in the disclosures may be useful, all the disclosure requirements should be made voluntary for the entities to decide if such disclosures provide a better understanding of the changes in financial position and performance of the entities.

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:

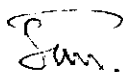
- (a) the proposed requirements on control to determine when to derecognize the asset, and**
- (b) the proposed measurement requirements to determine the amount of gain or loss to recognize upon de-recognition of the asset.**

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?

We are agreeable with the proposed amendments to other standards for the transfer of a non-financial asset that is not an output of an entity's ordinary activities.

Should you require any further clarification, please feel free to contact Ms Jezz Chew, Technical Manager, from ICPAS via email at jezz.chew@icpas.org.sg.

Yours faithfully,



Janet Tan
Executive Director (Corporate Services)