

New Zealand Institute of Chartered Accountants¹
July 2010

Request for Comment on Exposure Draft ED/2010/6 *Revenue from Contracts with Customers*

Executive Summary of Proposals

The International Accounting Standards Board (IASB) (jointly with the US Financial Accounting Standards Board (FASB)) published Exposure Draft ED/2010/6 *Revenue from Contracts with Customers*.

The proposals in the Exposure Draft specify the principles that an entity would apply to report useful information about the amount, timing and uncertainty of revenue and cash flows arising from its contracts to provide goods or services to customers. The core principle requires an entity to recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it receives, or expects to receive, in exchange for those goods or services. The proposals would affect any entity that enters into contracts to provide goods or services that are an output of the entity's ordinary activities, unless those contracts are within the scope of another IFRS.

Issued by the Financial Reporting Standards Board
New Zealand Institute of Chartered Accountants

¹ The New Zealand Institute of Chartered Accountants is the operating name of the Institute of Chartered Accountants of New Zealand, a body established under the Institute of Chartered Accountants of New Zealand Act 1996. All references to the New Zealand Institute of Chartered Accountants, or to the Institute, in this document mean the Institute of Chartered Accountants of New Zealand.

Introduction

A copy of the Exposure Draft ED/2010/6 *Revenue from Contracts with Customers* accompanies this Request for Comment. It can also be accessed on the IASB's website on the "Comment on a Proposal" page (located via the "Get involved" tab).

Constituents should refer to the summary on pages 5 to 11 of the Exposure Draft for the reasons for the Exposure Draft being published and a summary of the proposals.

IASB Proposals

Revenue is a crucial number to users of financial statements in assessing an entity's performance and prospects. However, revenue recognition requirements in US generally accepted accounting principles differ from those in International Financial Reporting Standards (IFRSs) and both sets of requirements are considered to be in need of improvement. Accordingly, the IASB and FASB have jointly developed a draft standard on revenue.

The proposals in the Exposure Draft specify the principles that an entity would apply to report useful information about the amount, timing and uncertainty of revenue and cash flows arising from its contracts to provide goods or services to customers. They would supersede IAS 18 *Revenue* and IAS 11 *Construction Contracts*. In summary, the core principle requires an entity to recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it receives, or expects to receive, in exchange of those goods or services. The proposals would affect any entity that enters into contracts to provide goods or services that are an output of the entity's ordinary activities, unless those contracts are within the scope of another IFRS. However, for some contracts (for example, many retail transactions), the IASB anticipates that the proposed requirements would have little, if any, effect.

In addition, the existing requirements for the recognition of a gain or loss on the sale of some non-financial assets that are not an output of the entity's ordinary activities (for example, property, plant and equipment or investment property) would be amended to be consistent with the proposed revenue recognition and measurement requirements. The proposed requirements also specify the accounting for some costs. An entity would recognise the costs of obtaining a contract as expenses when incurred. If the costs incurred in fulfilling a contract are not eligible for capitalisation in accordance with other IFRSs, an entity would recognise as an asset those costs only if specified conditions are met.

PBE modifications and differential reporting concessions

The Ministry of Economic Development (MED) and the Accounting Standards Review Board (ASRB) are currently undertaking a review of the financial reporting framework in New Zealand. The outcome of this review is likely to change the application of New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs) for some reporting entities in New Zealand. The MED and ASRB proposals include potential changes to both (a) the types of entities that would be required to prepare financial statements in accordance with accounting standards; and (b) the particular set of accounting standards with which reporting entities would be required to comply. For example, if the proposal that many small companies and small public benefit entities (PBEs) should no longer be required to prepare financial statements in accordance with accounting standards were to be adopted, the proposed standard would not be applicable to those entities.

In light of the current uncertainty regarding the future financial reporting framework in New Zealand and the possibility that, as a result of the IASB considering constituents' feedback, the requirements in the final standard may differ from those in the Exposure Draft, the FRSB concluded that currently it is not the appropriate time to issue proposals for PBE modifications or differential reporting concessions in respect of the Exposure Draft. However, if the proposed standard were to be applicable to PBEs the FRSB's expectation is that little, if any, modification would be appropriate. This is because the proposed standard specifies the accounting for revenue arising from contracts with customers which are primarily exchange transactions. Accounting for revenue from non-exchange transactions is the subject of a separate project the FRSB is undertaking jointly with the Australian Accounting Standards Board (AASB). The FRSB's expectation is that, if the proposed standard were to be applicable qualifying entities, it is likely that some differential reporting concessions would be appropriate.

Once there is some certainty regarding the outcome of the review of the financial reporting framework, including the expected timing of any changes, the FRSB (or its successor) and the AASB will consider whether PBE modifications and/or differential reporting concessions should be proposed. For example, if the final IFRS is expected to apply to PBEs, the two boards will assess the IASB's proposals against the criteria in the AASB-FRSB's *Process for Modifying IFRSs for PBE/NFPs* to identify possible PBE modifications. Similarly, if applicable under the revised financial reporting framework, differential reporting concessions will also be considered.

Although differential reporting concessions and PBE modifications have not yet been proposed, any views of New Zealand constituents on potential PBE modifications and differential reporting concessions would be welcomed. Those views will greatly assist the FRSB and AASB in their future deliberations as outlined above.

Invitation to Comment

The FRSB encourages constituents to respond to the IASB on the proposals in the Exposure Draft and to the FRSB on any issues that would affect the adoption of these requirements in the New Zealand context. Constituents who submit comments directly to the IASB are requested to forward a copy to the FRSB.

The FRSB requests that constituents supplement their opinions by detailed comments, whether supportive or critical, of the proposals. Supportive or critical comments are essential to a balanced review. The FRSB will consider all submissions received. Comments are invited on any aspect of the proposals. Comments are most helpful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Questions

The FRSB welcomes comment on the proposals in the Exposure Draft. In addition to the IASB's questions in the Exposure Draft, the FRSB seeks constituents' views on the following:

1. Do you agree with the proposals in the Exposure Draft? If not, please provide reasons supporting your response.
2. The FRSB has deferred consideration of proposals for PBE modifications for the Exposure Draft for the reasons discussed above. Notwithstanding this, if the final IFRS were to apply to PBEs, do you consider that the proposals in the Exposure Draft would give rise to the need for PBE modifications? Please identify the modifications that you consider appropriate and provide reasons supporting your response.
3. The FRSB has deferred consideration of proposals for differential reporting concessions for the Exposure Draft for the reasons discussed above. Notwithstanding this, if the final IFRS were to apply to qualifying entities, do you consider that the proposals in the Exposure Draft give rise to the need for differential reporting concessions for qualifying entities? Please identify the concessions that you consider appropriate and provide reasons supporting your response.
4. Are there any regulatory issues or other issues arising in the New Zealand environment that may affect the implementation of the proposed New Zealand pronouncement arising from the Exposure Draft, particularly any issues relating to:
 - a. profit-oriented entities;
 - b. public benefit entities; or
 - c. the Privacy Act 1993.Please provide reasons supporting your response.
5. Do you consider the proposals in the Exposure Draft to be in the best interests of the users of general purpose financial reports in New Zealand and Australia? Please provide reasons supporting your response.

Comments should be addressed to:

Director – Accounting Standards
New Zealand Institute of Chartered Accountants
PO Box 11 342
WELLINGTON

Email: ASD@nzica.com

Submissions must be received by the FRSB no later than **8 October 2010**, the IASB no later than **22 October 2010**.

It would be appreciated if respondents to this Request for Comment include a copy of their submission in electronic form (preferably Microsoft Word format) as that allows for the efficient collation and analysis of comments. Unless otherwise requested, submissions will be made available to the public and may be forwarded to the IASB.

Respondents are requested to indicate, on their submission, on whose behalf the submission is being made (for example, own behalf, a group of people or an entity).