



**Australian Government**

**Australian Accounting  
Standards Board**

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9 May 2011

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
UNITED KINGDOM

Dear David

**Recent tentative decisions on *Revenue Recognition* project**

The Australian Accounting Standards Board (AASB) has been following with interest the progress the IASB is making on the Revenue Recognition project and would like to bring a number matters as outlined below to the attention of the IASB for consideration in finalising this important project:

**(a) presentation of an impairment loss on contracts with customers as contra revenue**

The AASB is concerned that the IASB's tentative decision to require entities to present any impairment loss on contracts with customers as a separate line item adjacent to revenue, i.e., as contra revenue, is inconsistent with the IASB's proposals on accounting for interest income and the impairment of loan contract receivables in the Impairment project. The AASB questions the rationale for proposing different presentation requirements in the statement of comprehensive income for impairment on contracts with customers and impairment on loan contracts. The AASB considers any impairment arising on contracts with customers should be recognised as an expense related to contract assets, i.e. receivables, and presented separately as an expense in the statement of comprehensive income rather than as contra revenue.

**(b) separate revenue recognition models for goods and for services, and the appropriateness of those models**

The AASB is concerned that the IASB has tentatively decided to issue different revenue recognition guidance for transfers of goods and transfers of services, which seems inconsistent with the IASB's goal of specifying a 'single revenue recognition principle' for all contracts with customers. The AASB supports specifying a single revenue recognition principle for both goods and services. It considers that the appropriate principle would be that the entity has a right to payment for work performed (either goods transferred or services performed) to date.

The AASB is concerned that, under the IASB's tentatively decided revenue recognition guidance, revenue could be recognised without the entity having a present right to payment for work performed. For example, a developer of off plan multi-unit properties may be able to recognise revenue as the units are being constructed even though the developer may not have a right to payment for performance to date (subject to the interpretation of the term 'alternative use to entity' – see below).

The AASB considers that if the entity has a present right to payment for work performed, it is unnecessary to consider other factors in determining whether revenue has arisen. For example, in relation to services performed, it is unnecessary to consider whether:

- (i) the customer receives a benefit as the entity performs each task; or
- (ii) another entity would need to re-perform the task(s) performed to date if that other entity were to fulfil the remaining obligation to the customer.

If the IASB proceeds with its current tentative decisions, the AASB also considers that the term 'alternative use to entity' used in the proposed guidance for recognition of revenue on transfers of services should be clarified in the final Standard on Revenue to help prevent divergent practice in interpreting the term. For example, some may consider that an entity has an alternative use for an off plan multi-unit property that it constructs under a contract with a customer as the property is standardised and can be directed to another customer. Others may not agree as directing a property that is under contract with a customer to another (although the property is standardised) may result in a breach of contract.

**(c) measurement basis for uncertain consideration from customers**

The AASB is concerned that the IASB has tentatively decided to require:

- (i) an entity to determine the transaction price of a contract with customer with variable or uncertain consideration using either a probability-weighted approach or a most likely amount approach, whichever is most predictive of the amount of consideration to which the entity will be entitled; and
- (ii) revenue to be recognised at the amount allocated to a satisfied performance obligation unless the entity is not reasonably assured to be entitled to that amount.

The AASB is of the view that the above tentative decision made by the IASB is inconsistent with the approach taken for other IASB proposals on similar items. For example, the approach taken in recent redeliberations on the Leases project to exclude variable lease payments except for those that are considered disguised minimum lease payments in the measurement of the asset and liability recognised under a lease contract for a lessee appears to apply quite different criteria to that proposed in the Revenue Recognition project. Further, IFRS 3 *Business Combinations* requires the acquisition date fair value of contingent consideration to be included in consideration transferred. The AASB is of the view that the IASB should, to the extent possible, have a consistent approach in dealing with similar items across Standards and projects.

**(d) IFRS to apply to contract assets such as receivables**

The AASB considers that the IASB should be explicit about which IFRS applies to customer contract receivables. Customer contract receivables appear to qualify for measurement under both IFRS 9 *Financial Instruments* and the proposed IFRS on Revenue from Contracts with Customers, but would be measured differently under those Standards (for example, regarding whether expectations about future cash flows should be those of the entity or of market participants, and regarding the treatment of variable consideration). If the intention of the IASB is that these assets should be within the scope of the Revenue Standard and not IFRS 9, the AASB recommends that these assets are explicitly scoped out of IFRS 9.

If you have any queries regarding any matters in this submission, please contact me or Nikole Gyles (ngyles@asb.gov.au)).

Yours sincerely

A handwritten signature in black ink that reads "K. M. Stevenson". The signature is written in a cursive style with a long, sweeping underline.

Kevin M. Stevenson  
*Chairman and CEO*