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BAULDERSTONE

23 April 2009

The Chairman
Australian Accounting Standards Review Board
PO Box 204
Collins Street West
Victoria 8007

Dear Sir

### Discussion Paper - Preliminary Views on Revenue Recognition in Contracts with Customers (DP)

Baulderstone Holdings Pty Ltd (Baulderstone) is a wholly owned subsidiary of Bilfinger Berger Australia Pty Ltd which in turn is owned by Bilfinger Berger AG in Germany. With annual turnover in the order of $2 billion, Baulderstone is a significant member of the construction industry in Australia.

Baulderstone supports the detailed response to the DP provided to the AASB by the Australian Constructors Association (ACA).

In particular, we support the following views expressed in the ACA response:

- ❖ A single set of principles as currently proposed in the DP does not provide enough flexibility and clarity to meet the accounting needs of the construction industry. In particular the treatment of long-term complex projects where revenue and profit is recognised over a number of financial years and which are well catered for under existing standard *IAS11 Construction Contracts*.
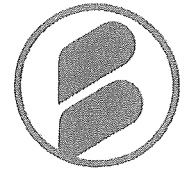
* In our view from a construction industry perspective, the proposals are likely to have the effect of emphasising the legal form of a transaction rather than its economic substance.

* In construction contracts the process is driven by the customer. The contractor is providing a service in responding to the structural design specified by the customer, which is different to the situation in other commercial arrangements where goods are produced for inventory, subsequent distribution and sale.

* There is a lack of clarity as to the passing of control from contractor to customer.

   * The control proposals in the DP have the potential to result in inconsistency of approach whereby two contracts that are essentially the same in terms of scope, risk and reward being treated differently in the accounts. In both cases the customer has the benefit of the economic activity undertaken; however a different interpretation of control could result in progressive revenue recognition on one and recognition at completion on the other.

   * Indeed, almost all construction contracts in Australia provide the customer with the right to vary or terminate the contract, notwithstanding that the contractor has day to day control of the site.

* There are a number of practical issues such as the development of duplicate processes and systems that will increase the cost of doing business.

* The proposal may lead to a separation of management control and financial accounting. From Baulderstone's perspective, it is difficult to see how users of financial statements would benefit from reports that are based on recognising revenue at completion which is different to the progressive revenue recognition model used by the board of directors and management to run the company.

   * Revenue recognition under the existing standard is well understood by both internal and external users
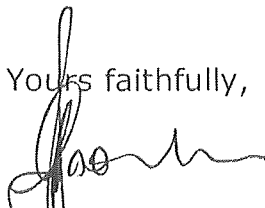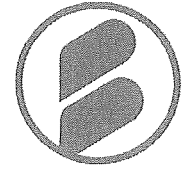
of financial statements and is more reliable than the
proposals under the DP.

- Changes in contract margin (both up and down)
  during construction are common in the industry.
  The DP does not provide any guidance on this topic
  unless a contract becomes onerous. Current
  treatment involves adjustment in the current
  reporting period which we believe is a more reliable
  measure compared to the DP which contemplates a
  cost overrun being accounted for prospectively.

In summary, we recommend that the Board consider clarifications
to the proposed standard that clearly define that the activities
performed in construction contracts represent the provision of a
service rather than the manufacture of a good, and that this service
is provided continuously throughout the life of the contract as a
single performance obligation.

Yours faithfully,

Alan Toombes
Finance Director