LAING O'ROURKE

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

E-mail: standard@aasb.gov.au

24 April 2009

Dear Chairman,

Response to ITC 18 Request for Comment on IASB Discussion Paper - Preliminary Views on Revenue Recognition in Contracts with Customers

We set out the response to your invitation to comment on the above discussion paper, published in December 2008, on behalf of Laing O'Rourke Australia Pty Limited the Australian subsidiary of a global construction company.

Overall comments

We welcome the opportunity to respond to the AASB's request for comments on this discussion paper (DP). In principle, we support the amalgamation of revenue recognition within one standard to reduce the accounting literature and to improve consistent application across industries. However, we have strong concerns surrounding how the boards' proposed model may apply to long-term contracts and construction contracts.

The proposed model relies on the key principle that revenue is recognised when an entity satisfies an obligation in a contract by manner of control of the asset or service passing to the customer. In our opinion, the concept of control is not defined or adequately addressed in the DP. The nature of construction projects (and the effect of the contracts which govern the administration of such projects) is that physical control of the asset will not be passed to the customer until the project has reached completion even where the asset is being constructed on the customer's land. Our concern with the boards' proposals is that legal obligations and mechanisms within a contract may prevail over the economic substance of the transaction. The potential implications of the boards' proposals are that contracts may need to be componentised to ensure revenue can be recognised throughout the life of a contract. However, this would create legal ramifications in drafting contracts and would introduce subjectivity in the identification of performance obligations and when they have been satisfied. In addition, such proposals contemplate the willingness of customers to draft construction contracts in such a manner. It should be noted that only in very limited circumstances does a construction company have the opportunity to prepare the contract for a project.

Laing O'Rourke Australia Pty Limited
100 Arthur Street, North Sydney NSW 2060
PO Box 1505, North Sydney NSW 2059
tel: +61 (0) 2 9903 0300 **fax:** +61 (0) 2 9903 0333 **web:** www.laingorourke.com.au
ABN 71 111 023 431

There are a multitude of contracts within the construction industry, each with unique terms and conditions that are often long-term, contemplate regular variation to the price paid and contain ancillary entitlements (e.g. relating to geotechnical conditions, changes in law and changes in quantities, etc); cost escalation clauses; early completion incentives; alliance partner dependency; pain/gain share; liquidated damages; extension of time variables; and customer variation requests.

The construction industry is unique in that the customer may specify the main elements of structural design, has the ability to vary the elements of the scope of works throughout a contract period and often owns the land where construction is to take place. These factors make construction contracts very different to other contracts with customers and we believe further consideration and guidance on how to apply the boards' principles to construction contracts is required.

In our opinion, the current IFRS standard for construction contracts (AASB 111 its equivalent) requires the use of the percentage complete method, when contract revenue is recognised based on the stage of completion where the outcome of the contract can be reliably measured. This standard, results in reporting of revenue, expense and profit attributable to the proportion of work completed and in our opinion, is reflective of contract activity and performance.

It is our view that generally a construction contract is a provision of services with performance obligations and control passing continuously. However, our concern is that the DP, as currently drafted, may not be interpreted in that way.

Additionally, given the boards' decision to exclude insurance contracts from the DP's scope due to their variability, we believe that construction contract accounting could be scoped out of this DP and addressed separately for similar reasons.

We have set out our more detailed comments in Appendix A; including some issues that the IASB in our view should consider if it decides to continue with this discussion paper.

If you have any questions in relation to this letter please do not hesitate to contact me.

Yours sincerely

P.P.

Norman Pack
Finance Director

LAING O'ROURKE

Appendix A

Detailed comments on the IASB Discussion Paper, Preliminary Views on the Revenue Recognition in Contracts with Customers

Question 1 – Do you agree with the boards' proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

We support the amalgamation into one accounting standard and the attempt to reduce the literature in this area. However, we have strong concerns regarding how the boards' proposed model will apply to long-term contracts and construction contracts. We do not believe that one consistent set of revenue recognition principles can be applied across all industries, especially the construction industry, due to the variability of the contract price, numerous obligations and administrative processes, complexity and time frames associated with construction contracts.

The principles of the current IFRS standard on construction contracts (AASB 111), provide the most appropriate method of recognising revenue for construction contracts. In fact, given the specific requirements of the existing standard, we believe there is already consistency in revenue recognition among construction companies albeit the determination of when a contract outcome can be reliably estimated may differ, which one would expect to be the case given the variability of contracts and the risks associated with them.

Insurance contracts have already been scoped out of the initial discussion paper due to their numerous elements, the outcome of such contracts can be highly variable and they cover many reporting periods. As such, we recommend that revenue recognition for construction contracts be scoped out of the current discussion paper and addressed separately.

Question 2 – Are there any types of contracts for which the boards' proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

Construction companies activities involve various contracts with unique terms and conditions that often run for many years. We operate under a range of design/procure/construct/maintenance contract styles in the form of:

- Fixed price contracts
- Schedule of rates contracts
- Reimbursable contracts
- Alliance style contracts
- Maintenance contracts
- Design and services contracts
- Hybrid of the above

These contracts contemplate regular variation to the price paid, in part (but not exclusively) at the customer's request, and many contracts have ancillary entitlements (e.g. related to geotechnical conditions, changes in laws, changes in quantities of work, etc); cost escalation clauses; early completion incentives; alliance partner dependency; pain/gain share; liquidated damages; extension of time variables; and other customer variation requests.

The DP is silent on the treatment of these types of clauses whereas AASB 111 relies on reliably estimating outcomes and gives specific guidance on claims and variations.

The proposed model would not provide useful information for construction contracts in the same way that the percentage complete method does (under AASB 111), where contract revenue is recognised based on the stage of completion where the outcome of the contract can be reliably measured. This standard, results in reporting of revenue, expense and profit attributable to the proportion of work completed. The percentage complete method is reflective of contract activity and performance over the contract term.

For example, the construction of a road can take several years to complete. The design of the road will be determined by the customer (the government). To assist with working capital, the contract will establish when cash instalments are to be paid as the work progresses. There are many aspects to the building of a road, however the road cannot be completed in sections and control of each section transferred to the customer (the government). As transfer of control of the road to the customer does not occur until completion, our understanding of the boards' proposals is that revenue would not be recognised by the contractor until completion. We believe the DP needs to provide guidance on what constitutes continuous transfer of service to a customer throughout the term of a contract to enable revenue to be recognised continuously.

It is not clear from reading the DP how the accounting entries will be recognised to reflect the monthly billing of customers in these types of contracts.

Question 3 – Do you agree with the boards' definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

In principle, we agree with the boards' definition of a contract. However each contract will have multiple enforceable obligations that may not result in the transfer of an asset to a customer and these obligations can extend for a period beyond the transfer of an asset or service and beyond the initial contract term (e.g. a liability at law).

Question 4 – Do you think the boards' proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

The activities in construction contracts are not typically componentised. Legally, contracts require the delivery of an asset to a customer, such as a road or building.

Given the size and complexity of construction contracts, the concept of identifying and measuring separate performance obligations introduces subjectivity and is subject to interpretation, especially as to what constitutes a performance obligation and exactly when the obligation is satisfied. The boards appear to concede this fact as the DP states that a contractor has a continuous series of individual performance obligations (paragraph A34 states 'Each service hour, brick and nail is a promised asset that is transferred to the customer'). However, the DP states that for practical reasons a contractor may separate a contract by phases. The rationale being this approach facilitates the contractor's assessment of the pattern the assets are transferred to the customer and the measurement of the obligations to transfer those assets.

This rationale is not reality in the construction industry, because generally in construction contracts the customer (or an independent third party) certifies payment. We discuss this further in our response to question 8.

In a contract to construct a building on customer land, where control of the land remains with the customer during construction, the contractor is continuously delivering a service and satisfying performance obligations as the building is constructed. The identification of the performance obligations could be interpreted to be any (or all) of the following:

a) Laying each individual brick;
b) Completion of specific elements i.e. earthworks, steelworks, plumbing, utilities, air conditioning or fit out etc;
c) Completion of individual floors; or
d) Completion of the entire building.

Each of the above interpretations appears to be acceptable performance obligations under the DP. Clearly, each contractor could identify various levels of components within contracts, or may even vary the components identified on a contract-by-contract basis. This variation in identification of performance obligations will result in a lack of comparability of financial reporting across the construction industry.

Other examples of contracts where we foresee difficulties in identifying performance obligations consistently and in allocating the transaction price to the performance obligations include 'alliance style' contracts. In some examples of these contracts the contractor and the customer work together to deliver a construction project. In other examples, the parties assemble based on skills and expertise and are focused on a successful project outcome based on an agreed target price on which they share the risks and rewards (often referred to as pain/gain share). The pain may relate to the fee (usually a percentage of costs) not being paid to the participants when costs exceed target and the gain may relate to performance bonuses paid to the participants when costs are within target. Other pain/gain factors may include completion time, environmental, and health and safety targets, community and stakeholder satisfaction. The customer can also benefit from both the pain and the gain shares.

Contracts in the construction industry may also be 'cost plus' contracts where the contractor is reimbursed for allowable costs (under the contract agreement) plus a percentage margin.

It is not clear how the boards' proposals will impact the revenue recognition on these types of contracts.

In summary, the boards' proposals do not adequately consider the complexity and variability of construction contracts where the principle of recognising revenue as services are rendered on a percentage complete basis when the outcome of a contract can be reliably estimated, accords with the substance of construction contracts. We foresee long-term contracts being structured in a manner to achieve a desired revenue recognition profile under the boards' proposals.

Question 5 – Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

No, in relation to construction contracts. The proposed model relies on the key principle that revenue is recognised when an entity satisfies an obligation in a contract by manner of control of the asset or service passing to the customer. The concept of control is not defined or adequately addressed in the DP, as the nature of construction projects means that physical control of the asset being constructed will not be passed to the customer until the project has reached completion.

The majority of construction contracts relate to works carried out upon customer's land. Throughout the works the customer continues to hold legal title to the land and the asset being constructed. Construction contracts have a contractual obligation for the owner to give possession of the site to the contractor until the project is completed. New accounting requirements could:

- create legal ramifications in drafting contracts, especially relating to the definition of when control is passed; and
- create uncertainty on the commercial viability of contracts.

In addition, the majority of construction contracts place responsibility for the care and control of the works (as well as insurance for same) upon the contractor until completion of the works.

For some projects on customer's land, we incur significant 'mobilisation costs' at the commencement of a construction contract. These costs do not in themselves create an asset for the customer, but are necessary to meet future performance obligations. Mobilisation costs may include the set-up of the work sites including remote work camps; recruitment of staff with appropriate skills; relocation of staff to remote sites or local accommodation, the purchase and transportation of equipment; and the set-up of utilities (e.g. gas, water, electricity and communications infrastructure).

It is not clear from our reading of the DP whether we would satisfy a performance obligation and thereby recognise revenue in relation to these significant costs. If revenue was to be deferred it is not clear whether the boards' proposals would result in these costs being recognised as work in progress or as an expense.

The DP does not provide guidance on the factors that determine the satisfaction of performance obligations under construction contracts. Factors to consider include:

- a customer certifying a claim;
- receipt of a progress payment for work performed;
- customer acceptance or intent;
- work performed to date on the basis that the customer can stop the project, pay all current progress claims and take ownership of the property at any time;

- work performed to date on the basis that the customer does not have control of the goods or services but does hold title and has the right to extract value at any time by selling the land and the partially completed asset;
- inability to determine final price at time of award of contract.

Question 6 – Do you think that an entity's obligation to accept a returned good and refund the customer's consideration is a performance obligation? Why or why not?

It is not uncommon in the construction industry for retention amounts to be withheld by a customer for over 10 years as a precaution against defects. There are also statutory obligations in addition to the contractual obligations.

Current industry practice under the 'percentage complete' approach is to raise a defect warranty provision based on past experience, in accordance with the requirements of the provision standard (AASB 137). Under the proposed 'allocated transaction price' approach, revenue will be deferred until the expiry of the warranty period. As traditionally no margin is recognised on these retention amounts, we do not believe the change in principle from a 'cost' approach to a 'allocation of the transaction price' approach will result in a major change in the accounting for warranties/retentions.

Question 7 – Do you think that sales incentives (e.g. discounts on future sales, customer loyalty points and 'free' goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

We provide no comment as sales incentives are not relevant in the construction industry.

Question 8 – Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.

We consider that there is insufficient guidance in the DP in relation to control to draw conclusions as to how this concept might apply to construction contracts. If the interpretation is that where a customer is receiving service via a contractor continuously meeting their obligations throughout the contract (i.e. the transfer of every brick or nail), then yes, we agree that a contractor is satisfying a performance obligation under these circumstances. However, we are concerned that the proposed model appears to ignore the economic substance of an arrangement and instead focus on the legal form of a contract.

When assessing control over a good, it may be logical to assess the transfer of control as being related to physical possession. However, it is significantly more complex to determine when control transfers for a long-term construction contract.

The concept of 'physical control' is too narrow a measure for the construction industry. This is because legally, the customer does not control the work site (direct the works) nor does it have access to the work site until certification has been provided that the structure is fit for purpose (e.g. permit to occupy). Site restriction is mainly due to health, safety and environmental and operational factors. However, in substance the customer has legal title to the land and structure which it can sell; can inspect the work site and holds legal title to the work in progress; and in limited circumstances has the right to terminate and replace the contractor provided all outstanding progress payments have been made. This indicates that the customer 'owns' the work in progress.

We believe there needs to be explicit guidance that the following indicators constitute continuous transfer of an asset during the provision of construction services, including:

- construction activities on land owned by the customer;
- contract works performed on behalf of the customer;
- progress payments being received as work is performed;
- rise and fall provisions (e.g. costs of labour and materials), prolongation claims, variations and warranty provisions;
- customers recognising work in progress asset in their accounts.

For example, the DP does not consider whether customer certification would result in the satisfaction of a performance obligation (a promise met such that the good or service has been transferred to the customer) or whether this would constitute a transfer of control to the customer.

A contractor may construct a building on a customer's land. The customer agrees to progressive payments based on progressive certification, either by the customer or by a third party.

Legally, as the contractor constructs the asset, control of each brick will pass to the customer. It is unclear from the DP whether the contractor may recognise revenue progressively (i.e. in a similar manner to the percentage completion method) once certification has been received.

However, certification is only payment on account and the customer is entitled to amend the amount to be paid with future certificates.

In paragraphs 4.32 to 4.37, the DP considers whether customer payment can be a basis for determining the point when transfer of control occurs. Our interpretation of these paragraphs is that where the customer is obliged to pay for the partially completed asset and cannot recover that payment, even if the contractor fails to build the rest of the asset, in the absence of other indicators, the fact the contractor has the right to a non-refundable payment from the customer may suggest that the customer controls the partially completed asset. The rationale provided by the DP is that a customer would not make a non-recoverable payment without receiving an asset in exchange.

From a legal view point, it is arguable that when the customer has certified completion on a stage basis, control of an asset may not pass to the customer. From a commercial view point, the customer may be making payments to the contractor for services provided and recognising an asset under construction. If certification was accepted as satisfaction of a performance obligation, resulting in revenue being recognised, there would need to be consideration as to the effects of subsequent adjustment by fresh certification.

Changing the current structure and meaning of the terms and conditions of construction contracts to accommodate the needs of accountants to clearly identify individual material performance obligations and define when control has passed, would not be commercially viable and nor would it be supported by customers. As such, estimation and interpretation will be left to the discretion of the contractor.

The application of the control concept will no doubt require judgement in the context of all relevant factors. Some common concepts of control in relation to assets and services include the ability to exercise authority over the good/service or provider thereof; the power to direct or regulate the good/service or provider thereof; the holder of the rights to obtain a majority of the benefits through statute, contract or agreement; and the holder of the majority of risks associated with the good or service being provided.

The outcome must be that despite the contractor legally having responsibility until the building or structure is certified complete and fit for purpose, the above factors indicate that services are provided and control passes continuously.

As the customer will recognise an asset under construction during the contract, the recognition of revenue by the contractor based on the performance of activities under the contract aligns the accounting by the service provider with that of the customer.

We believe that revenue recognition should be linked to activities and that the progress of construction is more relevant and useful than the satisfaction of performance obligations and transfer of control of an asset or service to a customer.

Question 9 – The boards propose that an entity should recognise revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

Yes, construction contracts in general as they are susceptible to regular and continual variation/variability in the price paid (refer questions 2 and 12). More specifically, the proposed model would be inappropriate for 'schedule of rates', 'cost plus' and 'alliance' style construction contracts:

- Schedule of rates and cost plus contracts – complex or impossible to determine upfront what the transaction price is and when a performance obligation has been satisfied.
- Alliance contracts – the entity's satisfaction of a performance obligation is dependent on other alliance parties (refer to question 4).

The pattern of revenue recognition will depend on the delivery of the performance obligations at estimated selling prices and not necessarily on the status of construction, nor the costs incurred to date. This may create margin variability throughout the project if the costs do not correlate to the transfer of assets based on estimated selling prices.

As detailed in our response to question 4, under the boards' proposals the identification of performance obligations in a construction contract is open to significant interpretation. For example, the construction of a building can have many different contractual arrangements for exactly the same activities and services being provided by the contractor. The legal form of the contracts may be different, but in substance the contractor is providing the same service and accordingly the contracts should be accounted for on a consistent basis.

In our view, the boards' proposals will result in the same construction contract being accounted for differently by two entities depending on their interpretation of performance obligations. Indeed, one entity could represent the same contract in many different ways. We question how the boards' proposals will allow different revenue recognition profiles for contracts which are economically and commercially the same.

Question 10 – In the boards' proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.

Q10 (a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?

We agree that performance obligations should be measured initially at the transaction price.

However, other factors included in the scope of construction contracts which result in changes to the initial transaction price and hence will impact the measurement of a performance obligation include:

- client's right to increase the timescale for the work to be undertaken beyond the initial contract term;
- variations to the scope of work;
- pain/gain share;
- 'extension of time' and prolongation costs;
- 'liquidated damages' (damages for late performance);
- performance bonuses or KPI revenue;
- escalation claims;
- provisional sums;
- latent conditions (i.e. payment arising from unexpected ground conditions);
- schedule rate contracts.

Variations and claims were specifically addressed in AASB 111.

Question 10 (b) – Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?

While we agree where costs are forecast to exceed the carrying amount of a performance obligation (i.e. deemed onerous) a contract loss should be recognised, as detailed in our response to question 10 (a), the initial transaction price is often subject to variation. The boards' proposals focus on the adverse changes and ignores the favourable changes in contracts.

Under the current construction contract standard, contract losses are recognised immediately when identified.

The boards' proposals will result in higher profit emergence early in the contract term with recognition of profit up until the point when the remaining performance obligations become onerous. Then, if the remaining obligations become onerous, no further profit will be emerged and a contract loss will be recognised. This approach places emphasis on correctly allocating the transaction price across each of the performance obligations.

We note the DP does not provide guidance on the treatment of changes in margins over the contract term. Contract margins can differ over a contract term to reflect the passage of risks and the increase in certainty of the final outcome. Currently, such changes are accounted for via a "true up" in each reporting period. The current practice under AASB 111 results in a more linear profit emergence.

This approach will require an increase in the level of detail required to forecast by component/performance obligation rather than assessing the contract as one continuous performance obligation.

Question 10 (c) – Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.

We believe the proposed measurement approach will not provide decision-useful information for variations to a contract. The current accounting treatment, whereby revenue and profit is reassessed each reporting date and "trued-up" so that the cumulative profit is on track, provides more decision-useful information. The DP proposes that reforecast only occurs on a prospective basis which could change behaviour to recognise profit earlier and defer unfavourable impacts.

Revenues and costs under the entire contract (not just individual performance obligations) should be reforecast each reporting period, thus ensuring profit recognition is linear and more reliable.

Triggers to remeasure revenue and costs must include all factors mentioned in question 10 (a).

Question 10 (d) – Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.

The factors listed in response to question 10 (a) should be subject to another measurement approach.

For example, 'Rise & Fall' contracts where prices increase or decrease based on a particular factor (e.g. commodity prices, expected cost ranges etc), cannot be allocated a portion of the transaction price on inception of the contract.

Question 11 – The boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (e.g. selling costs) are included in the initial measurement of the performance obligations. The boards propose that an entity should recognise those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.

Question 11 (a) – Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?

Yes, as these costs are incorporated into the price of a tender. However, significant tender costs such as design costs are at times reimbursed by the customer regardless of the outcome of the tender. We understand that reimbursement of these costs will still result in revenue being recognised, because in this example the satisfied performance obligation will be the customer receiving the designs.

Question 11 (b) – In what cases would recognising contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.

Without clear guidance in the form of a specific definition as to what constitutes contract origination costs ('selling costs') there is the opportunity for subjective interpretation and inconsistent accounting treatment to be applied.

We understand that the rationale behind the boards' proposals are that revenue should not be recognised upfront to off-set the costs incurred in obtaining the contract, because at inception there is a risk that the costs of the remaining performance obligations will exceed the transaction price.

However, in some cases tender costs may be significant to a company (especially if tendering for large projects). Expensing these costs upfront will distort the financial performance and financial position of a company. For example, costs incurred in obtaining a contract are usually borne by an entity in expectation of obtaining higher margins in other parts of the construction. If these initial costs are expensed as they are incurred, a true reflection of the margin on a contract at inception will not be accurately reported.

Question 12 – Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

Given the nature of typical industry provisions within construction contracts, it is not always possible to allocate the transaction price to performance obligations based on the stand-alone selling price. This approach lends itself to contracts with similar constituent elements, which is generally not the case with construction contracts.

As mentioned in our response to question 2, construction contracts contemplate regular and continual variation/variability and many contracts have ancillary entitlement clauses (e.g. geotechnical conditions, changes in laws and changes in quantities of work, etc); cost escalation clauses; early completion incentives; alliance partner dependency; pain/gain share; and customer variation requests. It is inherently difficult to allocate a variable transaction price to performance obligations on the basis of the entity's stand alone selling prices of the goods and services.

Question 13 – Do you agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?

Construction services are unique to each project they are non-homogeneous, therefore on the basis of the boards' proposals, estimates are the only practical and reasonable way of allocating the transaction price. However, judgement based estimates by their very nature will lead to inconsistent application.

Other comments

In the past, the boards have recognised the complexities associated with construction contracts by virtue of issuing a specific revenue recognition standard for construction contracts. We believe the discussion paper did not sufficiently address revenue recognition issues for our industry and the boards' proposals may have significant ramifications for construction businesses. We believe there is general consistency across the construction industry in recognising revenue on a percentage completion basis albeit differing interpretations as to when the outcome of a contract can be reliably estimated. Therefore we strongly believe an appropriate way forward would be to provide guidance on a consistent and acceptable method of applying percentage completion under the auspices of the current construction contract standard, rather than attempt to overlay general principles for construction contracts which would be open to interpretation.