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Mr. Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Mr. Hoogervorst,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, I appreciate the opportunity to comment on the Exposure Draft *Revenue from Contracts with Customers* (June 2011). Principal authors of this comment letter were Gerhard Prachner, Helmut Kerschbaumer, Peter Geyer, Leopold Fischl, and Barbara Schallmeiner.

## General Comments

We welcome the efforts of the IASB and the FASB to develop a single standard for revenue recognition for contracts with customers. Nevertheless we think that some issues need to be discussed or clarified.

We agree with the design of the Standard (i.e., main text and application guidance). However, we believe the application guidance contains certain principles which should be integrated into the main text (e.g., application guidance relating to warranties, principal versus agent considerations, bill-and-hold arrangements).

**Q1 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 recognises 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 acknowledge the efforts of the boards to determine revenue recognition for performance obligations satisfied over time and agree with the general concept of the proposal.

However, we believe that paragraph 35 is too complex and should be rephrased, and more illustrative examples should be added.

The wording includes hierarchical criteria tests: “if at least one of the following two criteria is met” in the first paragraph and “at least one of the following criteria is met” in subparagraph (b). Also, some wording is difficult to understand. For example, the purpose of the second sentence of paragraph 35(b)(ii) (“the entity shall presume that another entity fulfilling the remainder of the contract would not have the benefit of any asset (for example, work in progress) presently controlled by the entity.”) is difficult to understand and may result in diverse interpretation and practice.

The same is true for the third sentence of paragraph 35(b)(iii) (“the entity must be entitled to an amount that is intended to at least compensate the entity for performance completed to date even if the customer can terminate the contract for reasons other than the entity’s failure to perform as promised”). The customer is only rarely entitled to terminate a contract for reasons other than the entity’s failure to perform as promised. How can this criterion for recognition be tested? We suggest that this sentence be rephrased, e.g., along the following lines: “However, the entity must be entitled to an amount that is intended to at least compensate the entity for performance completed to date even if *the contract is not completed for reasons residing in the sphere of the customer.*”

The last sentence of paragraph 35(b)(iii) (“Compensation for performance completed to date includes payment that approximates the selling price of the goods or services transferred to date [...] rather than compensation for only the entity’s potential loss of profit if the contract is terminated.”) is difficult to interpret. If the entity is compensated for the loss of profit in addition to the contract costs incurred it appears that it is compensated for its entire interest in completing the contract. Should compensation for performance completed to date exceed compensation for the entire interest?

**Q2 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 agree with the statement that a customer’s credit risk does not reduce the revenue recognised. However, we believe that there is no need to deal with the presentation of credit losses in this revenue recognition standard. IAS 1 *Presentation of Financial Statements*, in particular paragraph 86, provides sufficient guidance; if a separate statement is viewed necessary, changes in presentation rules should be incorporated into IAS 1 but not in the revenue recognition standard. We also suggest not to state a specific line item as this is not done in most other standards, and rather to apply the general classification rules combined with appropriate disclosures. In any case, if the board still believes that the effects of a customer’s credit risk should be presented in a separate line item adjacent to the revenue, such a requirement should be limited to initial recognition. In our opinion, a deterioration of the customer’s credit risk subsequent to initial recognition should not affect the presentation of items relating to revenue recognition.

Paragraph 68 states that “an entity shall account for the receivable in accordance with IFRS 9 except as specified in paragraph 69, but the first sentence in paragraph 69 includes the phrase

“any difference between the measurement of the receivable in accordance with IFRS 9...”. We believe that this wording is not clear and should be rephrased.

**Q3 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 recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?**

We agree.

**Q4 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 recognise 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 recognise that the boards are considering simplifications (i.e., the narrow scope of the onerous performance test, especially the one year limit) in order to make the application of IFRS more efficient. However, in this specific case, we have some doubt that the benefits from this simplification will outweigh its potential drawbacks. Such drawbacks include the need for a reliable estimate of the term of the contract at contract inception and a potential negative effect on true and fair financial reporting in cases where it is clear that an onerous performance obligation exists, but no liability is recognised simply because the entity expects to satisfy it within one year.

As an alternative approach, we suggest that an entity recognises a liability for onerous contracts (i.e., on a contract basis) instead of a liability for onerous performance obligations. The three main arguments in BC 207 for rejecting the contract as the unit of account for the onerous performance test (as already suggested in several comment letters on the 2010 exposure draft) are that this would add complexity, would be inconsistent with recognising revenue, and could be arbitrary because goods or services can be provided under more than one contract. We do not see significant additional complexity in using the contract as the unit of account, since the contract and the transaction price need to be clearly determined when applying the proposed standard (paragraphs 12–22 and 50–67). As to the inconsistency argument, we think that although using the contract level for applying the onerous performance test may not correspond with the unit of account for revenue recognition, it would still be a sound basis for such a test, since the contract and not the performance obligation establishes rights and obligations for the entity. We also believe that a contract level of account would not be more arbitrary than using the performance obligation level, since identifying separate performance obligations also involves estimates and assumptions about the characteristics of goods or services promised in a contract (paragraph 23). Therefore, we do not see that advantages (if there are any) of using the performance obligation as unit of account instead of the contract itself compensate for the main disadvantage, the potential recognition of a loss although the contract as a whole is profitable.

**Q5** 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 fulfil 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.

With the exception of the disaggregation of revenue (paragraphs 114 and 115), we strongly disagree with the proposal that an entity should be required to provide all these disclosures in its interim financial statements. The proposed disclosures are not in balance with other disclosures in interim reports. We believe that the costs of these disclosures outweigh the potential benefits.

We also recommend bringing the requirements on disaggregation of revenue (paragraphs 114 and 115) in line with the requirements on segment reporting (IFRS 8).

Additionally, we believe that the requirement to present a tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117) may require significant system adjustments for preparers. We strongly recommend that the boards conduct field tests to broaden the information basis before a decision is made.

**Q6** 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 derecognise the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition 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 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.

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\* In the IASB exposure draft, see paragraphs D17, D22 and D26 in Appendix D.

Please do not hesitate to contact me if you wish to discuss any aspect of our comment letter in more detail.

Kind regards

Romuald Bertl  
Chairman