



European Federation of Accountants and Auditors for SMEs

EFRAG
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Brussels, 15 June 2009

Dear Madam, Dear Sir,

Re: EFAA comment on draft response to IASB discussion paper Revenue recognition

The European Federation of Accountants and Auditors for SMEs is pleased to provide you some comments on IASB discussion paper Revenue recognition.

As EFAA our main concerns are with SMEs and their professional advisers. Relatively few of these will be concerned with applying IFRS directly, however the DP proposes important principles with regard to revenue recognition which are likely to affect the IFRS for SMEs at some point and be influential on the issue with national standards used by many SMEs. We are responding therefore on the main principles and direction of the proposals rather than on all the detailed application of them reflected in many of the specific questions raised for comment by the IASB, though we have tried to cross reference the points we make to the most relevant question.

It is hard to understate the significance of revenue recognition for all enterprises in both providing a key performance indicator and also in determining the timing of the recognition of profit and therefore of taxable profits in most cases.

The DP is proposing a single approach to the accounting for revenue. In principle that sounds helpful as different accounting for different categories of transactions will inevitably raise boundary questions as to what falls in each of them. Any standard that results from these proposals will have to be expressed in a way that companies and accountants can relate to and cannot simply for example refer to performance obligations but should be written in terms of the provision of goods and services and will have to have guidance and examples that address the application in different cases **(Q1)**.

It is also important that the proposals are field-tested across a variety of industrial and commercial sectors to see the different implications and problems that occur when trying to apply the proposals.



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The general approach proposed is that revenue be recognised as performance obligations under contracts by the transfer of the assets to the control of the customer. This seems to be putting more emphasis on the legal form than the economic substance and more emphasis on control of the assets than the transfer of their risks and rewards. This may not be helpful in some cases and is likely to be a significant change. There seem likely to be fewer instances where the results would be comparable with the outcome of the percentage-of-completion approach currently in IAS18 (for services) and in IAS11, perhaps particularly for the construction of complex machinery, bespoke software or consultancy services. In these cases control is not likely to pass until delivery of the equipment or programmes in working order or of a completed report. All of this emphasises the need for field-testing in a wide range of cases **(Q8 &9)**.

Another potential area for change is the unbundling of different elements of revenue in contracts – some of the examples concern the provision of goods as one component and a warranty as a separate element. A similar approach is taken with discounts on future sales and other forms of sales incentives such as customer loyalty schemes. This approach will add significant and unnecessary complexity. We would like to see unbundling contracts into separate elements kept to a minimum. For instance warranties should only need to be accounted for as a separate type of revenue when these are for extended warranty periods beyond any legal or normal practice. Rather than treating sales incentives as deferred revenue, it seems to us the most practical route to account for them as probable costs of sales to be provided for when the main sale is recognised them. Access to discounts on future sales do not seem to us a form of revenue at all, but as a sort of opportunity cost only needing to be accounted for where the contract might as a result be loss-making or onerous **(Q7)**.

We would support rights of return being dealt with as deferred revenue of the amount of sales that are expected to be returned **(Q6)**.

When it comes to the measurement of revenue, we very much support the suggested customer consideration approach without remeasurement, as opposed to one of fair value. This will make the results more understandable and less complex to apply. Unbundling into multiple components would however require an allocation of revenues on the basis of stand-alone selling prices and this would raise significant difficulties in practice. This seems another reason for unbundling to be kept to a minimum and only to cases where it would make a significant impact, and a further reason for extensive field testing **(Q10)**.

In your draft comment letter you are proposing an alternative basic principle – that revenue should represent activity under contracts with customers in the period. We are not sure that this is a better principle than that in the IASB's discussion paper. We found the three examples in paragraph 8 of Appendix 2 to your letter, all cases where we would be uncomfortable with the earlier recognition of revenue that would result.



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We hope that these comments are of help for you.

Yours sincerely,

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Chief Executive Officer