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DRSC e.V.  
Mrs. Liesel Knorr  
Zimmerstraße 30  
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Gauting, 10.12.2007

### **PAAinE Discussion Paper – Revenue Recognition**

Dear Mrs. Knorr:

As an associated member of the DRSC, the International Controllers Association (ICA) welcomes the opportunity to comment on the pro active accounting initiative in Europe regarding a new approach on revenue recognition to eliminate the weaknesses in the current standards. Any achievements regarding a reliable and solid IFRS accounting environment is strongly appreciated to provide the controller community with an adequate basis for their professional activities. The ICA believes, that it is important to comment on revenue recognition as this affects not only accounting issues but also controlling, business and management issues.

Both, the current IASB discussion on a new approach of revenue recognition and the proposed model of EFRAG and DRSC introduce concepts that significantly differ from the traditional, commercial based concept of revenue recognition. Because of this fact, the ICA believes that an enhanced theoretical and practical investigation from a controller's point of view is necessary to understand the impact on the business model of a company as well as the dependencies between the business model and the structure and processes of a company. Therefore, we have decided not to comment on each question separately. Instead, we would like to provide you with a general view on revenue recognition.

As the continuous approach focus on the process of revenue generation based on the completion of services and goods rendered and delivered, a tendency to consider pre-contractual elements as part of the allocation process might be the result. This is in particular valid, if a manufacturer of finished goods defines the manufacturing process as part of the contractual obligations to manufacture and deliver a product and recognises revenue according to the completion of this product (as a virtual part of the total obligation). Such an approach might be acceptable if the products are individually manufactured for a client, but it is not acceptable if those products are standard products without any modification. It might even be worsen if the products are already available and the customer demands de-

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livery at a defined date. The company might under such premises recognise revenue immediately and define the time until delivery as storage on customer behalf. As this is not a contractual agreed part, no revenue can be recognised for such a “storage”. The customer’s interest is the availability at a specified time which can be treated as a contractual element. Therefore, supporting rules are mandatory to avoid any abuses like early revenue recognition. Such rules should also clarify the interaction between the continuous and critical events approach because some user may understand the critical events approach as a subset of the continuous approach. This may lead to a shift in revenue recognition away from the substantial completion of all obligations towards the progress of performance which again may lead to early revenue recognition.

We also have to emphasize that the continuous approach model, which is build upon the asset-liability-approach and which focus on the recognition process (revenue can only be recognised if an increase in assets or a decrease in liabilities occurs), has to comply with other elements of the IFRS framework as well. Because of the advanced options and the flexibility of the continuous approach, a proper consideration is even more important than under the current standards. This applies in particular to income as defined in F.74 to F.77 and the corresponding receivables as an asset as defined in F.53 to F.59. By considering those definitions, we would like to ensure that the continuous approach will align with commercial aspects like contract execution, cash collection or enforceable claims on recognised revenue in case of a stop or abort of an order.

In addition to the topics discussed, we are aware that the continuous approach has also an impact on systems, structures and processes. As revenue will be recognised over a longer period, additional tasks like contract tracking, new accounting steps, performance measurement and valuations may be necessary. Neither current IT systems nor current company structures are able to cover those requirements. By adopting a revenue recognition model that is based on the continuous approach, users have to be aware that substantial changes have to be performed and additional cost will be incurred before an efficient usage can be achieved.

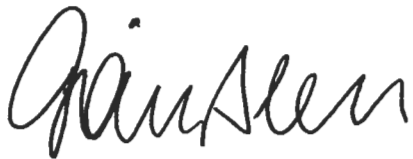
While the discussion paper focuses on the concept of revenue recognition without considering any measurement treatment, the full impact on necessary changes of systems, structures and processes is still unknown. We therefore would like to propose to have a complete concept available that includes recognition as well as measurement elements to understand all impacts and changes on the business model of a company.

The approach of having one recognition model to cover the wide spread of industries with each one having its particular revenue specifications is an ambitious challenge. While such a model will never be able to full cover all industries, we propose to support the development of such a model by field tests to check if selected elements of the model need to be optimised, replaced or added by additional rules. Based upon the field test results we pro-

pose to adjust the model accordingly. Such field test should not only test the practicability of the model, they should also consider all introduction aspects.

We are aware that our thoughts cover only a small portion of all issues around revenue recognition and that the example used is just one scenario that a user may implement. As already mentioned, a further investigation is necessary to fully understand all impacts of such a new model. We therefore offer to support you and your activities on establishing a reliable model by our resources of the controller community. Should you have an inquiries on our views on revenue recognition do not hesitate to contact us at [ICV@krimpmann.com](mailto:ICV@krimpmann.com).

Sincerely Yours,



Siegfried Gänßlen  
President ICA



Andreas Krimpmann, CPA  
Head of IFRS Working Group