

From: erlend.kvaal@bi.no [mailto:erlend.kvaal@bi.no]
Sent: 26 September 2007 16:37
To: Paul Ebling
Subject: Comments on revenue recognition

Dear Paul,

Your colleague Francoise asked me to forward to you the comments that I pronounced in the NSS meeting on Sunday about the PAAinE report on revenue recognition; that is the reason for this mail.

What I said was that I would not agree with the definitions suggested in the paper, and the reason is that the paper lacks methodology. In my view there are two proper ways of dealing with revenue recognition (or any other conceptual topic) within the IFRS. Either you accept the conceptual framework (CF) definition and deduct the solution that are consistent with it, or you reject the CF definition and establish another definition, based on some economic argument or usefulness criteria or any other valid criteria, and that would then be an input to the CF project. I think you have done neither of these in the paper, because you just start with the CF and then you remove phrases that you dislike and make additions at will. I think that this is not a good methodology.

That being said, I don't disagree with everything written in the paper. Overall I agree with the need to clarify revenue recognition as such, and also to remove unexplained inconsistencies between IAS 18 and 11. But I think that could be achieved within the existing framework. The paper would have gained clarity if it was more explicitly delimited to transaction-based revenue; value-based revenue must be out of the scope. The gross notion and omitment of the ordinary activities criteria - have these been properly discussed? For instance, you claim that the sale of fixed assets should also be revenue, but does that also mean that it should be presented gross and on the top line? The gross notion implies that you can always distinguish clearly which are the inputs in your value creation and which are delivered to the customer through you as a intermediary. For instance, in retail trade the goods bought are expensed when sold (cost of sales) consistent with your gross notion, whereas a travel agency would never record the airline ticket for a customer this way. To insist on a gross notion would require more criteria about what are inputs and what are not.

In my opinion (and now I am far beyond what I pronounced in the meeting) the paper is not very well suited to what I would consider EFRAGs role, since it is so ambitious with respect to what the content of a new standard should be. I think the emphasis should rather be what are the problems we struggle with under the existing standards, and what are the room for improvement.

I hope that you take these comments, negative as they are, in the best meaning. I should emphasis that they are my own view, not the view of the Norwegian Acc Stand Board.

Best regards,

Erlend Kvaal
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Member of the Norwegian Accounting Standards Board