



19 January 2009

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

INVITATION TO COMMENT ON IASB DISCUSSION PAPER ON *PRELIMINARY VIEWS ON REVENUE RECOGNITION IN CONTRACTS WITH CUSTOMERS*

Comments to be received by 22 May 2009

The Hong Kong Institute of Certified Public Accountants' (Institute) Financial Reporting Standards Committee (FRSC) is seeking comments on the IASB Discussion Paper which has been posted on the Institute's website at:

www.hkicpa.org.hk/professionaltechnical/accounting/exposedraft/content.php.

The objective of the IASB and the US Financial Accounting Standards Board (FASB) (collectively the boards) in the Discussion Paper is to improve the existing guidance in both IFRSs and US GAAP by developing a single revenue model that can be applied consistently regardless of industry. Applying the underlying principle proposed by the boards, a company would recognise revenue when it satisfies a performance obligation by transferring goods and services to a customer as contractually agreed. That principle is similar to many existing requirements and the boards expect that many transactions would remain unaffected by the proposals. However, clarifying that principle and applying it consistently to all contracts with customers would improve the comparability and understandability of revenue for users of financial statements.

Under the proposed model the contract with a customer would be broken down into separate performance obligations to the extent that they are performed at different times. At inception, the contract price would be allocated to the separate performance obligations on the basis of their relative selling prices, observed or estimated, on a stand-alone basis. The contract price would be recognised as revenue as each performance obligation is satisfied. A performance obligation would be remeasured only if deemed onerous.

--- A summary of the main proposals in the Discussion Paper is set out in the Appendix.

In accordance with the Institute's Convergence Due Process, comments are invited from any interested party. The FRSC would like to hear from both those who do agree and those who do not agree with the proposals contained in the IASB Discussion Paper.

Comments should be supported by specific reasoning and should be submitted in written form.

To allow your comments on the IASB Discussion Paper to be considered, they are requested to be received by the Institute on or before **22 May 2009**.

Comments may be sent by mail, fax or e-mail to:

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Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

Summary of the main proposals in the Discussion Paper

(1) Scope

The proposed model would apply to contracts with customers and the Discussion Paper has not excluded any particular contracts with customers from the proposed model.

(2) Contract-based revenue recognition principle

The boards propose that revenue should be recognised on the basis of increase in an entity's net position in a contract with a customer. In the proposed model, revenue is recognised when a contract asset increase or a contract liability decreases (or some combination of the two). That occurs when an entity performs by satisfying an obligation in the contract.

The Discussion Paper proposes that performance obligations be accounted for separately when the promised goods or services are transferred to the customer at different times. The objective of separating performance obligations is to ensure that an entity's revenue faithfully represents the pattern of the transfer of assets to the customers over the life of the contract.

A performance obligation would be satisfied when the promised goods or services are transferred to the customer. The Discussion Paper proposes that an entity has transferred that promised asset when the customer obtains control of it (that is, the goods or services become the customer's asset). The Discussion Paper notes that usually this occurs when the customer takes physical possession of the asset. Consequently, activities that an entity undertakes in fulfilling a contract result in revenue recognition only if they simultaneously transfer assets to the customer.

(3) Measurement

The Discussion Paper proposes that performance obligations be measured initially at the transaction price – the customer's promised consideration. The contract price would be allocated to each performance obligation (or group of performance obligations satisfied at the same time) in proportion to their relative stand-alone selling prices.

The measurement of a performance obligation should not be updated after contract inception unless that performance obligation is deemed onerous. A performance obligation is deemed onerous when an entity's expected cost of satisfying the performance obligation exceeds the carrying amount of that performance obligation. In that case, the performance obligation is remeasured to the entity's expected cost of satisfying the performance obligation and the entity would recognise a contract loss.

(4) Potential effects on present practice

For many contracts (particularly for commonplace retail transactions), the proposed revenue recognition model would cause little, if any, change. However, in some circumstances, applying the boards' proposed model would differ from present practice, such as the use of a contract-based revenue recognition principle, identification of performance obligations, use of estimates and capitalisation of costs of obtaining contracts.