

By e-mail

24th September, 2010

Hong Kong Institute of Certified Public Accountants
Mr. Steve Ong
Director, Standard Setting

Dear Mr. Ong,

IASB Exposure Draft – Revenue from Contracts with Customers

I am writing to express my comments on the captioned.

While appreciating the objective to improve consistency in revenue recognition across entities and industries, the current one-approach proposal may be deficient in dealing with all contracts with customers, which cover different business models and have varieties of characteristic in achieving revenue. I believe revenue recognition should timely reflect an entity's performance with reference to its business model, enabling the stakeholders to know what the entity is exactly doing and what the result therefrom is. Applying the current proposal to transactions across industries may be over-simplified and may require undue subjective judgments to dovetail the accounting standard requirements with the transaction. Therefore, where appropriate, particular type of contracts with customers may need additional considerations/supplemental guidelines to determine the relevant revenue recognition. My comments on the ED are set out below:

Comment on question 3:

Emphasizing on transfer of control as the only criterion in determining satisfaction of performance obligation shall create certain issues on sale of goods:

- Recognition of income by the entity shall hinge on the performance of customer, i.e. whether control is taken up by the customer;
- Timing of control passed may not necessarily be the same as that conveying the risks and rewards of the good, which should be critical criteria in recognition of sale income and more in line with the Framework principle (increase in economic benefits upon recognition);

Re-deliberation is proposed (i) to take into consideration conveyance of risk and

reward; and (ii) to focus on the entity's performance obligation and determine its fulfillment by reference to the contract terms and industrial norm as income recognition criteria for sale of goods.

Comment on question 8:

Although qualified as an asset (prepayment) under the definition in the Framework, direct cost (for instance, sale commission) exclusively incurred for a contract for sale of goods which are not yet transferred are now scoped out from recognition as an asset under paragraphs 57(b),59(a) and B90. As disassociation in recognition of revenue and the direct cost exclusively incurred in earning it may not be able to provide a fair picture depicting performance of the entity, re-deliberation is proposed.

Comment on question 10:

It is unclear whether the disclosure requirements in paragraphs 69-83 also cover performance obligation pertaining to revenue not yet recognized. If they do, it is skeptical whether costs incurred on providing information of revenue not yet recognized are justifiable, as disclosure of future cost to satisfy the outstanding performance obligation is not accompanied. However, if disclosures of both set of information are required, the entity is indeed providing profit and cash flow forecast for all contracts on hand, which should not be the original scope of matters to be dealt with in this ED. Clarification on the exact requirement is welcomed either in the main body or application guideline of the standard.

Comment on question 13:

Retrospective application may not be operational as the information required to apply the proposed standard may not have been captured previously by the entities. It may even worse in case of listed companies which are required under local listing rules to provide comparative information beyond that required by the accounting standards. Prospective application for outstanding contracts existing when the standard is adopted or new contracts entered into after the adoption of the standard is proposed for re-deliberation:

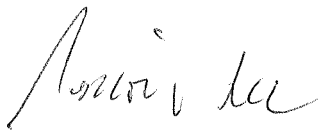
- In case of sale of goods, all outstanding/new contracts
- In case of provision of services, all new contracts

Others

According to paragraphs 54 - 56, if a performance obligation is onerous, an entity shall recognize a liability (and subsequent changes in estimate of such liability) and a corresponding expense while it should also recognize any impairment loss for assets

related to the contract before recognition of such liability. As onerous performance obligation liabilities have not expressly scoped out future cost to completion of goods to be sold under the contract, recognition of such expenses would be duplicated with measurement at NRV below cost of the inventory. As it should not be the intention of the proposed standard, clarification of the context is welcomed.

Yours faithfully,

A handwritten signature in cursive script, appearing to read 'Simon Lee', written in black ink.

Shu Yan, Simon, Lee

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