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International Accounting Standards Board
30, Cannon St.
London EC4M6XH
United Kingdom
By: www.iasb.org

Re: ED/2011/6 Revenue from Contracts with Customers

In response to the ED/2011/6 Revenue from Contracts with Customers, please find below the comments of the Institute of Certified Public Accountants in Israel.

Question 1

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

We agree with the principle that revenue should be recognized over time for performance obligations that are satisfied over time. However, we believe that the criteria for recognition as described in paragraph 35 do not clearly address the various situations. For instance, it is not clear that 35(b)(ii) practically addresses only services which can be completed by another entity .

In particular, we refer to Illustrative Example 7 (paragraph IE6) in which an entity is developing residential real estate and starts marketing individual units. The example concludes that since the individual unit \ apartment has no alternative use and the entity has a right to receive payment for performance completed to date, the entity meets the criteria in paragraphs 35(b) and 35(b)(iii).

We wonder whether revenue recognition in this type of arrangement is appropriate in all circumstances. For example, a real estate project is planned to include 100 units and as of the reporting date the entity has only sold three units. In such case, and according to the guidance in Illustrative Example 7, the proposed Standard would allow the entity to recognize revenue and profit on the three units sold, as the work on the project proceeds

based on the entity's estimate of total future revenues and future costs for the entire project.

Therefore, we recommend that the proposed Standard, will address this situation and it will provide a clearer guidance as to when revenues and profit can be recognized.

Question 2:

Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

We agree with the proposed treatment of a customer's credit risk.

Question 3:

Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognizes to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

We agree with the principle proposed in the Exposure Draft. We are aware that although such a principle is not applied consistently for similar transactions from both seller and buyer (i.e. symmetrical accounting) the principles of revenue recognition in variable cases should be addressed according to the principles set forth in paragraphs 81 and 82.

With respect to paragraph 85 in the Exposure Draft, which we believe is a clarification of paragraph 82(d))(i.e. contract with a large number and broad range of possible consideration amount), we are not certain why this paragraph addresses only licenses of intellectual property (for example, where customers pay a sales-based royalty) instead of addressing various items, including tangible items.

Question 4:

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognize a liability and a corresponding expense if the performance obligation is onerous.

Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

We do not agree with the proposal to apply the onerous test to individual performance obligations instead of the contract as a whole, (current GAAP). We do not believe that the test of the contract is too complex for application.

The management of an entity decides to enter into a contract on the basis of the profitability of the contract as a whole. Sometimes, management offers one performance obligation with inherent loss, in order to gain additional profit in other performance obligation that will be performed in the future. For example, an entity may offer to sell a water purifying machine, the cost of which is $250 for $200 together with the customer's commitment to purchase 5 filters for $75 each (the cost of which is $25) during the next 24 months Following this period, the filters will be sold separately for the same price. We do not believe that a loss should be recorded when the contract as a whole is profitable.

Entities offer discounts where profit margins allow them. The relative stand-alone selling price basis can be problematic when a margin of one of the performance obligations is low and allocating the discount will lead to an onerous result. We believe that in a situation like this, the price allocated to this performance obligation should not be lower than the costs of performing (zero-margin).

In the event that the Board decides not to change the proposal, we recommend that a paragraph be added stating that in case an onerous performance obligation has been created in the process of allocating the transaction price to the separate performance obligations of a profitable contract, the entity should reassess and recheck its application of the principles of the Statement with emphasis on paragraphs 75-76 (for an example of such a paragraph, see IFRS 3, Paragraph 36).

In addition, it should be noted, that according to the proposed draft, the scope exemption will be examined only at the inception of the contract. There are no instructions \ recommendations, how we should follow the changes in estimates, in cases where the performance obligation is satisfied over a period of time greater than one year. This might lead to unintended consequences such as deferring losses over one year

Question 5:

The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports. The disclosures that would be required (if material) are:
- **the disaggregation of revenue (paragraphs 114 and 115);**
- **a tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117);**
- **an analysis of the entity's remaining performance obligations (paragraphs 119-121);**
- **information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123);**

- **a tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfill a contract with a customer (paragraph 128).**

Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

We believe that none of these disclosures should be required in the interim financial statements and disagree with the proposal to amend IAS 34. The disclosures detailed in question 5, present information regarding the entity's standard ordinary activities and are not the kind of events and transactions required to be disclosed according to Paragraph 15 of IAS 34.

Question 6:

For the transfer of a non-financial asset that is not an output of an entity's ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements on control to determine when to derecognize the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognize upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

We concur with the Boards conclusion in this regard, since there are no material differences between revenue recognition and recognition of income from realization of non-financial assets that are not an output of an entity's ordinary activities.

Sincerely yours,

Arnon Ratzkovsky
Chair of the Financial Reporting Standards Committee