Comments of the Polish Accounting Standards Committee (KSR) on the Exposure Draft Revenue from Contracts with Customers

1. General comments

The Polish Accounting Standards Committee appreciates the efforts made by the IASB and the FASB aimed at developing a common standard on revenue from contracts with customers, that would regulate the issue of recognition and measurement of revenue. Clear principles on revenue recognition and measurement would certainly lead to the improvement in understandability and comparativeness of information about revenues presented in the financial statements.

The Committee is of the opinion that the final standard - fully agreed by the IASB and the FASB - should be applicable to revenue recognition and measurement of all kinds of business activity. The information about revenue that was achieved by the reporting entity, presented in its financial statement as of the end of the reporting period, is of crucial importance for the users of financial statements. Therefore when developing the standard it seems to be quite important to draw the attention to the usefulness of this information. In particular the views on the following issues should be agreed on by the Boards:

1) why this information (on revenue) is so important?
2) what is the revenue ? (the definition of revenue)
3) to what kind of decisions the information about revenue is used by the users of financial statements?

The answers to the questions above should stem from the new Conceptual Framework of preparing and presenting the financial statements, that – we would like to draw your attention to this – is not yet completed.

In the debate on the revenue recognition from contracts with customers one should bear in mind the causal connection between the information about the revenues and the costs associated with them. The proper determination of such information allows the calculation of the profit or loss. The principles of revenue recognition and measurement can not hinder this calculation of profit or loss.

In our opinion the significant weakness of this Exposure Draft is the recognition of the revenue at the estimated amount which undermines the causal connection between the information about the revenue and the related costs without providing any additional useful information which would take into account the time value of money.

The Committee has also concerns about the concept of recognising revenue depending on whether the control over a good or a service was transferred to the customer, which will affect especially long-term contracts and service contracts. The notion of control should be the same for all IAS/IFRS instead of developing a separate notion of control only for this new standard.

Question 1

The Committee agrees with the proposed guidance for combining and segmenting contracts and contracts modification recognized as a separate contract. However, there should be a clear guidance on the “price interdependence”.

Question 2

The Committee supports the idea that the entity should identify separate performance obligations in the contract on the basis of whether the promised good or service is distinct. It seems however, that the proposed model should be more precise and take into account the costs and benefits of its application by the entities. In the case of multiple interconnected services and products it will be very difficult and costly to identify separate performance

obligations at the level of each contract. In some sectors this model seems to result in high implementation costs which would not be balanced by the benefits – such concerns were raised in particular by the telecom industry.

Question 3
The Committee is concerned that the proposed model of transfer of control for revenue recognition might not meet the challenges that the IASB and FASB associate with it, in particular in relation to construction contracts and long-term contracts.

Question 4
Please refer to our concerns in relation to the use of estimates in the measurement of revenue that we raised in our general comments.

Question 5
In the context of our general remark concerning the usefulness of information about revenue, we think that the customer's credit risk should not affect the revenue measurement.

Question 6
In the context of our general remark concerning the usefulness of information about revenue, we are of the opinion that the material financing component should be accounted for separately from the revenue.

Question 7
The Committee agrees that the transaction price should be allocated to separate performance obligations in the contract in proportion to the stand-alone selling prices.

Question 8
We generally support the proposed criteria for capitalisation of assets. Although we are concerned about the proposal to treat the costs securing a contract as incurred expenses and other costs incurred before the contract inception.

Question 9
The Committee agrees with the proposed capitalisation of costs relating directly to a contract. However, we are concerned about the proposed method of the "onerous test" and about the requirement to conduct such test on the level of separate performance obligation.

Question 10
The Committee agrees with the proposed objective of disclosure requirements and their scope.

Question 11
The Committee agrees with this proposal.

Question 12
The Committee agrees with this proposal.

Question 13
The Committee agrees that an entity should apply the proposed requirements retrospectively.

Question 14

The Committee is of the opinion that the proposed application guidance needs more clarifications and improvements in many aspects.

Question 15
The Committee supports EFRAG's comment on that issue. Warranties should be distinguished into statutory warranties and other (extended warranties). Statutory warranties should not be accounted for as separate performance obligations and therefore they should not affect the revenue. They should instead affect the liability which would be the expected costs of satisfying the performance resulting from this statutory warranty.

Question 16
The Committee supports EFRAG's comment – the right of use of an intangible asset should be dealt within the IASB's forthcoming standard on leases.

Question 17
The Committee agrees with this proposal.