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Mr. Timothy S. Lucas  
Director of Research and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

Dear Mr. Lucas:

The Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants appreciates the opportunity to comment on FASB's proposal for a new agenda project, *Issues Related to the Recognition of Revenues and Liabilities* (Proposal).

AcSEC strongly encourages FASB to add to its agenda a project on revenue recognition and commends FASB for taking on this important and challenging project. AcSEC believes that the project's primary focus should be on issues related to the recognition of revenue rather than on a broader effort that includes liability recognition issues. Further, AcSEC believes that FASB should develop the project scope and structure in a way that ensures timely resolution of the most critical revenue recognition issues.

Issues surrounding revenue recognition have been near the top of FASB's constituents' priority list for several years. Given the recent completion of several major projects, AcSEC believes FASB should devote the necessary resources to move this project forward in an accelerated fashion.

#### Main AcSEC comments

- *Principle-Based Approach (Proposal Q1,Q2, pg7).* AcSEC believes that FASB should strive to issue a single, principle-based standard on revenue recognition applicable to all entities. Further, AcSEC believes that the standard should focus on capturing and reporting the economic substance of underlying business transactions so that entities can identify the appropriate principle (or principles) for various kinds of transactions.

The FASB Proposal states it would "develop a general standard to close the gap between the broad guidance at the concepts level and the detailed guidance for particular industries or transactions." AcSEC believes that its recommendation in the above paragraph is consistent with the Proposal.

AcSEC also believes that FASB, at the start of its project, should consider revenue recognition issues for all types of transactions. However, AcSEC would support FASB limiting the project scope at a later date if it believes it would advance the issuance of an effective and timely final standard.

- *Project Definition and Timing (Proposal Q5, pg7).* AcSEC believes that the project's primary focus should be revenue recognition. AcSEC supports FASB addressing narrow issues related to liabilities/deferred revenue if it believes that it must resolve those issues in order to complete its revenue recognition project. However, AcSEC believes that the timing of the revenue recognition project should not be constrained by efforts related to a broader project on liabilities.
- *Phased Approach (Proposal Q2, pg7).* AcSEC supports the proposed top-down and bottom-up approaches for revenue recognition described in the penultimate paragraph on page five of the Proposal. AcSEC also supports the undertaking of a comprehensive inventory of authoritative guidance, and believes that FASB should attempt to leverage its resources by working with AcSEC, AcSEC task forces, and other industry experts to contribute to the completion of the bottom-up phase. Further, AcSEC supports FASB's simultaneous pursuit of both phases, which should enhance the iterative process of developing a principle-based standard. AcSEC believes that those approaches are useful in ensuring the operationality of AcSEC's recommendation in the first bullet above.
- *Impact on Existing Standards.* AcSEC believes that the final standard resulting from the project should not supersede or amend current authoritative revenue recognition literature unless the current literature clearly conflicts with the final standard. AcSEC believes that the final standard should identify all authoritative literature that is superseded or amended.

However, for situations in which it is less clear if the final standard supersedes or amends current authoritative literature, FASB should ask AcSEC and the EITF to consider the impact on their literature and make any necessary changes. At a minimum, AcSEC expects that it will need to make conforming changes to its guides and SOPs. In addition, FASB should work with AcSEC and the EITF to deal with interpretive and industry-specific issues arising from the final standard.

AcSEC understands that FASB may form a working group to assist the Board and staff in developing the standard. AcSEC encourages FASB to do so and we volunteer to have an AcSEC representative serve on the working group.

- *Convergence of Standards.* AcSEC believes that FASB should be mindful of revenue recognition efforts of other standard setters but not at the risk of delaying a final standard. AcSEC believes that FASB should balance the

coordination of its efforts with other standard setters with the goal of completing this project as expeditiously as possible.

Other AcSEC comments

- ❖ *(Proposal Q3, pg7)*. AcSEC believes that FASB should resolve flaws in the conceptual guidance (identified on page 2 of the Proposal) related to balance sheet and income statement approaches by amending the Concepts Statements to fit the final revenue recognition standard. That is, AcSEC believes that FASB should develop the revenue recognition standard first and then amend the Concepts Statements as appropriate. However, AcSEC believes that FASB should not embark on a comprehensive reexamination of the Concepts Statements at this time.
- ❖ *(Proposal Q3, pg7)*. AcSEC believes FASB should not attempt to define *gains* separately from *revenue* in the revenue recognition project. Though improving the definitions of gains and revenue is important, AcSEC believes that this project should focus on the principle(s) of recognition; that is, when and how much revenue is recognized. AcSEC is concerned that addressing the geography issue could unduly delay a final standard.
- ❖ AcSEC recommends that FASB reach out to its constituents, especially users and preparers, to understand transition issues before it issues a proposed statement for public comment. AcSEC believes that FASB's normal due process is sound but adds this recommendation to acknowledge the fundamental importance of revenue to all entities.
- ❖ AcSEC notes that the Proposal does not address the topic of disclosure. AcSEC recommends that the project address disclosure matters related to revenue recognition.

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AcSEC appreciates the opportunity to comment on the Proposal. Representatives of AcSEC are available to discuss these comments with Board members or staff.

Sincerely,

Mark V. Sever, *Chair*  
Accounting Standards  
Executive Committee

Tony C. Sondhi, *Chair*  
Revenue Recognition Comment  
Letter Task Force