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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:

We appreciate the opportunity to comment on the Proposal for a New Agenda Project, *Issues Related to the Recognition of Revenues and Liabilities* (the Proposal). We commend the FASB for considering a comprehensive project on revenue recognition.

Need for the Project

We agree that there is a need to comprehensively address issues associated with revenue recognition. For most companies, revenue is the largest caption on the income statement. It is also one of the most significant income statement line items that users focus on. Unfortunately, revenue is also the primary cause for financial statement restatements. In addition, the current accounting literature has proven to be inadequate in dealing with the complex revenue arrangements in today's environment, such as multiple element arrangements and license arrangements in the biotechnology industry.

Another reason to develop a comprehensive standard on revenue recognition is to consolidate the guidance in one place and develop a consistent model. Although FASB Concepts Statement 5 includes conceptual guidance for revenue recognition, most of the authoritative literature on revenue recognition is industry or transaction specific. Preparers and auditors have to wade through numerous Statements of Financial Accounting Standards, EITF consensus opinions, Statements of Position, AICPA Audit and Accounting Guides, and other literature to find the appropriate guidance.

Finally, the EITF's recent experience trying to develop a model for accounting for revenue arrangements with multiple deliverables highlights the need for an accounting standard on revenue recognition.

In our view, the FASB is the appropriate authoritative body to address revenue recognition. The FASB has the resources, experience, and authority to take on a project of this magnitude. This project will most likely result in changes to existing level a, b, c

and d generally accepted accounting principles, which can be accomplished more easily by the FASB than another authoritative body. The FASB may want to consider involving the Accounting Standards Division of the AICPA in this project. A considerable amount of the industry specific guidance on revenue recognition is in AICPA literature. The Accounting Standards Division may be able to assist the FASB in inventorying the literature on revenue recognition for specific industries that appears in Statements of Position, AICPA Audit and Accounting Guides, and other documents.

Scope of the Project

We believe the scope of the Proposal is appropriate. We understand the need to address certain conceptual issues related to the recognition of liabilities, as the conceptual nature of liabilities affects revenue recognition issues. However, we do not believe the FASB should develop a new general accounting standard on liability as part of this project.

We assume the scope of the project will include transactions within the scope of Statement of Financial Accounting Standards 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

We agree with the “top down” and “bottom-up” approach. We believe this approach will allow the FASB to evaluate the merits of the revenue recognition criteria currently in use. From this process, we believe the FASB will be able to develop a principles-based standard that can be applied across many industries.

Specific Issues

Many of the issues related to revenue recognition have to do with timing (that is, when revenues should be recorded). The FASB may want to consider including “timing” as a fundamental recognition criteria that should be addressed. We also thought that issues related to the characterization of revenues, such as those included in EITF 01-9, “Accounting for Consideration Given by a Vendor to a Customer,” should be addressed. We did not see this topic in the Appendix.

We would be pleased to discuss any of our comments with the FASB or its staff. Please direct comments to John Archambault at 312 602-8701.

Very truly yours,

Grant Thornton LLP