REVENUE RECOGNITION (Topic 605). Comment on the Exposure Draft of a Proposed Accounting Standards Update issued June 24, 2010.

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Technical Director
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Dear Sir / Madam,

First of all I'd like to express my appreciation for the opportunity to comment the Exposure Draft of the proposed Revenue Recognition standards update that FASB and IASB are providing to all individuals and organizations. I foresee the cardinal changes that have been proposed will initiate an intense public discussion. Such changes may be treated as a real problem by accounting standard users in the current climate of world-wide economic instability and possible price inflation. For example, software upgrades; legal documents such as contracts; training and other personnel expenses are just a few of the costs of transition to the new procedures. Small businesses will likely be impacted the most.

Revenue recognition and cost recognition, as currently proposed, does look inconsistent, and may allow users to manipulate Net Income. It's been proposed that revenue should be recognized based on a reasonable estimation of the performance obligation, that is satisfied, versus the current standard when the revenue is recognized when "it is probable that future economic benefits will flow to the company and reliable measurement of the amount of revenue is possible", - generally at point of sale.

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At the same time, there have not been significant changes suggested in cost recognition. Currently, companies recognize expenses when the work (service) or the product actually contributes to revenue, meaning that expense recognition is delayed to link to revenue recognition. Thus, the matching principle loses its sense.

The relation between these two items must follow the same organizational strategies and be more consistent and more transparent. In addition, following the IRS rules of revenue recognition, companies may have to keep a second set of accounting records for taxation purposes.

Paragraphs 12-24 (Question 1) of the Exposure Draft delineate clear benefits of the proposal. Implementation of the "Combination and segmentation of contracts" and "Identifying the performance obligation" sections will provide users with a more detailed set of guidelines for revenue and cost control purposes; however, the actual implementation will likely create an additional workload on those targeted by the proposal.

Sincerely,

Yeva Poghosyan