FASB Revenue Recognition

Electronic Feedback Form Response

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Respondent information

Type of entity or individual:

Student group

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Questions and responses

 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 proposal of performance obligation revenue recognition over time. This language is improved from the previous Exposure Draft and allows entities to recognize revenue on a basis other than the completed contract method.

A possible issue that we foresee is in the determination of an alternative use asset. In many cases, deciding if an asset does or does not have an alternative use will be straightforward because the contract between the performing entity and the customer will explicitly state that the asset is only for the customer. In other cases where there is no contract, it may be more difficult to determine alternative use. When a customer orders a specialized asset, it is unique to that customer and may only be used by that customer. But, certain "custom" items may also be suitable for other entities within the same industry as the customer. It is also possible that during the contract period, an alternative could become available for the "custom" asset.

This paragraph should be modified to include guidance for dealing with the possibility of an asset developing an alternative use during the period of contract completion.

2. Paragraphs 68 and 69 state that an entity would apply Topic 310 or IFRS 9 to 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

or profit in the period in which the contract is awarded.

those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

We are in disagreement with the proposal to present amounts of promised consideration that are deemed to be uncollectible due to the client's credit risk, as a profit or loss item next to the revenue line item. Firstly, the term "profit" appears to be impractical and its usage must be clarified. Any amount due that is considered to be uncollectible would, more likely than not, be a loss, rather than a profit. Secondly, the costs associated with assessing uncollectibility due to credit risk such as the analysis, record keeping, employee time, fees and so forth, will outweigh the benefits that the financial statement users will derive. In addition, if the contract is over several accounting periods, it is not consistent with the matching principle to recognize the loss

Considering that the entity will present the contract as a contract asset, if their right to consideration is conditioned on something other than the passage of time, and as a receivable, if their right to consideration is unconditional, a proposed alternative would be to create a contraasset for the former situation or to add it to the contra-receivable account of "Allowance for doubtful accounts" for the latter. This would allow the entity to adjust the contra accounts if a customer's credit risk changes over time, as well as recognize the effects of a customer's credit risk over the contract period.

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 proposed standard on constraining the cumulative amount of revenue recognized. However, we feel that the first sentence of Paragraph 81 needs to be clarified. The constraint on the cumulative amount of revenue recognized to date is the amount to which the entity is reasonably assured to be entitled for completing satisfied performance obligations.

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?

The proposed scope of the onerous test applies to obligations that are satisfied over a time period greater than one year. There are exceptions to this scope, such as not-for-profit entities, which are exempted from this test if the contract is for social or charitable benefits. Clarification is necessary for what constitutes "social" or "charitable benefits" in order for the not-for-profit entities to qualify for the exemption. The inclusion of all long-term performance obligations will impose burdensome costs in conducting the onerous test, including the additional testing and reconciliation from the opening to closing balance of the liability as there may be several performance obligations including in each contract.

As an alternative, we suggest applying the onerous test to each contract instead of the individual performance obligations contained within a contract. This will reduce the costs associated with the testing and continuing maintenance of the liability accounts.

5.

The Boards propose to amend Topic 270 on interim reporting and IAS 34, Interim Financial Reporting, to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial statements. The disclosures that would be required (if material) are: A. The disaggregation of revenue (paragraphs 114 through 116) B. A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117) C. An analysis of the entity's remaining performance obligations (paragraphs 119 through 121) D. 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 E. 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 statements? 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 statements.

We believe that Table 1, the disaggregation of revenue, is important and will add value to the interim financial statements. A breakdown of contract revenues by several different categories will allow the financial statement readers to better understand the entity's use of contracts for revenue generation on an interim basis – what types of contracts, where the primary revenue generation is, etc.

We disagree with the proposed disclosure of a rollforward of contract assets and liabilities (Table 2) and the rollforward of assets recognized from the costs of customer contracts (Table 5). These assets and liabilities are consumed during the normal course of business. If a reconciliation of these items is required, then a similar reconciliation should be required for inventory, accounts receivables, accounts payables, and any other current asset or liability. It is unnecessary and would be cumbersome to provide these disclosures.

We disagree with the proposed disclosure of remaining performance obligations (Table 3). The exclusion of contracts with less than one year makes the information useless and incomparable from one year to the next year. The calculation of the remaining performance obligation requires a substantial amount of judgment which could result in information being provided that is misleading to users of those financial statements. Providing information regarding the potential revenues of performance obligations is, essentially, providing prospective financial information. This information should not be included in historical financial statements as it will make them appear as though they are based on historical data and included within the information provided on the face of the financial statements.

We agree that significant judgments and revenue recognition methods for performance obligations should be disclosed with the other significant accounting policies.

6. For the transfer of a nonfinancial asset that is not an output of an entity's ordinary activities (for example, property, plant, and equipment within the scope of Topic 360, IAS 16, or IAS 40), the Boards propose amending other standards to require that an entity apply the proposed guidance on control to determine when to derecognize the asset and apply the proposed measurement guidance when determining 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 guidance to account for the transfer of nonfinancial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why? We agree with the proposed amendment to Topic 605 and believe that it represents an improvement to the guidance for the transfer of nonmonetary assets. The proposed guidance is reasonable for the determination of gains and losses of nonmonetary assets and streamlines the determination to derecognize nonmonetary assets. A1. Do you agree that the proposed amendments that codify the guidance in the proposed Update on revenue recognition have been codified correctly? If not, what alternative amendment(s) do you recommend and why? Yes. A2. Do you agree that the proposed consequential amendments that would result from the proposals in the proposed Update on revenue recognition have been appropriately reflected? If not, what alternative amendment(s) do you recommend and why? Yes. ClarifyingComments. Please provide any additional comments on the proposed Update: OtherComments. Please provide any comments on the electronic feedback process: