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Regarding: Revenue Recognition from Contracts With Customers Due 10-22- 2010
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Colleagues,

Thank you for the opportunity to critique this document. Details follow.

BACKGROUND:

The proposed standard would improve existing standards by way of :

- o removing inconsistencies in the existing requirements;
- o providing a better framework for addressing revenue recognition issues;
- o improving comparability across companies, segments, industries and capital markets
- o requiring enhanced disclosure; and
- o clarifying the accounting for contract costs

IN9 states that revenue recognition comes about when the entity satisfies each performance obligation in identifiable contracts with the customer or contracting party. pp.1
The transaction price is the amount of consideration the entity expects to get from the customer in an exchange for the transfer of goods and services. pp. 3

I concur.

The entity can estimate the standalone price. There may be price interdependence when:

- (a) two or more contracts are accounted for as a single contract
- (b) a single contract is segmented and accounted for as two or more contracts
- (c) accounting for the contract modification as a separate contract pp. 6

There is a refund liability if the entity receives consideration and expects a refund of all or part of the proceeds under the contract. p.19 # 37

The transaction price encompasses collectibility, the time value of money, non-cash consideration and consideration payable to the customer. I concur.

Critique:

The underlying principle of the draft standard is that an entity should recognise revenue from contracts with customers when it ***transfers goods or services to the customer.*** The transferred goods are in the amount of consideration the entity receives, or expects to receive, from the customer. I concur.

Some discussions on this subject adhere to a balance sheet view of revenue. The proponents argue either an increase in a net contract asset or a reduction in a net contract liability.

The combination of rights and obligations results in a net contract asset when remaining rights are greater than obligations or liabilities when remaining obligations are greater than rights. Thus, revenue is either an increase in the net contract asset or a decrease in the net contract liability. Revenue is not recognized until the transfer of the asset.

An entity satisfies a performance obligation ; such that, revenue may be recognized

when it transfers a promised asset (such as a good or a service) to the customer. The Boards propose that an entity has transferred that promised asset when the customer obtains control of it in actuality or constructively.

In the case of a good, an entity satisfies a performance obligation when the customer obtains control of the good so that the good is the customer's asset. Typically, that occurs when the customer takes physical possession .

In the case of a service, an entity satisfies a performance obligation when the service is the customer's asset. That occurs when the customer has received the promised service. In some cases, that service enhances an existing asset of the customer. In other cases, that service is consumed immediately and would not be recognized as an asset.

Consequently, activities that an entity undertakes in fulfilling a contract result in revenue recognition only if they simultaneously transfer assets to the customer. In a contract to construct an asset for a customer, an entity satisfies a performance obligation during construction only if assets are transferred to the customer throughout the construction process. That would be the case if the customer controls the partially constructed asset so that it is the customer's asset as it is being constructed.

In future deliberations, the Boards may consider the implications of the proposed model for entities that recognize revenue or gains *in the absence of a contract*. For example, some entities recognize revenue or gains from increases in inventory before obtaining a contract with a customer IAS 41-Agriculture.

In this project, the Boards will not alter the way certain entities measure inventory. The Boards will consider whether or not those entities should be precluded from presenting increases in inventory as revenue. Instead, increases may be shown alternatively in another component of Comprehensive Income.

In "Bundled Transactions", there may be a provision for a handset expressed as the cost of the sale. A loss may occur at the inception of the transaction. Ongoing service charges are recognized when the customer is charged .

Another view is that the provision for a handset is not a revenue generating transaction but consideration for acquiring a customer service contract. Revenue is generated from the billing system. The cost of the handset may be the subscriber acquisition cost.