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Financial Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, Connecticut 06856-5116  
Attn: Technical Director

Technical Director – File Reference No. 1820-100:

RE: Revenue Recognition (Topic 605): Revenue from Contracts with Customer

Thank you for the opportunity to comment on the proposed changes to the measurement of revenue as outlined in the June 2010 Exposure Draft for measurement of revenue.

Question 4:

I agree that an entity should recognize revenue on the basis of an estimated transaction price when the transaction price is variable. It should meet the two conditions that the entity has to have experience with similar types of contracts (or comparison to some other entity if it has no experience) and that the experience with the contract is consistent and that there are no significant changes in the circumstances.

The concern that I have is when the estimation may not be reasonable and can cause understatement or overstatement in the recognition of revenue. For instance, the entity decides to provide someone a service and the payment depends on how long it takes for them to finish the service. Although they decide the price for the service, they do not know how long it will take them to finish the job. They do not know if the service will be completed within the time period. In addition, they may collect payment from the person later. So, they estimate how much they will get for the service. They can overestimate how much they will receive because, for example, the person may stop providing the service before completion of the project or the entity receiving the service may cease to be able to afford it later. So, the estimated price may not be credible.

The entity has to have experience with a similar type of contract or can use another entity's experience if it is similar. The problem with that is that the transaction may not be the same, and the person has to decide what price to give it. The price is also based on the person's opinion and may not be the same for everyone. Different entities have their own transaction prices. Thus, one entity cannot base their own transaction price on that if they have a different system of recognizing revenue. Since the transaction price is variable, any price estimated can be inconsistent at any point in the transaction. Accordingly, it will not be reasonable to base its own transaction price on that of another entity.

A possible answer to the recognition of the revenue in such circumstances when the transaction price is variable is to recognize the revenue when the transaction takes place and then adjust it later when the actual price is known. Adjusting the revenue recognition when the price is known may be more appropriate in the circumstance described. This will help prevent the overstatement or understatement of revenue.

Thank you again for the opportunity to comment on the proposed change to the measurement of revenue.

Yours truly,

Anna Yeh