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Revenue Recognition Comment Letter

Dear Financial Accounting Standards Board Members,

The standards of Revenue Recognition in the United States have addressed incoming Revenue Recognition issues on a case-by-case basis. As a result of this decision-making process, various issues from different industries have formulated a complex, inconsistent, and incomplete set of standards. The following is my response to one of the proposed questions that requires review in the *Revenue from Contracts with Customers* Exposure Draft on Revenue Recognition (Topic 605):

Question 3: *Do you think that the proposed guidance in paragraphs 25-30 and related implementation guidance is sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?*

I believe, based on the proposed guidance in paragraphs 25-30, are unclear in determining when control of a promised service has been transferred to the customer. Refer to the two service contract examples below:

Example 1: If a company is hired to design a webpage for an organization, then according to paragraph 30 of section D, the control has passed to the customer based on the indicator of “customer-specific design.” Section D in the exposure draft mentions that this is true when “an entity cannot sell a customer-specific asset to another customer.” In other words, based on this example, a company hired to design the webpage cannot sell the webpage to Organization B. This is because the webpage design created is unique to Organization A alone. It is also clear that in this example, the customer would be able to obtain control of the service once they can make direct use of the website according to paragraph 26.

Example 2: A company is hired to provide technical and practical oversight support to a systems engineering project. As a part of the company’s deliverables, the company has promised to provide reports in the form of either written or verbal information from past experiences and accumulated knowledge of fieldwork. The customer who has hired the company has no control as to how the company provides the technical and practical support needed for the systems engineering project. In other words, the customer is not even sure on the details as to how the company will provide technical and practical oversight support. So if the customer is not sure of the projected-related details, then how will the company know when to transfer the service to the customer?

COUNTER PROPOSAL

The proposed guidance in paragraphs 25-30 is inappropriate when examples similar to number two exist. Therefore as a form of additional guidance, I propose the following: within the original contract (service contracts) between a customer and seller, there should be a section that indicates the estimated number of hours it takes to complete the project. At the time the contract is being negotiated, the company should state an estimated percentage of hours that need to be complete for

them to recognize the revenue. For example, Company A has proposed an estimated 200 hours to provide technical and practical oversight to the systems engineering project referred to in example two. Based on the negotiated terms, Company A is only allowed to recognize the revenue when approximately 60% of the estimated work hours are complete. As a result, when Company A reaches the established percentage, the guidelines are clear enough to have the promised service transferred to the customer.

To conclude my response to the FASB's views on Revenue Recognition: Revenue from Contracts with Customers, I believe that the proposed standard is more subjective than the current revenue recognition standard. The examples of the exposure draft in paragraphs 25-30 present scenarios that lack many of the issues that are involved in the real world market. I appreciate the opportunity to present my views on this subject.

Respectfully Submitted,

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