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From

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RE: FASB Exposure Draft on Revenue Recognition in Contracts With Customers

I am currently an Accounting student at Woodbury University in Burbank, CA. This letter is to address FASB's exposure draft on revenue recognition in contracts with customers and any issues which may arise from the recently proposed changes. I currently work as a property manager for over 250 apartment units and contracts have become an important aspect for the way in which business is conducted. We enter into contracts with our tenants as well as our vendors.

Contracts are a very common aspect of all business entities. They set forth a standard of procedure and outcome which is expected to be in the best interest of all parties involved. Although I applaud the FASB for attempting to present an acceptable standard, there are some areas of revenue recognition in relations to contracts with customers that I have some strong opinions about. I wish to now address the issues which are regarding price interdependence, price allocation and warranties.

Question #1 – Price Interdependence

The price interdependence principle states: "(a) to combine two or more contracts and account for them as a single contract; (b) segment a single contract and account for it as two or more contracts; and (c) account for a contract modification as a separate contract or as part of the original contract." (p. 12).

I disagree with this principle as it would provide a long and tedious contract revision and or additional processes and protracted negotiations to larger business entities. They would constantly have to be aware of the contractual revisions and additions and be revisiting them to implement the changes.

I propose to weigh the changes on importance and effect they may have on revenue and or sales. The relevance should be up to the standards which the business entity determines for their own revenue model.

Question #7 – Price Allocation

The price allocation principle proposes “that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the standalone selling price of the good or service underlying each of those performance obligations.” (p. 13)

The price allocation principle fails to describe situations in which items are bundled in packages with a reduced price to help move inventory at a faster pace. There may also be items within the contract which coincide with one another and have no standalone value on their own. These items would be worthless without the main item within the contract. The price allocation principle also become inefficient if the company is liquidating their inventory and or making way for new items.

The business entity should be allowed to price each item separately within the bundle and allow for add-ons, or package them at a discounted rate and not allow for the customer to pick and choose what they want or do not want. This method still gives the customer options and allows for the business entity to have several packaging options.

Question #15 – Warranties

“The Board proposes that an entity should distinguish between the following types of product warranties:(a) a warranty that provides a customer with coverage for latent defects in the product, or (b) a warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer” (p. 15)

Warranties come in many different forms such as ones customers wish to purchase along with a product, or ones that are provided by the business entity for no charge. The distinguishing capabilities amongst warranties should be irrelevant as they have already been accounted for.

I suggest that the business entity should be allowed to choose an accounting method which will provide the appropriate accounts for each type of warranty. Along with this comes the preparation of the correct allocations, adjustments and deductions from them each time a warranty is either purchased or put into effect as a result of a product defect. I propose this method because it allows for the business entity to have options regarding warranties. The options which the business entity retains will also be passed onto customers who will also have options.

I sincerely respect the opportunity to provide this feedback and thank you for the ability to raise awareness about my concerns and comments.

Sincerely,

Araz Saghdejian