



New Jersey Society of Certified Public Accountants
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January 31, 2011

*Sent via regular mail
and electronically to: director@fasb.org*

Technical Director
File Reference No. 1890-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Technical Director:

The Accounting and Auditing Standards Interest Group of the New Jersey Society of Certified Public Accountants (NJSCPA) is pleased to offer its comments on the Financial Accounting Standards Board's (FASB) Discussion Paper, *Effective Dates and Transition Methods*. The NJSCPA represents over 15,000 certified public accountants. The comments herein represent those of some of our Accounting and Auditing Standards Interest Group only and do not necessarily reflect the views of all members of the NJSCPA.

We commend the FASB's effort to make several targeted improvements to Generally Accepted Accounting Principles in the United States of America (U.S. GAAP) over the next year, and appreciate the opportunity to provide the following comments on the Discussion Paper (DP).

Overall Comments

Several FASB projects are the subject of the DP in which respondents have been asked to comment. We previously submitted comment letters for two of those projects Revenue Recognition (Topic 605), *Revenue from Contracts with Customers*, comment letter 452, and *Leases* (Topic 840) comment letter No. 388. Our responses to the following questions are consistent with our responses to those comment letters attached herein, and should be referenced when reading this comment letter.

We have not commented on Question 8.

Question 1

The NJSCPA is a non-profit professional business organization that represents over 15,000 certified public accountants (CPAs). The Accounting and Auditing Standards Interest Group of the NJSCPA is a volunteer group comprised of CPAs in both private industry and public practice. The comments herein are represented by some of the members of the Accounting and Auditing Standards Interest Group of which are primarily auditors from small and medium size

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local and regional accounting firms in the State of New Jersey. These members' firms generally perform audits, reviews, compilations, management consulting, and other professional services which involve the financial information of mostly private and some public entities generally prepared in accordance with U.S.GAAP and on a limited basis, International Financial Reporting Standards.

Questions 2 and 3

We recognize that each of the proposed standards in the DP will affect numerous stakeholders differently but that the following concerns regarding each of the proposed standards will have a significant impact on most stakeholders:

- The availability of time and the costs incurred to educate and communicate the impact the adoption of the proposed standards will have to senior management, Boards of Directors, Audit Committees, those charged with governance, investors, lenders, analysts and users
- The impact on accounting systems, internal controls and processes in order to meet more robust requirements
- The impact on entities business models, strategies, and performance metrics
- The time and cost needed to provide entity-wide training and overall human capital readiness
- The availability of external resources such as consultants or other professionals to assist in the adoption of the proposed standards and the ability to finance the cost of those external resources
- The likely possibility that some of the proposed standards may trigger a breach of covenants, or require renegotiations of contractual arrangements with business partners such as financing arrangements with lenders, contracts with suppliers, etc.
- The burden of gathering information for retrospective application of the proposed standards
- The potential impact on auditor's independence as entities seek guidance from their auditors for the implementation of complex proposed standards
- The additional time needed by auditors to plan, develop, understand and test new accounting systems, controls, and processes resulting from changes triggered by the proposed standards
- The potential need to revise or develop new auditing standards for both public and private entities that address additional use of estimates, changes in controls, risk assessments, etc.
- The additional audit fees entities will incur by the adoption of the proposed standards
- The potential conflicts new reporting requirements may have with regulatory agencies such as the Department of Labor, the U.S. Department of Housing and Urban Development, the Internal Revenue Service and other taxing jurisdictions, etc.

The exact time frame to learn, train, plan for, and implement each of the proposed standards is difficult to determine at this time. This is due to the fact that some of the proposed standards have not been issued, while others have not been finalized. Additionally, full retrospective application versus another method will require different time frames.

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Question 4

When considering the broad implementation plan and the transition method for each proposed standard we strongly suggest that the costs to preparers be weighted against the benefits users of the financial statements will receive. Refer to our response to questions 2 and 3 for a detailed list of some of those expected costs.

Question 5

We prefer a sequential approach and in particular we suggest that the proposed standard for *Leases* (Topic 840) be effective at least one operating cycle later than the effective date of the Proposed Accounting Standard Update to Revenue Recognition (Topic 605), *Revenue from Contracts from Customers* in order to reduce the burden on entities. This would provide entities adequate time to prepare for and implement the proposed standards, as well as the additional time to educate users of the financial statements.

Question 6

Entities should not be permitted to early adopt the proposed standards because of the difficulties it will cause with comparability of financial statements, and the possibility of creating confusion to users of those financial statements.

Question 7

It is not practical for some entities to adopt the proposed standard on a full retrospective basis, especially non public entities and not-for-profit organizations. We believe that the effective dates of the proposed standards be delayed at least one operating cycle for non public entities and not-for-profit organizations from the date the proposed standards are effective for public entities.

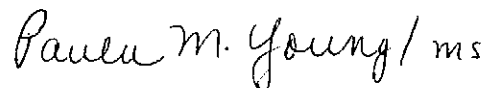
Question 9

We have not taken into account the Foundation's ongoing evaluation of standards setting for private companies when responding to this DP. In general we support the formation and preliminary results of the Blue Ribbon Panel, and look forward to reviewing its recommendations. We urge the Blue Ribbon Panel to prioritize their work agenda studying the costs versus the expected benefits of the proposed standards described in the DP for privately held-entities.

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Thank you for the opportunity to comment. We are available to discuss our comments at your convenience.

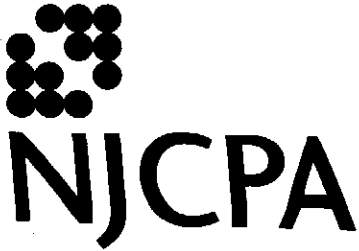
Respectfully submitted,

Handwritten signature of Paula M. Young in cursive script, followed by the letters "ms".

Paula M. Young, CPA, Leader
Accounting and Auditing Standards Interest Group
New Jersey Society of Certified Public Accountants

Principal Drafter, Renee Rampulla, CPA

cc: Robert S. Marrone, President
Ralph Albert Thomas, Executive Director
New Jersey Society of Certified Public Accountants



New Jersey Society of Certified Public Accountants
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December 14, 2010

*Sent via regular mail
and electronically to: director@fasb.org*

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1850-100

Dear Technical Director:

The Accounting and Auditing Standards Interest Group of the New Jersey Society of Certified Public Accountants (NJSCPA) is pleased to offer its comments on the FASB's and IASB's (the Boards) draft standard on leases, as presented in the FASB's Exposure Draft of a proposed Accounting Standards Update (ASU) *Leases (Topic 840)*. The NJSCPA represents over 15,000 certified public accountants. The comments herein represent those of some of our Accounting and Auditing Standards Interest Group only and do not necessarily reflect the views of all members of the NJSCPA.

We commend the Boards' effort to converge and improve the accounting for leases and appreciate the opportunity to provide the following comments on the Exposure Draft:

Overall Comments

We request that the Boards consider how the proposed standard will affect entities that enter into related party leases, because many times the terms of these related party leases may be based upon desired results. The tone of this comment letter is generally from a FASB only perspective, and we have not commented on Questions 4, 8, 10, 11, 13, 14, and 17.

Question 1: Lessees

We agree with the Boards' conclusions that a lessee should recognize:

- a right-of-use asset and a liability to make lease payments
- amortization of the right-of-use asset and interest on the liability to make lease payments

Question 2: Lessors

We agree with the Boards' conclusion that a lessor be provided with more than one approach when accounting for lease transactions. While the performance obligation and derecognition approaches provide realistic solutions for a lessor, we request that more robust guidance be provided to assist a lessor in the assessment of whether "significant risks or benefits associated with the underlying asset" have been retained by the lessor.

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Question 3: Short-term leases

We agree with the Boards' proposal to simplify the accounting for a lessor, but disagree with the proposed accounting for a lessee. Lessees that have short-term leases should be permitted to elect to **not** recognize a right-of-use asset or a liability to make lease payments. The simplified requirements should consistently be applied for both the lessee and the lessor.

Question 5: Scope exclusions

We accept the Boards' proposed scope and acknowledge that it is similar to that of existing lease accounting standards, but suggest that the Boards consider the impact the scope exception may have on lease transactions involving intangibles. Many intangibles are governed by other accounting standards and industry specific guidance, for example software and franchise fees. We believe that diversity in practice may arise with lease transactions involving intangibles when they are not governed by other accounting standards or industry specific guidance.

Question 6: Contracts that contain service components and lease components

We believe that executory costs, such as insurance, maintenance and taxes should be excluded from lease components when accounting for contracts that contain service and lease components. If the Boards decide to not exclude executory costs from lease components, then we request that implementation guidance be provided. The implementation guidance should illustrate how the distinct service component concept applies to the maintenance, insurance and taxes that are reimbursed in monthly rental payments that may not be separately identified. These provisions are common in real estate leases.

Question 7: Purchase options

We agree that a lessee's purchase options should be accounted for only when they are exercised. In practice there are many leases with bargain purchase options, and although the intention is to generally exercise the option to purchase the underlying leased asset, we still believe these types of leases should be accounted for only when they are exercised. We believe that it would be helpful if the Boards would provide illustrative guidance of when the exercising of a purchase option would occur, such as when the lessee commits to exercising the option but has not finalized the transaction.

Question 9: Lease payments

We agree conceptually with the proposed treatment of contingent rental payments, but believe lessees will encounter serious implementation and significant operational issues when determining the required estimates. We believe lessees will experience great difficulty in estimating contingent rents based upon future sales that relate to the long term leased assets. These lease terms will most likely extend beyond a lessee's normal budgeting and planning periods. In addition to the lessee's struggle with the use of estimates, the lessee's auditors will need to assess how to best audit these estimates in order to provide a level of assurance that material misstatements, whether caused by errors or fraud, are detected. This proposed treatment, to a lesser extent, will impact the lending community and users of the financial statements overall. It is suggested that the education of users be taken into account

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when considering the transition and effective period of this proposed treatment. Therefore we believe the Boards should carefully weigh the costs to lessees to comply with the proposed treatment with the benefits users of the financial statements will receive.

Question 12: Statement of financial position

We do not agree that right-of-use assets should be presented as if they were tangible assets within property plant and equipment, even if they are presented separately from assets that the lessee does not lease. The presentation of right-of-use assets with tangible assets, even if presented separately from non-leased assets, may have unintended consequences on the lessee's debt covenants. Generally lending arrangements typically include debt covenants based upon certain metrics and the inclusion of these right-of-use assets could affect these metrics, thereby causing a breach of covenants. Additionally, lenders cannot attach or collateralize the right-of-use assets as opposed to owned tangible assets. Therefore, we believe this distinction should be more transparent on the financial statements to provide additional benefits to the users and the lending community.

Question 15: Disclosure

We conceptually agree with the Boards' overall objectives that lessees and lessors disclose quantitative and qualitative information that:

- identifies and explains the amounts recognized in the financial statements arising from leases; and
- describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows.

However, the benefit of such comprehensive disclosures to users of the financial statements should be weighed against the costs to preparers of non-public entities, and thereby suggests that the disclosure requirements for private companies and not-for-profit organizations are reduced considerably.

Question 16: Transition

It is not practical for some entities to adopt the proposed standard on a full retrospective basis, especially smaller public and non public entities and not-for-profit organizations. We believe that all entities should have the option to adopt the proposed standard on either a simplified or full retrospective basis.

We request that the Boards consider a longer transition period and delayed implementation to assist non-public entities and not-for-profit organizations to reduce the cost to preparers and to educate the users of their financial statements. We make this request based upon the following:

- The proposed standard may trigger or require renegotiations of contracts with business partners such as; financing arrangements with lenders, contracts with suppliers, and additional non-public entities and not-for-profit organizations may need additional time to revise these arrangements.
- The proposed standard may cause the need to modify accounting systems to reflect the proposed right of use concept, tracking individual lease agreements, support the development

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and reassessment of estimates regarding renewal options and contingent rents, and disclosure requirements.

- Entities may have to revise their internal controls and processes to meet the more robust requirements in the proposed standard.
- Information regarding existing leases will need to be gathered, due to the retrospective application of the proposed standard, and gathering this information may be difficult and time consuming for leases that were not recently entered into.
- There will be a need for additional time to educate users of the financial statements, such as the lending community.

Question 18 – Other Comments

We suggest that the Boards consider making the proposed standard's effective date later than the effective date of the Proposed Accounting Standard Update to Revenue Recognition (Topic 605) *Revenue from Contracts from Customers*, in order to reduce the burden on entities. This would provide entities with adequate time in which to prepare and implement the proposed standard, as well as additional time to educate users of the financial statements.

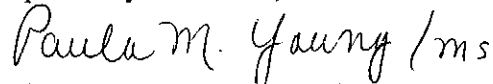
Question 19: Non-public entities

We request that the Boards consider a longer transition period and delayed implementation to assist non-public entities and not-for-profit organizations. Several challenges regarding implementation exist for non-public entities and not-for-profit organizations based upon limitations of resources and human capital. Many of those challenges regarding implementation have been outlined in our response to question 16 and throughout this letter.

In question 15 we requested that the disclosure requirements for non-public entities and not-for-profit organizations be reduced considerably because the costs of such comprehensive disclosure to these preparers greatly outweigh the benefit to users of the financial statements.

Thank you for the opportunity to comment. We are available to discuss our comments with Boards' members or staff at their convenience.

Respectively submitted,



Paula M. Young, CPA, Leader
Accounting and Auditing Standards Interest Group
New Jersey Society of Certified Public Accountants

Principal Drafter, Renee Rampulla, CPA

cc: Robert S. Marrone, President
Ralph Albert Thomas, Executive Director
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October 22, 2010

Via electronic mail to: director@fasb.org

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

File Reference: No. 1820-100

To whom it may concern,

The Accounting and Auditing Resource Group of the New Jersey Society of Certified Public Accountants ("NJSCPA") is pleased to offer our comments on certain matters in the Proposed Accounting Standard Update to Revenue Recognition (Topic 605), *Revenue from Contracts from Customers*. The NJSCPA represents over 15,500 certified public accountants. The comments herein represent those of our Resource Group only and do not necessarily reflect the views of all members of the NJSCPA.

We commend the FASB and the IASB for proposing rational, consistent revenue recognition standards for recognition and measurement of revenue arising from most industries. We recognize that the dispersed and partial coverage of the current guidance unintendedly served as an obstruction to correct implementation.

Recognition of revenue, Question 3, when control has transferred to a customer

We considered how the proposal would impact long-term construction contracts presently accounted for under the percentage of completion method. We believe that the final standard should scope out such contracts, and retain the percentage of completion method of accounting for them. The percentage of completion method is a comprehensive revenue recognition model that is widely understood, accepted, and applied by many user groups, such as lenders, sureties, owner/managers, and the investing public. We agree with the FASB/IASB's general intent of installing a broad, consistent and rational revenue recognition method across most industries. However, as applied to long-term construction contracts presently accounted for under the percentage of completion method, the limited benefit of such consistency does not justify the loss of a present method that is superior in most respects to what is proposed.

We also considered the impact on such long-term construction contracts if the proposal were to be adopted as proposed. We believe that it does not offer sufficient guidance as to when and how a customer takes control of work in process in a long-term construction contract. This creates the potential for inconsistent and potentially incorrect application of the proposed guidance. We understand that the convergence of accounting standards includes a shift to more principles-based accounting standards. However, if such long-term construction contracts are not scoped out of the final ASU we strongly urge you to provide additional, specific implementation guidance for them, particularly regarding when the customer takes control.

Effective date and transition, Question 13, retrospective application

Paragraph 85 of the proposal states that the new standard shall be applied retrospectively, in accordance with ASC Topic 250. We believe that there is limited benefit to such a requirement and additionally, certain industries would find this overly burdensome to implement. We further noted that paragraph BC 232 of the

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proposal allows for limiting the retrospective application of an accounting policy if it is burdensome. We anticipate that many entities will deem retrospective application of this guidance to be such, thus opening the door to potential loopholes. Accordingly, we recommend that clarification of what is considered burdensome is included in the final standard, specifically additional implementation guidance concerning applying ASC 250-45-9. We urge the Board to add a specific requirement for disclosure by entities who did not adopt the proposed guidance because of impracticability under ASC 250-45-9, and why. We believe this will promote transparency in financial statements.

Nonpublic entities, question 18, implementation

In our opinion, nonpublic entities and the users of their financial statements would be best served by a deferred implementation date, and limited disclosure requirements. This was a successful strategy with prior far-reaching standards. A deferred implementation date and limited disclosure requirements would enable these entities to accurately and efficiently plan for and adopt the new requirements.

Specifically, we recommend an effective date of one year after issuers, and the following disclosure modifications for nonpublic entities:

- Exemption from quantitative disclosures of disaggregation of revenue (paragraph 74)
- Exemption from reconciliation of contract balances (paragraph 75)
- Exemption from disclosures regarding onerous performance obligations (paragraph 79). We believe such disclosures could put a private entity at a competitive disadvantage, and any related loss contingencies are addressed in ASC 450.
- Exemption from quantitative disclosures of how the transaction price was determined and allocated (paragraph 83)

Regarding paragraphs 74 and 83, we see value in qualitative disclosures of these matters.

Other comments

We understand that the international convergence of accounting standards includes a shift to more principles-based accounting standards. We believe that our recommendations for scoping out certain long-term construction contracts, and providing specific implementation guidance as discussed above will enhance this transition rather than run counter to it.

Respectfully submitted,

Handwritten signature of Margaret F. Gallagher in cursive script, followed by the initials "/ms".

Margaret F. Gallagher, CPA
Co-chair, Accounting Standards Subcommittee
Accounting and Auditing Resource Group
New Jersey Society of Certified Public Accountants