

Microsoft Corporation
One Microsoft Way
Redmond, WA 98052-6399

Tel 425 882 8080
Fax 425 936 7329
<http://www.microsoft.com/>



March 13, 2012

Ms. Susan Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: File Reference No. 2011-230

Dear Sue:

Microsoft appreciates the opportunity to respond to the Exposure Draft (ED), “Revenue from Contracts with Customers”. We appreciate the changes that have been made to the original ED. However, we believe changes are still needed with regards to the disclosure requirements and transition. Furthermore, as indicated in our attached responses to the questions raised in the ED, clarifications are needed with regards to certain aspects of the guidance provided in the ED.

Disclosures

As we indicated in our response to the original ED, Microsoft continues to be concerned with the significant increase in the volume of required disclosures and the seeming absence of taking into account potential new disclosures in the context of all existing disclosures. We note that the ED does not include a comprehensive disclosure example. Excess disclosure requirements can be damaging or misleading if relevant information is obscured.

Microsoft agrees with the disclosure objective to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. However, we disagree with the Basis for Conclusions that the revised proposed disclosures achieve an appropriate balance between users’ needs and preparers’ concerns. What we believe is missing from the Basis for Conclusions is a clear articulation for each required disclosure on how and to what extent it is believed that the proposed disclosure will enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. We also believe that more robust field testing of companies actually trying to collect the information required for the proposed disclosures is needed in order for the Boards to have a more accurate understanding of preparers’ concerns.

With respect to specific disclosures, we believe the guidance in paragraph 115 of the ED will lead to an excessive level of disaggregation. For instance, of the seven examples of categories that may be appropriate to include (type of good or service, geography, market or customer type, type of contract, contract duration, timing of transfer, and sales channel) each of the categories apply to Microsoft's products and services. We urge the Boards to change the requirement to the primary category management believes best depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. This will allow entities to select the appropriate level of disaggregation while avoiding too granular a presentation that could obscure the information provided.

We also believe the Boards have underestimated the cost and effort required for companies to provide the proposed reconciliation of contract balances disclosure. Microsoft understands users desire to comprehend the interaction between revenue that has been recognized and the movements in cash and receivables. However, as the Boards learned during their Financial Statement Presentation (FSP) project, companies generally do not capture in their information systems the "direct cash flow" information necessary to separately bifurcate cash received for revenue from amounts transferred to receivables due to revenue transactions. Furthermore, as the Boards learned from feedback on the FSP project, making the necessary information systems infrastructure changes to separately capture this information would involve significant cost and effort.

Transition

Microsoft shares the view that the ability to compare current period results with the prior period is important to users of financial statements. However, we believe the Boards have significantly underestimated the cost and effort of retrospective application and have not adequately explored transition alternatives similar to those allowed under Accounting Standards Updates (ASUs) 2009-13 and 2009-14. Providing transition alternatives similar to those in the ASUs will significantly reduce preparations costs while providing users the information necessary to compare current period results with the prior period.

We believe the ED will result in earlier revenue recognition for Microsoft that will require significant transaction level systems modifications. Functionality will need to be created to allocate revenue to multiple elements, based on relative selling prices, which will be recognized over different periods of time. It is likely we will need to create an in-house solution for the necessary functionality. With over two million transactions impacted annually, the costs we will incur for even a prospective transition will be considerable, and such costs would be significantly magnified with a retrospective transition requirement.

Furthermore, given this significant level of annual transactions, we believe it is important to have systems in place prior to the recording of a revenue transaction under the new guidance, even if that revenue transaction will impact a prior period under a retrospective transition application. A large amount of our revenue transactions are three year

agreements, which along with the time necessary to make systems modifications and two years of restated results, would require a longer time period than envisioned by the Boards between finalization of the standard and effective date to implement the new requirements in a cost effective manner and control-based environment. Alternatively, a prospective transition adoption would allow us to implement a finalized standard in a cost effective manner and control-based environment within the time period envisioned by the Boards.

From a user perspective and based on our examination of the adoption of ASUs 2009-13 and 2009-14, a majority of companies adopted that guidance prospectively and we are not aware of any significant capital market implication from that adoption choice. Additionally, based on discussions with our Investor Relations team and users of our financial statements, initial reaction indicated that either a retrospective or prospective transition would not have a significant impact on the ability of users to transparently understand our results and how they compare to the prior period. In fact, a significant majority of users actually favored a prospective transition application in order to minimize the impact on their complex valuation models.

Finally, with earlier revenue recognition under the provisions of the ED combined with a retrospective transition requirement, a significant amount of Microsoft's unearned revenue will never appear as revenue, net income or earnings per share in any periods presented to our financial statement users. Given the numerous mentions in the ED that revenue is a crucial number to users of financial statements, we fail to see how this result of retrospective transition will provide more useful information.

Our responses to the questions raised in the ED are attached. If you have any questions, please contact me at (425) 703-6094.

Sincerely,

Bob Laux
Senior Director, Financial Accounting and Reporting

Attachment

Question 1— *Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?*

Response: We agree with the guidance in paragraphs 35 and 36 for when an entity transfers control of a good or service over time. However, clarifications are needed with regards to measuring progress toward satisfaction of a performance obligation, in particular, the application of this proposed guidance to when-and-if-available software products.

Microsoft strongly believes revenue for when-and-if-available software products should be recognized on a straight-line basis over the period of when-and-if-available coverage, as this most faithfully depicts the pattern of that coverage. As defined in Accounting Standards Codification 985-605, when-and-if-available is an arrangement whereby a vendor agrees to deliver software *only when or if it becomes deliverable* while the arrangement is in effect [emphasis added]. A straight-line basis of revenue recognition is the most faithful representation of this obligation since in some situations the delivery of additional software products will not be required, while in other situations one or multiple software products may be delivered during the period the arrangement is in effect.

Question 2— *Paragraphs 68 and 69 state that an entity would apply Topic 310 (or IFRS 9, if applicable) to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?*

Response: As indicated in our response to the original ED, Microsoft recommends that collectability be accounted for as bad debt expense in connection with an entity's allowance for doubtful accounts.

Question 3— *Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognizes to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognize for satisfied*

performance obligations? If not, what alternative constraint do you recommend and why?

Response: We agree with the proposed constraint on the amount of revenue that an entity would recognize for satisfied performance obligations.

Question 4— *For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognize a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?*

Response: No, we believe the onerous test should be applied at the contract level as we do not believe that recording liabilities at the level of performance obligations for overall profitable contracts provides decision useful information.

Question 5— *The Boards propose to amend Topic 270 and IAS 34 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial statements. The disclosures that would be required (if material) are:*

- 1. The disaggregation of revenue (paragraphs 114–116)*
- 2. A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)*
- 3. An analysis of the entity’s remaining performance obligations (paragraphs 119–121)*
- 4. Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)*
- 5. A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfill a contract with a customer (paragraph 128).*

Do you agree that an entity should be required to provide each of those disclosures in its interim financial statements? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial statements.

Response: Microsoft does not believe a tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities should be required on an interim basis. As indicated in our cover letter, we believe the Boards have underestimated the cost and effort required for companies to provide the proposed reconciliation of contract balances disclosure. An interim disclosure requirement will just magnify the cost and effort required by companies. Additionally, and as also indicated in our cover letter, we believe the interim disaggregation of revenue disclosure

should be based on the primary category management believes best depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

Question 6— *For the transfer of a nonfinancial asset that is not an output of an entity's ordinary activities (for example, property, plant, and equipment within the scope of Topic 360, IAS 16, or IAS 40), the Boards propose amending other standards to require that an entity apply (a) the proposed guidance on control to determine when to derecognize the asset and (b) the proposed measurement guidance to determine the amount of gain or loss to recognize upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement guidance to account for the transfer of nonfinancial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?*

Response: We agree that an entity should apply the proposed control and measurement guidance to account for the transfer of nonfinancial assets that are not an output of an entity's ordinary activities.