

March 12, 2012

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

Submitted via electronic mail to director@fasb.org

File Reference: No. 2011-230, Exposure Draft: Revenue from Contracts with Customers

Dear Ladies and Gentlemen,

Silicon Valley Accountants (www.svacpa.com) is an accounting and consulting firm dedicated to helping companies improve their accounting and financial reporting processes, increase efficiency, lower compliance costs and provide training courses related to implementation of complex accounting pronouncements under U.S. GAAP. Our Continuous Improvement Methodology focus includes leveraging both software and consulting services to help companies with various financial processes from improving the accounting close and financial reporting process to merger integration, revenue cycle management, and SOX compliance, by making processes more accurate, predictable, and manageable leading to faster, less costly and more predictable results.

We have reviewed the Financial Accounting Standards Board's (FASB or the Board) proposed Accounting Standards Update (Revised) – Revenue Recognition (Topic 605), Revenue from Contracts with Customers ("the Update"), and we appreciate the opportunity to comment on this Exposure Draft.

General comments:

We expect many implementation related challenges will be faced by entities applying the principles based guidance contained in this Exposure Draft due to the lack of new detailed implementation guidance and the significant amount of specific guidance and glossary items that will be completely deleted (financially deregulated) in this new guidance. In addition, we believe that the lack of industry specific guidance will lead to more lack of comparability of the financial statements of companies in the same industry. Comparability across nations and industries appears to have taken an upper hand to comparability within industries. We believe that most companies would agree that "implementation guidance as you are audited" similar to the recent SOX experience would be painful and wasteful.



Specific comments:

Our responses to the questions in the Exposure Draft are as follows:

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 do not agree with the Board's proposed definition outlined in paragraphs 35 and 36 of the proposed Exposure Draft. The Exposure Draft doesn't appear to address implementation of guidance issues that will be created particularly in the complex environment of changing industries such as biotech, software and healthcare to name a few.

In addition, paragraph 29 and Example 4 of the Exposure Draft will lead to comparability issues within the same industry regarding determining when goods and services are required to be accounted for separately or on a combined basis, having a significant effect on the timing and amount of revenue recognized and thus an interrelation with paragraphs 35 and 36. The current proposed guidance will lead to significant variations in practice for combined solutions that include development, products, technology and services. The resulting variations in accounting for similar transactions will lead to inconsistent recognition, and therefore not meet the objective of comparability either within the industry or across the geographic boundaries. A balance between the comparability, clarity and simplicity provided by more prescriptive accounting needs to be reconciled with the benefits of the proposed principles based approach.

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:

We agree with the Board's proposed presentation of arising credit losses from contracts as a separate line item adjacent to revenues. In our opinion, the effects of the estimates for the uncollectible amounts reported by entities will be highlighted due to increased visibility of the presentation on the face of the financial statements without additional reporting costs.



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 that variable consideration should only be recognized after the specific conditions that give rise to satisfying the obligation have been met. However, we note that the Exposure Draft provides for selection between two very different models for recognizing this amount, namely, the expected value and the most likely amount models. Based on the method selected, two entities might record vastly different results based entirely on the model selected for the same contract.

Conversely, this selection of the models is required to be applied consistently throughout the contract as noted in Paragraph 56 of the Exposure Draft, which states that ".....When estimating the transaction price, an entity shall apply one method consistently throughout the contract.....".

In our opinion, the selection of the methodology, i.e. expected value or the most likely amount should be allowable at the performance obligation level and not mandated at contract level, as this might have a material impact for contracts that have multiple performance obligations each of which may be better represented by one of the two allowable models. Not allowing the selection of model which best represents the economic substance of the performance obligation creates a "rules-based" unilateral decision which is both against the purpose of allowing model selection in the earlier paragraph and not in "principles-based" spirit of the proposed Exposure Draft.

We propose as an alternative that the proposed Exposure Draft should allow the selection of the method at the performance obligation level and not mandate only one method at the contract level.



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:

We agree with the Board's proposed scope of the onerous test and agree that loss should be recognized if costs are expected to exceed revenues (i.e. the contract is onerous). However, in our opinion it will be better for the onerous test to be performed at the contract level (or at combined contracts level for the multiple contracts that are considered as one contract) rather than at the performance obligation level. This will avoid possible situations where an individual performance obligation is onerous, despite the fact that the contract as a whole is profitable to the entity. This approach would better represent the economic substance of the transaction.

In addition, we propose that entities record the loss and corresponding liability based on expected outcome approach at contract level, i.e. irrespective of the term of the contract. This would be consistent with the principle that liabilities are recognized at expected values when incurred irrespective of duration of transaction. The calculation should be at the reasonably probable expected outcome amount of the potential liability, not the lowest cost (which appears as an attempt to counter balance the performance obligation level requirement.)

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:

We believe that additional disclosure relating to material revenue recognition items would enhance an entity's interim financial statements for the SEC registrants. In addition, we understand that in many cases entities are already providing some of this requested information either a) internally, b) in their management discussion and analysis or, c) in other investor relations packages provided to the analyst and shareholders. Hence, in our opinion, this will not result in a substantial increase in costs for many entities.

Additionally, in regards to item 4 in the above question, the proposed disclosures relating to entity's remaining performance obligations (paragraphs 119–121) should only be required at the contract(s) level rather than at the performance obligation level. Onerous performance obligations should be recognized at the contract(s) level as this is the economic substance of the transactions for **all contract(s)** when probable. The calculation should be at the reasonably probable expected outcome amount of the potential liability.

As it would be a requirement that these onerous obligation contract(s) be monitored and recorded in the financial statements, the disclosure of the same should not require any significant excess work.

Ouestion 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 are indifferent related to the application of 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. By applying the proposed guidance, that will make the accounting standards more consistent, however, by replacing the existing guidance there may result some unintended consequences. We do not believe that this was a significant problem area and believe that some additional analysis to understand the potential impact would be preferable.

We appreciate the difficulty of the standard setting process and the significant effort required to balance the interest of all constituencies. There is rarely credit given for well written regulation and often criticism of all short comings, however given the gravity of the potential impact, we believe that a focus on the potential issues is appropriate.

Silicon Valley Accountants appreciates the opportunity to comment on this proposed Exposure Draft. If you have any questions concerning our comments, please contact Gabe Zubizarreta at (408) 605-0735.

Yours truly,

Silicon Valley Accountants