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Invitation to Comment – Discussion Paper Preliminary Views on Revenue Recognition in Contracts with Customers  

As graduate students in Accounting at Indiana University’s Kelley School of Business, Indianapolis; we are pleased to comment on the aforementioned Discussion Paper. You will find our responses to the proposed questions contained in the appendix to this letter.  

We believe that the actions taken by the Boards to consolidate and improve the aspects of revenue recognition with regard to contracts with customers are a very important facet of the overall convergence project. The current structures offered by U.S. GAAP and IFRS provide inconsistent means by which to recognize revenues, and we agree that it would be beneficial to have one concise method for revenue recognition. Moreover, given that there are so many factors in developing a single recognition method, we are concerned that trying to meet every entities’ needs through the use of one method would be very difficult.  

To develop the unified revenue recognition method, the Boards have selected the concept of control as their focal point. The Boards define control as physical possession of the good or service. We believe that the intention of the Boards leans a little too far to the idea of legal transfer of title of the underlying asset. If this is the Boards’ intention, we believe that there are certain industries and transactions that would suffer from this distinction and not provide users with decision-useful information. Some examples, to be expanded upon in the Appendix to this letter, are as follows:  

1. Long-Term Construction Transactions  
2. Life Science Transactions  
3. Information Technology Transactions  
4. Some Transactions involving overseas shipping
We also believe that the Boards need to develop a better rationale for why they are moving to the control method and away from the Risk and Reward basis that is currently in practice. The Risk and Reward model lends itself to providing clarity in a transaction that is more complex than model based on legal control.

While we appreciate the Boards’ desire to move swiftly in the determination and implementation of a unified Revenue Recognition model, we urge caution and diligence during this process. Oversimplification can lead to a system that is wrought with inefficiencies and potentially could lead to reduction and omission of decision-useful information.

We thank the Boards for the opportunity to comment on this Discussion Paper. We would be happy to answer any further questions that one might have regarding our suggestions as found in the Appendix to this letter.

Yours faithfully,

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Appendix

Question 1

Do you agree with the Boards’ proposal to base a single revenue recognition principle on changes in an entity’s contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

We agree that single revenue recognition principle will provide improvements to consistency, comparability, and faithful representation of accounting an entity’s economic phenomena in line with the existing definition of revenue (paragraph 1.18). The principle is solid conceptually – and we generally agree on the need to focus on contacts with customers; however the principle may raise some practical scope limitations and interpretation inconsistencies upon application. Based on the analysis and review of comment letters, current accounting literatures, and current practice, the issues that need further guideline and development are: (1) Boundary of a contract with a customer - i.e. executor contracts; (2) Historical practices - e.g., accounting for customer loyalty programs or in specific agriculture industry (paragraph 2.10 and 6.15); (3) Measurement of rights and performance obligations - i.e. issues addressed in question 4, 5, 8 and 9; (4) Accounting for rights of return - i.e. issues addressed in question 6 and 7; and (5) The scope of contracts with customers - i.e. contracts of revenue generating and non-revenue generating activities, or contracts with multiple parties. Overall, the Boards should provide a framework for making determinations of addressing these issues, and seek to set standards according to relative importance in achieving sound level of consistency for practical application.

The Boards should carefully consider the potential drawbacks of movement toward this new approach to revenue recognition. Of concern is that a contract based revenue recognition method may put an emphasis on legal form rather than actual economic financial value of transactions. Revenue recognition plays an important role in portraying and evaluating business performance of an entity; therefore, it is essential to focus on relevance and faithful representation which are fundamental qualities of financial information. The lack in a higher focus on actual financial performance activities may weaken the overall objectives of financial reporting. To avoid such potential drawbacks, the Boards should expand further on fundamental guidelines to address revenue recognition. The Boards should consider creating a clear level of criteria in evidence collection, which are needed to be established in qualifying a contract with a customer for revenue recognition. Any criteria established must be different from just a legalistic content, but be linked to a relevant economic phenomenon that portrays measurable financial impact for accounting. The Boards should also address timeliness factors of the contract that portray critical usefulness in economic phenomena of revenue recognition principles (i.e., present value and fair value concepts).
A single revenue recognition principle would be an enhancement that encourages standard setting to move from rules based accounting toward a more principles based approach. This movement allows for a broader scope, and to provide a harmony in the conceptual framework of accounting standards. As the Boards makes this attempt, we advise the Boards to consider using traditional standards, especially of U.S. GAAP, which includes detailed industry-specific guidelines for revenue recognition. The Boards should try to categorize past standards based on the new single revenue recognition principle. The ironing out of conflicts of current standards will help reduce implementation difficulty of the new principles, provide additional guidance towards more complex transactions, and link existing concept of earning (realization) process of revenue recognition to be reconciled into the new standard. The Boards should consider using the new conceptual framework of financial reporting objectives and qualitative characteristics as guideline to set fundamental and enhancing values of revenue recognition.

We also recommend that decisions made in the revenue recognition project be consistently built upon other standards, especially in insurance, leases, and multiple deliverables contract accounting. We also suggest that rights and obligations under each contract be presented on a net basis. This suggestion is derived from the framework of both IFRS and U.S. GAAP, that an asset or liability may not exist until one of the parties has performed. The Boards should also consider matching principle concepts, on the timing of revenue and expenses under the new contract based recognition model. Despite that a contract based model uses changes in assets as a primary framework, the effects of matching revenue and expenses on earning may be also important. Ultimately, to achieve fair transparency and decision-useful information, the framework must consider both the conceptual and practical context of entity’s financial reporting.

Question 2

Are there any types of contracts for which the Boards’ proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

The proposed model of contract based revenue recognition described in the discussion paper cannot possibly apply to all contract situations in order to provide decision-useful information to interested parties. This includes the issues mentioned in Question 1 in which there are specific industry exceptions that the proposed principle does not address well. We encourage the Boards to develop sound rules to exceptions from the proposed revenue recognition principle to capture issues of specific contracts that do not provide decision-useful information. The following industries and accounting areas are examples addressed commonly in comment letters and current practices: (1) Construction and/or long-term contracts specifically construction contracts where an asset is constructed to a customer’s specifications and it is impractical to use a continuous delivery approach because the use of percentage of completion method is more relevant and preferred upon physical transfer of an asset as noted in Deloitte, Ernst & Young, and KPMG’s comment letters; (2) Rights and obligations that cannot be determined with reasonable accuracy at
inception of the contract as seen in the asset management industry, which is explained in Ernst & Young’s comment letter; (3) Modification and adjustments to contracts which is common in automotive and telecommunication sectors as explained in Ernst & Young’s comment letter; (4) Financial instruments and some non-financial instrument contacts - e.g. where changes in fair value of those assets are more useful, as explained in PricewaterhouseCoopers, KPMG, and Ernst & Young comment letters; and (5) Insurance and leasing contracts, where there is a need to consider an alternative recognition model due to the nature of these contracts having relatively different aspects toward providing decision-useful information (all “Big Four” accounting firm’s comment letters mention this issue).

To summarize, there is a concern for contracts of complex business transactions, including financial instruments, long-term contracts, and other unique legal contact dealings, that are volatile, hard to measure and vary significantly depending on the use and market for them. If only contract based revenue recognition is adopted for these situations, it will degrade relevance of financial information. Therefore, we suggest that the Boards look back again into current existing authoritative literature under U.S. GAAP and IFRS for specific transactions and iron out conflicts in order to scope out exceptions and guidelines.

Question 3

Do you agree with the boards’ definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

The Boards’ contract definition is consistent with a legal concept. The term, enforceable obligation is a good approach to shift toward modern western views of contract law which enhances verification and neutrality. However, the concern is a standard view of a contract across international jurisdictions. There is no international law at this current stage around the globe, and there are varieties of difference in what constitutes a legal contract depending on local jurisdictions or practice. For example, the U.K. uses statutes rather than contractual relationship in the supply of water to private households as explained in Deloitte’s comment letter. There are also nations using Islamic law, whereby contracts are based on religious guideline of Sharia, dictating what enforceable obligations are. Therefore, the definition of a contract needs to be further developed to be specific, and be interpreted to capture revenue recognition concepts that provides a principle for shaping what constitutes the contract (i.e., the unit of account) to reflect the economic arrangement relevant for revenue recognition between parties.

The Boards also need to address the accounting of contract options, renewal, modifications, cancellation provisions, variations/change orders, and contingent or conditional rights and obligation issues. Adequate guidelines in these various issues need to be developed in order to supplement initial measurement of a contract. The Boards should also further development the definition of the terms “ordinary activities” (paragraph 2.20) and “customers” (paragraph 2.21). For example, there are issues in
differentiating revenue and gains on government funded or grant related activity for research. The rights to intellectual property development under such a grant contract will be controversial, as explained in Ernst & Young and Deloitte’s comment letters. Another important issue is that the definition may not be broad enough to capture arrangements in which the customer contract may not provide all the considerations that the vendor will receive for the products or services it provides.

In conclusion, the Board may consider adding examples and further explanation of what a contract is and how specifically it is used in terms of revenue recognition. The use of current U.S. GAAP and IFRS is a good resource that the Board can utilize.

**Question 4**

**Do you think the Boards’ proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not?**

We agree overall that the proposed definition of a performance obligation is straightforward enough to utilize in identifying most contractual promises. We support the use of this definition along with the updated definition of an asset in which one has access and rights to an asset whereas others do not. These concepts work well in a contract scenario where there is a transfer of goods and/or services to a customer as described in the discussion paper. However, the somewhat broad and simplistic nature of the definition will likely create confusion concerning the point where one halts the process of identifying increasingly inconsequential performance obligations.

As evident in many comment letters that responded to this particular question, there seems to be a legitimate concern over too much separation of promised contractual liabilities. We concur with Ernst & Young’s comment letter suggestion for additional guidance on what the Boards would prescribe as a reasonable level of identified performance obligations. This guidance would prevent some entities from defining performance obligations using a more granular approach of accounting for the value of each and every minute action in the process of transferring an asset. Clarification in this matter would increase consistency and comparability in financial reporting as addressed in the conceptual framework. Moreover, we support the discussion paper’s implication that in practice, there would not be a requirement for separating out performance obligations that are “unnecessarily complex” or “would not provide more decision-useful information”.

Additionally, we believe that enhancing the definition of a performance obligation would benefit those entities that have issues with recognizing revenue for complex types of transactions. A more robust definition is a must in order to have a solid conceptual basis for revenue recognition that would help avoid confusion in the future concerning guidance on contract rights and liabilities. Clarity on what defines a performance obligation would likely preclude its omission of in financial reporting and thus provide better faithful representation in financial statements. Unfortunately, it is unlikely to have
full agreement on what constitutes a performance obligation among those who are interested in the outcome of the definition (Schipper).

The discussion paper’s example of a performance obligation included warranties, which seemed to be a point of contention in many of the comment letters. The proposed model makes sense regarding warranties as a statutory obligation evident in a contract, and therefore a performance obligation. However, we concur with the dissenting argument that a standard warranty (as compared to an extended warranty) is not a performance obligation to the extent that it is treated with the same procedure as other examples of performance obligations in the proposed model. Essential for measuring the value of a performance obligation is the asset’s relative standalone selling price, which for a standard one-year warranty, would likely be trivial from the customer’s viewpoint. This logic follows that found in Apple Corp.’s comment letter where the execution of a warranty option is essentially “switching out” a defective item for an identical, working item. The standalone value is not material, given the customary, if not statutory, provision of a limited warranty that is a presumed benefit for most purchases. An entity is simply ensuring the transfer of a functioning asset to the customer. We suggest that the Boards allow continued use of the present practice for warranties as mentioned in paragraph A19 in the discussion paper where the full sales price of an item is recognized as revenue and the estimated cost of the warranty is accrued as a contingent liability. This would maintain the accurate presentation of the timing and amount of past financial events as well as adhere to the materiality constraint for what is reported in the financial statements.

Question 5

Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not?

We agree that separating performance obligations according to when an asset is transferred to the customer is an effective method to use in this context. The proposed application presented in the discussion paper was satisfactory, albeit brief, and perhaps lacking in additional guidance. Focusing on the transfer of an asset to the customer helps to ascertain the timing of when to recognize revenue. We also agree that the customer’s control of the underlying resource of the asset verifies its transfer as prescribed in the proposed model. This viewpoint would assure the relevance and timeliness of contractual events in financial reports.

Comment letters from other entities responding to this topic questioned the effectiveness of the suggested method for separation of performance obligations for long-term contracts. An example here is Raytheon’s concern that a long-term contract for a highly customized product will create difficulty in consistently recognizing revenue with accuracy when the uniqueness of each contract makes it challenging to identify every future performance obligation. Subsequent discovery of overlooked performance obligations would mean misrepresentation of revenues and liabilities and thus an overall
lack of faithful representation and relevance in the entity’s financial statements. We support the recommendation of Raytheon in its comment letter that there should be additional guidance on how to identify performance obligations within a long-term contract.

**Question 6**

Do you think that an entity’s obligation to accept a returned good and refund the customer’s consideration is a performance obligation? Why or why not?

We agree that the contractual obligation to honor a return and refund the transaction price would be a performance obligation. Assuming there is an explicit or implicit right of return in the contract between a buyer and a seller, it would therefore be enforceable, and the seller is obliged to reverse the transaction if the buyer exercises this option.

As stated in the discussion paper, as well as in the responses to this question in the comment letters, there are differing opinions for and against a right of return constituting a performance obligation. Some respondents based their arguments on what would occur in inventory when merchandise is returned. PricewaterhouseCoopers’ response is an example where the treatment applied in the discussion paper is used to point out an issue with a right of return scenario. Here, the full transaction price would be reflected in the reversal of revenue as well as the return of the item into inventory. This amount would include the profit margin in excess of the cost of sales. This would likely distort the relevant line items in the balance sheet and income statement which violates the conceptual framework concept of faithful representation.

We recommend that the Boards provide some practical examples on how to account for the general right of return as well as options on how to measure its value.

**Question 7**

Do you think that sales incentives (for example, discounts on future sales, customer loyalty points and “free” goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

Yes, we do agree that, in general, a sales incentive stated in a contract is a performance obligation. Loyalty points, discounts and “free” items awarded to customers for meeting benchmarks specified in a contract are surely performance obligations. These tools to help develop a strong business relationship between an entity and its customers are costs that directly impact the transaction price.

We approve of the Boards’ suggestion that one immediately recognizes revenue immediately up to the amount that would not include the cost of any sales incentives. The remaining amount that represents the allocation for incentives should be deferred and recognized when the customer meets the required milestones specified in the contract or, if failure to do so, over the term of the contract. This application would accurately reflect
the underlying economic substance of the transaction and adhere to the Boards’ conceptual framework concepts of relevancy and faithful representation, as well as provide useful information to the users of financial statements.

Question 8

Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.

We support the Boards’ determination that an entity satisfies a performance obligation when the underlying asset of the performance obligation has been transferred to the customer and that customer controls the promised good or service. Even though we agree that this methodology is, in theory, an appropriate means to determining revenue recognition, it is our belief that there is still significant work to be done.

We believe that the Boards should solidify a definition of control. As it stands right now, the discussion paper seems to put the most emphasis on the legal definition of control. We believe that this method has the potential to be detrimental when it comes to financial information being decision-useful. Using the legalistic approach of control, it would be possible for an entity to be forced into a situation where it has done significant work on a project and continuously transferred ownership to a customer and not received the ability to recognize revenue. For example, we agree with Ernst & Young when, in their comment letter, they describe a situation where an airplane manufacturer has given over much of the design control to the end user/customer, but because there has not been a legal transfer of ownership, no revenue is to be recognized by the manufacturer. This does not seem to afford the manufacturer the ability to match its expenses with the revenues that are derived from those expenses. The same could be said for a home builder that builds a customized structure for a customer, on that customer’s land and to the exact specifications of that customer. As it would be today, both of these entities would be able to show some revenue as they proceeded with what could potentially be a multiple year project.

In this world of ever-evolving technology, we believe that the discussion paper is also lacking in guidance when it comes to some technology firms’ revenue models. For firms that specialize in software, a licensing agreement is an item of revenue that would function outside of the definition, in our estimation, for revenue recognition in the discussion paper. Currently firms sell the opportunity to use software either personally or professionally by a licensing agreement. As with Microsoft and Adobe, these companies find it beneficial to recognize revenue at the time that the sale has been completed and the licensing has been established, rather than recognize the revenue over the course of the license agreement. There is no true transfer of “control”, as Microsoft and Adobe do not actually give up their legal rights to their products, thus the preparation of financial statements using the methodology in the discussion paper would potentially provide less decision-useful information to users.
We also believe that the discussion paper lacks guidance when it comes to goods that are subject to shipping and the control transfer that takes place in these types of transactions. In many cases, customers take on the risks and rewards of ownership, but they may not have physical control of the assets until delivery. Even though the customer has full rights to future economic benefits and the sellers have given up their rights, the current methods under the discussion paper leave us wanting further clarification as to control of the goods shipped. Under the discussion paper method, would the seller retain control of the goods until the customer was in physical possession of the goods, or does the customer gain control because they selected the delivery method? As it stands right now, we are unable to make this determination under the discussion paper.

It is apparent to us that this discussion paper is lacking in some areas and really could use clarification. We entrust to the Boards this task of defining control and clarifying their position on when it is transferred between entity and customer. Without this further clarification, we believe that entities will take more of an active role in defining control and thus stray from the intended message of the Boards. If that were to happen, the entire project being taken up by the Boards might be put in to jeopardy.

**Question 9**

The Boards propose that an entity should recognize revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

We believe that in its current form, the discussion paper leaves too much to be desired when it comes to the definition of a performance obligation and the concept of control. Without a more definitive idea of what these two terms are meant to be, there are many contracts that would not produce decision-useful information. The types of contracts that could be adversely affected by the lack of description in the discussion paper might include, but are not limited to, Long-Term Construction contracts, Service-based contracts and Intellectual Property contracts. Please see our examples in questions 2 and 8 as to how these situations might come to pass. It is also our belief that the Boards have not shown a completely satisfactory reason for moving away from the concept of “Risk and Reward” of ownership Revenue model. We believe that the Boards should consider leaving some terminology with regard to risk and reward in their updated definition of Control.

**Question 10**

In the Boards’ proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.

(a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?
We agree that performance obligations should initially be measured at the transaction price. This will increase consistency among entities as well as provide a more representationally faithful measurement because it reflects the agreed upon price between the customer and the vendor. However, we need additional guidance for determining the transaction price because there are many items which affect it.

(b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity’s expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?

We disagree with this concept as it is currently stated in the discussion paper. We do not believe a performance obligation should be deemed onerous and remeasured because this would not affect the amount of revenue recognized, but instead would recognize an additional liability. This concept conflicts with the transaction price model stated in the discussion paper. We believe remeasurement should occur only if there is a change in the actual transaction price. This concept also appears to conflict with the current Conceptual Framework. The discussion paper seems to justify onerous remeasurement based on Conservatism; however, the CF states that Neutrality is of more significance and outlines how Conservatism is no longer a desired attribute.

Should the Board decide to include onerous remeasurement in the revenue recognition standard, there are several items about which we need further guidance. We believe that the onerous decision should be applied to entire contracts, rather than individual performance obligations. Paragraphs 5.8 and 5.9 in the discussion paper describe three components, expected costs, time value of money, and margin, to be used when measuring performance obligations. The concept that only one of these three components should be used when remeasuring performance obligations appears contradictory to the model itself. Also, we need more information describing what relevant costs should be included to determine if a contract is onerous. The Boards need to address how to apply the remeasurement theory to related contracts. For example, an airline company sells individual seats at different prices, therefore creating multiple contracts. However, it determines profitability based on an entire flight. Therefore, remeasuring the individual contracts does not provide decision-useful information.

(c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.

We believe the proposed measurement approach as a whole will provide decision-useful information, with the exception of our concerns with the remeasurement of contracts when deemed onerous, outlined in response to (b) above.
(d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.

We believe the Boards should develop a revenue recognition standard and measurement approach which is applicable to an extensive range of contracts and industries. There may be some contracts, especially those in which the transaction price was determined based on the use of estimates, which require remeasurement as more useful information is developed.

**Question 11**

The Boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (for example, selling costs) are included in the initial measurement of the performance obligations. The Boards propose that an entity should recognize those costs as expense unless they qualify for recognition as an asset in accordance with other standards.

(a) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contracts should be included in the initial measurements of an entity’s performance obligations? Why or why not?

We agree that the entire consideration paid by a customer should be included in the initial measurement of an entity’s performance obligations. The transaction price represents a mutually agreed-upon value that each party to the contract attaches to the rights and obligations thereof. We acknowledge that an entity may incur significant costs to acquire a contract, but assigning any portion of the customer consideration to such costs would be purely arbitrary because the likelihood of obtaining a contract may not be apparent from the outset. Moreover, it would amount to recognizing a portion of the revenue even before any performance obligation has been met. Alternatively, contracts have value, and this discussion paper recognizes them as assets. Costs incurred to obtain the contracts may therefore have value in all periods in which such contracts provide revenue to the entity. We propose broad categorization of contract related costs into two categories:

I. **Costs incurred to pursue the contract.** These would include all the costs an entity incurs in order to obtain the contract. At this point, the contract is not in place, and such costs should be expensed, unless directed otherwise by another standard. This treatment is consistent with provision in AICPA’s SOP 81-1 paragraph 75(f) … “Costs related to anticipated contracts that are charged to expenses as incurred because their recovery is not considered probable should not be reinstated by a credit to income on the subsequent receipt of the contract”
II. *Costs incurred in establishing a contract:* We propose that these costs should be capitalized if they are directly attributable to the contract. The U.S. Conceptual Framework requires that costs should not be deferred if they do not add value to an asset. Concepts Statement 6, paragraph 25 defines assets as “probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.” We argue that an entity already has the contract in place at this point, and any costs incurred in establishing the contract should be capitalized (i.e. from the point it becomes apparent that an entity has obtained the contract). This treatment is consistent with the practice of capitalizing general and administrative costs associated with bid and proposal for new contracts under Federal Acquisition Regulation, and which are allowed by AICPA’s SOP 81-1

(b) *In what cases would recognizing contract origination costs as expenses as they are incurred not provide decision-useful information about an entity’s financial position and financial performance? Please provide examples and explain why.*

We believe that expensing all contract origination costs as incurred, unless another standard requires otherwise, does not provide decision-useful information to the readers of the financial reports. Upfront costs incurred in establishing a contract or in setting up the requirements for a contract, if expended in entirety, may lead to reporting of losses at the earlier stages of the contract, then higher profits later on when the contract is completed. It is our argument that an entity that incurs costs to obtain a contract that would provide revenue over the coming periods should capitalize such costs and expense them appropriately as the revenue is recognized. We believe this process provides a better matching of revenue with the expenses that help to generate them, and provides more comparable information to the reader. It also more faithfully represents the underlying economics of the contract.

**Question 12**

_Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity’s standalone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?_

Yes, we agree that the transaction price should be allocated to the performance obligations, or contracts, on the basis of the entity’s standalone selling price. However, we believe that entities should be given room for judgment in order to provide a selling price which is economically meaningful. For example, an entity may price a good or service differently to reflect discounts given for purchases of large quantities. Therefore, the transaction price should reflect the actual selling price rather than only the selling price of items individually. We would like additional guidance in relation to contracts with multiple deliverables, as they often include contingent revenue, or frequent price changes, which may make it impractical to remeasure the transaction price with each price change. Contracts with multiple deliverables or frequent price changes are most
often seen in the technology industry, for example, companies such as Microsoft and Apple.

**Question 13**

*Do you agree that if an entity does not sell a good or service separately, it should estimate the standalone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?*

We agree that an entity should estimate the standalone selling price of a good or service that it does not sell separately for purposes of allocating the transaction price. We acknowledge that this is an area that may be fraught with inconsistent application, and recommend that the Boards establish a clear hierarchy of levels, similar to that contained in ASC 820-10 and 825-10, to guide in the allocation of the transaction price. For the industries in which FASB’s EITF Issues 08-1 and 09-3 apply, the use of relative price allocation and standalone price estimation of deliverables that an entity does not sell by themselves, is already in effect.
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