Theresa Barnett, CPA  
PO Box 118851; Carrollton, TX 75011  

October 22, 2010  

Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk CT 06856-5116  
Attn: Technical Director – File Reference No. 1820-100  

Re: Comments on the FASB and IASB’s Exposure Draft on Revenue from Contracts with Customers  

Dear Sir/Madam:  

Thank you for providing the public the opportunity to comment on the Exposure Draft to assist both Boards in finalizing a common global standard on revenue recognition from contracts with customers. Thank you also for your efforts to-date in attempting to establish a set of global standards in financial accounting and reporting. It would be ideal and beneficial to both public and private stakeholders to have all companies, including foreign, domestic, publicly-held, and private, apply one set of standards as more and more global business is conducted. As long as mergers and acquisitions, equity financing, and debt financing remain prevalent in our business world, one set of standards should continue to be sought and maintained.  

Based on how the Exposure Draft was written and the resulting number of suggestions, concerns, and questions that followed my reading and analysis of such, this comment letter only provides a selected number of comments in general terms, with a few detailed points of concerns and suggestions for both Boards to consider, so as not to have my chosen main points for this letter lost in the detail of a long response. I will gladly participate in the roundtable meetings mentioned in paragraph IN29 on page 10 of the Exposure Draft to be held after the close of this comment period in order to elaborate on the comments contained herein as well as provide additional comments, suggestions, and inquiries to facilitate an improved final set of standards. As an auditor with a diverse background in size and type entities served to-date, my experience should prove very valuable to such meetings.  

My first chosen comment/response relates to the very last question put forth by the Boards within the Exposure Draft for respondents to consider. Question 18 asks if one believes any of the proposed guidance should be different for private companies and not-for-profit organizations, and further request one to point out which requirements should be different and why, if one believes the guidance should be different. In general terms, my belief is that we should strive for one set of standards for revenue recognition with sufficient guidance to facilitate consistent application of the standards as they were intended to be applied. Public and private investors should be able to compare the financials of separate entities and know the financials are comparable (i.e. the entities follow the same set of principle based standards in accounting for and reporting their financial condition and results of operations). Economics will have most private investors (e.g. lenders), such as financial institutions, asking entities (both publicly-held and privately-held) to provide audited financial statements under one set of standards versus providing an option among multiple sets of standards anyway for a variety of reasons. It would be impractical (i.e. costly) to expect financial institutions, audit firms and entities, to secure and maintain personnel with expertise in two or more sets of standards versus one. Inefficiencies and an increased possibility of errors occurring and going undetected in financial reporting are apt to result if the entity and/or audit firm do not have human resources secured with immediate expertise in application of multiple sets of standards to meet the demands of the stakeholders and governing bodies requesting financials under different sets of standards. Thus, it would be in the general best interest of global business as well as local entities to have one set of standards to consider, in looking beyond initial implementation costs of a new global set of standards.  

With the above stated, I am of the current position the proposed revenue recognition standards and guidance as per the Exposure Draft is promising in many respects, but is in need of reconsideration and revision in many areas. The below is not all inclusive, but only some of my thoughts, mainly in general terms, on the Exposure Draft, starting with some general comments and ending with some specific suggestions for improvement.  

In general terms, the words are not strong enough (e.g. shall versus must) or lacking in certain areas, and many examples not complete and/or sufficient in type, leaving too much room for misinterpretation and misapplication (intentional or otherwise) of the proposed principle based standards by many. One could look to some of the comment letters already published to draw this conclusion. These findings, if left unchanged, will result in inconsistencies, which is outside the objective of these proposed standards as asserted by the Boards within the Exposure Draft. For instance, it is clear, based on certain comment letters from many representing the construction industry, the Boards need to consider creating a separate set of guidance for this industry group. This is not to say the Boards should create a separate set of standards for this group. The construction industry needs to accept some amount of change for the better, and the Boards need to reconsider certain areas of the proposed standards and/or its related guidance to ensure it facilitates fair presentation of the true economic reality of an entities financial condition and results of operations versus fostering the opposite effect for many.  

Additionally, the Boards should consider mandating written specific terms that are signed by the customer before allowing an entity to recognize revenue before actual delivery to the end-user customer for certain arrangements that would otherwise be harder to verify by auditors and other interested parties as well as harder to hold the customer legally responsible for the expected consideration, such as the bill-and-hold arrangement. Specifying the written terms equivalent to that in paragraph IG60 on page 54 of the Exposure Draft for a bill-and-hold arrangement should be required. Written contracts are good business practice anyway as they carry a much greater probability of enforcement, so the suggested change in the standard and related guidance will be promoting the same good business practice (i.e. in order to recognize revenue before delivery to the end-user customer, specific terms must be in writing and signed by the customer, and carried out as such).  

Along these same lines, it would be useful information to the end-users of the financial statements to know if material (individually or
in aggregate) contracts are written or verbal, so financial statement end-users may draw their own conclusions about management practice and how much value to place on the business as a result of this practice, including related receivables, etc. Thus, the Boards should consider mandating this specific addition to the footnote disclosure requirements in paragraphs 73-75 on page 26 of the Exposure Draft.

The onerous performance obligation guidance contained in paragraph 54-56 of page 23 has me concerned, especially when considered in conjunction with how the Boards propose the transaction price should be measured and allocated among multiple performance obligations within a single contract. Although the Boards may perceive this situation to be rare, not warranting much attention, if this principle-based standard stays “as is”, then better worded guidance in paragraph 55 and 56, including an example, should be provided. I advocate the Boards include the proposed onerous performance obligation standard and related proposed guidance in the planned topics for discussion at the upcoming roundtable discussions for further consideration.

Along these same lines, and in answering Questions 4-7 from the list of questions the Boards requested respondents answer as listed on page 7 of the Exposure Draft related to the measurement of revenue, the Boards’ should give more thought to the proposed standard and guidance on estimated transaction price for each performance obligation. Also, the proposed criterion in paragraph 38 in the Exposure Draft is not sufficient. Although I agree that an entity should allocate the transaction price to all distinct performance obligations in a contract, I am not sure I agree that the allocation should, in all cases, be based on the standalone selling price of the good or service underlying each distinct performance obligation, especially when you consider having to apply the onerous performance obligation test per paragraph 55 and 56. Does the word “shall” equal “must” in the Exposure Draft in paragraph 23 in determining whether or not a good or service is a separate performance obligation? Again, we need better wording and guidance to facilitate correct interpretation and application of the proposed principle-based standards.

Also, I concur with at least a portion of the point made in another comment letter in that variable consideration of a positive nature (e.g. bonuses) should be excluded from contract revenue, and periodic recognition of such, until realization is reasonably assured. However, a variable consideration of a negative nature (e.g. penalty) probably should be considered upfront with a “worst-case-scenario” approach in the name of conservatism. For instance, with Example 19 provided on pages 61-63 of the Exposure Draft, the penalty should be included in the measurement of revenue upfront at 100% and the bonus should not be considered initially at all, until it is clear the client’s level of cost savings has been met for the entity to be reasonably assured the bonus. Accordingly, if and when it is clear the level of cost savings has been met, the entity can be reasonably assured it will not incur the penalty and can adjust its measurement of revenue up to $10,000 at that point in time. This approach will avoid premature revenue recognition and asset overstatement. With the Example 19 as is, how do the Boards address such possible errors in judgment (or intentional fraud) that could occur by the setting up of probabilities of the final outcome in the initial month and recognizing 80% of a bonus that may never transpire into a recognized actual bonus from the customer, especially if not discovered/realized until the last month’s entry of revenue? If the entity has enough of these type contracts and/or not recording 80% of the bonus puts the entity at a loss for the period of entry, it could be considered a material error in judgement. The example, as written, implies the latter, which makes it a separate distinct performance obligation, does it not? This would mean the revenue could not be recognized until the performance obligation is fully satisfied, making it inappropriate to include the bonus in the measurement of the continuous consulting service revenue to be recognized monthly, right? The Boards need to consider rewriting Example 19 and reexamining the content/wording of the “Measurement of Revenue” paragraphs 35 through 41.

As stated earlier, the above is not an all inclusive list of issues/concerns I have with the Exposure Draft content. Again, I am open to participating in the round table meetings to assist the Boards in their efforts to create improved global standards, and thank you again for the opportunity to comment on the above referenced Exposure Draft.

Sincerely,

Theresa Barnett, CPA, CIA

www.barnettcpa.com