March 13, 2012

Financial Accounting Standards Board
Technical Director, File Reference No 2011-230
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Via e-mail to: Director@fasb.org

RE: EXPOSURE DRAFT ISSUED NOVEMBER 14, 2011 - PROPOSED ACCOUNTING STATEMENTS UPDATE – REVENUE RECOGNITION (TOPIC 650)

Ladies and Gentlemen:

The Accounting Principles and Auditing Procedures Committee ("Committee") is the senior technical committee of the Massachusetts Society of Certified Public Accountants. The Committee consists of members who are affiliated with public accounting firms of various sizes as well as members in both industry and academia. The Committee has reviewed and discussed the above-mentioned proposal. The views expressed in this comment letter are solely those of the Committee and do not reflect the views of the organizations with which the Committee members are affiliated.

The Committee is supportive of the overall goals of the revenue recognition project. We thank both the Board members and the staff of both FASB and IASB for the extensive outreach performed and the significant progress made on this project. We further thank the Boards for considering and addressing many of the concerns expressed in previous comment letters. The Committee views this proposed standard as one of the most far reaching and critical standards that will impact the accounting by mostly all of the clients of the Committee members.

Below are our comments on the questions asked in the exposure draft. Our comments below are not as comprehensive as we would prefer them to be. The Committee is made up of mostly practitioners who deal with small and medium sized clients and, at this time of year, these practitioners are performing both financial statement and tax services related to the year end requirements of their clients. Thus the Committee could not present as comprehensive of a response as we would prefer to since this is a significant project that will affect the clients of the Committee members.
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 to Question 1

The Committee agrees with the proposed guidance in Paragraphs 35 and 36 which 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.

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 to Question 2

The Committee agrees with the proposal guidance in Paragraphs 68 and 69 that the customer's credit risk should not be an adjustment of the transaction price and that revenue should be measured at the amount to which an entity expects to be entitled.

The Committee does not completely agree to the presentation of impairment losses as a separate line item adjacent to the revenue line item.

The Committee believes the proposed guidance in paragraphs 68 and 69 should be followed on the initial recording of the receivable in conjunction with Topic 310 and thus should be presented as a separate line item adjacent to the revenue line item.

The Committee feels differentially as to the accounting for such impairment loss on receivables subsequent to the initial recording. If the revenue recognition criterion has been satisfied, it would seem more appropriate that subsequent reviews of credit risk on existing receivables that result in additional impairment loss should be reported as operating expense as opposed to reduction in revenue earned.
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 to Question 3

The Committee agrees with the proposed guidance in Paragraphs 81 and 82 concerning constraints on the cumulative 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 to Question 4

The Committee agrees with the onerous performance obligation accounting for performance obligations satisfied over time.

Since the onerous consideration is at the performance obligation level and not at the contract level, the Committee urges the Board to consider adding guidance that addresses situations where the performance obligation is considered onerous but the total contract is profitable.

The Committee has a concern about the "greater than one year" reference in paragraph 86. The Committee feels an onerous obligation liability and a corresponding expense should be recognized regardless of the length of the contract. An onerous obligation liability should be based on materiality as set forth under present GAAP.

The Committee request that implementation guidance and examples be put forth to illustrate this aspect of the proposal.
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 to Question 5

The Committee agrees that the proposed specific disclosure requirements would be helpful to users of the financial statements.

The Committee’s concern with the disclosure requirements is that they might be too excessive resulting in greater costs without benefits. The Committee has particular concern as to how burdensome these requirements would be to preparers of interim financial statements.

The Committee does agree with the exemptions from some of these disclosure requirements for nonpublic entities as set forth in paragraphs 116 and 130 since the Committee strongly believes that the costs to those entities could exceed the benefits.

With regards to interim disclosures, tabular presentations may be burdensome, so the Committee asks the Board to consider qualitative disclosures instead.
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 to Question 5

The Committee agrees with the proposed control and measurement guidance to account for the transfer of non-financial assets.

Other

The Committee also feels that none of the specific examples on pages 56 thru 85 in the exposure draft take into consideration whether or not that the entity is a non-profit entity. The Committee requests the Board to better illustrate how these examples would be applied to a non-profit entity.

The Committee further notes that the proposed guidance does not address shipping and handling costs that are currently addressed under FAS ASC 605-45-50-3. The proposed amendments to the FASB codification relating to revenue recognition (Topic 605) delete FASB ASC 605-45. Disclosure requirements relating to the shipping and handling costs could not located in other parts of the proposal and thus the Committee wants to confirm that this disclosure requirement is to be eliminated.

Thank you for allowing us the opportunity to comment on this proposal.

Very truly yours,

Philip B. Pacino, CPA, Chairman
Accounting Principles and Auditing Procedures Committee
Massachusetts Society of Certified Public Accountants