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Submitted via email (director@fasp.org)

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Financial Accounting Standards Board
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Re: File Reference: No. 2011-230, Exposure Draft: Revenue from Contracts with Customers

We appreciate the opportunity to comment on the Financial Accounting Standards Board’s (“FASB” or “the Board”) exposure draft of the Revised Proposed Accounting Standards Update, Revenue from Contracts with Customers, issued November 14, 2011 (“the Revised ED”). We reference our comment letter we submitted on October 21, 2010 on the previous Proposed Accounting Standards Update, Revenue from Contracts with Customers, issued June 24, 2010 (“the ED”). Apple Inc. (“Apple” or “the Company”) continues to support the FASB’s efforts of simplification and international convergence of revenue accounting and commend the Board for considering and responding to many of the concerns expressed in our previous comment letter on the ED. We believe many of the changes made to the ED will avoid unnecessary and costly changes to existing accounting requirements. Specifically, we concur with the changes made in the Revised ED that:

- Align product warranty accounting more closely with current practice that treats a standard product warranty as a cost accrual;
- Eliminate the concept of a distinct profit margin and clarify the process to determine if a good or service is distinct when identifying performance obligations; and
- Allow the use of a most likely amount in determination of variable consideration rather than requiring the use of a probability-weighted approach.

We believe there remain certain areas in the Revised ED that should be modified to allow for a more principles-based approach to accounting and adoption transition. This would avoid unnecessary and costly changes to existing accounting and disclosure requirements that, if implemented, would provide limited value to users of financial statements. We continue to believe that prospective application upon the date of adoption should be allowed and that certain required disclosures for annual and interim financial statements should be eliminated because they do not provide useful information.
We also believe there are certain areas in the Revised ED that require additional clarification to ensure consistency in application of the proposed standard. Specifically, we propose that:

- Timing of recognition and income statement classification for certain consideration payable to customers should be clarified, and

- Determining whether a financing component is significant to a contract should be clarified.

Our views on these matters are explained in more detail in the following paragraphs.

**Prospective Application Upon the Date of Adoption Should be Allowed**

For most companies, retrospective application of the Revised ED will be expensive and burdensome, consistent with our recent experience to retrospectively adopt Update No. 2009-13 Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements ("ASU 2009-13") and Update No. 2009-14 Software (Topic 985): Certain Revenue Arrangements That Include Software Elements ("ASU 2009-14"). Retrospective application of the proposed standard will typically require changes to previously reported quarterly and annual financial statements for various components of revenue, cost of sales and other operating expenses, tax provisions in multiple tax jurisdictions, foreign currency exchange transactions, hedge accounting and statutory reporting. In addition, retrospective application often results in the unintended consequence of requiring amendments to previously filed tax returns in multiple domestic and foreign jurisdictions that may require private rulings by tax authorities and can result in increased taxes paid due to a variety of reasons. The investment in systems and personnel required to provide three years (and potentially five years for certain disclosures) of comparative financial data addressing these and other issues would be significant regardless of the significance of the adjustments to revenue resulting from adoption of the Revised ED.

It has been suggested that preparers could lessen the burden of retrospective application by developing and maintaining dual reporting systems under both current GAAP and the proposed model during the periods subject to retrospective application and that the relatively long period proposed between finalization of the Revised ED and its required adoption could lessen the impact of transition work. We are not aware of any practical way to maintain automated dual reporting systems that could address the proposed revenue accounting changes on a transactional basis or address the accounting and reporting issues we describe above that would not be excessively expensive to implement and maintain and that would not require substantial additional resources to manage. Therefore, we believe that most companies would resort partially or fully to manual solutions to address retrospective application. Practically, this means using spreadsheets over an extended period to address many aspects of retrospective application, increasing the potential for errors inherent in manual accounting solutions. The efforts and resources necessary to support the development and maintenance of dual reporting systems and processes, whether automated or not, over a long period of time will certainly result in a significant decrease in investments in ongoing improvements to the efficiency and capability of a company’s broader information technology infrastructure. Further, the resources and costs required to maintain multiple internal control structures covering the dual financial statement reporting process would be significant and provide little, if any, value to financial statement users.
We acknowledge that retrospective application is necessary in order to provide financial statement users with useful and comparable information when comparability of a company’s financial results is substantially affected by adoption of a new accounting standard. However, we believe the ultimate accounting impact to many companies from adoption of the accounting requirements of the Revised ED will not be so significant as to justify the enormous impact on costs and resources likely to result from retrospective application. For such companies, prospective application of the Revised ED would not mask their underlying economic performance or impair comparability between reporting periods or with other companies. For these reasons, we believe that preparers should be able to choose the most appropriate transition approach, retrospective or prospective, that balances the costs of the transition approach with the practical benefit to financial statement users.

To address the above concerns, we reiterate the proposal we made to the Emerging Issue Task Force (“EITF”) in our letter dated September 4, 2009 when the EITF was considering the transition method for ASU 2009-13 and ASU 2009-14. In that letter, we urged the EITF to allow preparers to choose retrospective or prospective application depending on the transition method that best fit their unique facts and circumstances. The transition alternative we proposed and that was ultimately selected by the EITF allowed retrospective application or prospective application with the requirement that if prospective application was chosen, a company must disclose comparative information for either the period of change or the period immediately preceding the change. We continue to believe that disclosing at least one period of comparative information about the change in accounting for revenue recognition will often provide sufficient information to financial statement users about how the change affected a particular company that elected prospective application and would avoid the substantial level of effort needed to retrospectively apply the new guidance to multiple fiscal periods. At this time, we are not aware of any empirical data that suggests allowing this choice of transition methods for ASU 2005-13 and ASU 2009-14 compromised the comparability of financial statements for companies that elected prospective application and the related disclosures. In fact, it is our view that the choice of transition methods in those standards resulted in an extremely smooth transition.

Apple elected retrospective application of ASU 2009-13 and ASU 2009-14 because the impact on our financial statements was significant and we believed retrospective application provided the best decision useful information to our financial statement users. Upon adoption of these standards we recognized approximately $12 billion of revenue over the three-year period covered by the retrospective application that had been previously deferred related to sales of iPhone. Had we adopted the guidance prospectively, we believe that comparison of our financial results over multiple years would have been extremely difficult as most of our prospective iPhone revenue would have been recognized immediately at the time of sale while we continued to amortize significant amounts of deferred revenue related to iPhone sales prior to the adoption period. While the revenue adjustments resulting from our retrospective application primarily related to a homogeneous pool of transactions with similar terms and thus was significantly simpler than most companies will encounter, the effort to the Company was still significant and continues to be dealt with for the Company’s financial systems and its subsidiaries’ statutory financial statements and tax returns.

We strongly believe that companies will elect the most appropriate transition method to provide decision useful information to financial statement users in consideration of the significance to their reported results and the cost and level of effort to implement. However, if the Board is uncomfortable granting preparers transition method options, we recommend the Board expand the practical expedients to include consideration for materiality to previously reported financial
results. We do not believe it is practical to require companies to expend significant resources over multiple years to retrospectively adopt the standard if the impact will not be material and thus not provide meaningful information to financial statement users.

**CERTAIN DISCLOSURES REQUIRED IN THE REVISED ED FOR ANNUAL AND INTERIM FINANCIAL STATEMENTS SHOULD BE ELIMINATED BECAUSE THEY WILL NOT HELP USERS OF FINANCIAL STATEMENTS UNDERSTAND THE AMOUNT, TIMING AND UNCERTAINTY OF REVENUE AND CASH FLOWS FROM CONTRACTS WITH CUSTOMERS**

The disclosures required in the Revised ED are substantially more extensive than those required by current GAAP and generally do not provide decision-useful information to financial statement users across all companies. There is already a concern that current financial statement disclosures are complex and excessive, and we believe the proposed disclosures in the Revised ED will unnecessarily add to existing complexity. Instead of prescribing required disclosures in the Revised ED, we believe that financial statement disclosures should be addressed within a broader, more principles-based framework that directs preparers to provide more useful and understandable information to financial statement users while avoiding redundancy and unnecessary complexity. We believe that, in general, disclosures provide decision useful information to users when the disclosures are closely aligned to information that management uses to operate the business. Conversely, providing information to users that is not used by management unnecessarily adds to the complexity of financial statement disclosures while providing little, if any, benefit to users.

As an example of the above concern, we believe the requirement to disclose the reconciliation of contract balances in the proposed model will not help users understand the amount, timing and uncertainty of revenue and cash flows. The majority of the inputs to the reconciliation, such as revenue and cash flows, are presented elsewhere in the financial statements, and we do not believe that including the amounts as separate inputs to the reconciliation of contract balances provides relevant information to users. Additionally, we believe that few, if any, companies currently have the complex systems in place required to generate the information necessary to support this proposed disclosure. Therefore, providing this disclosure would require significant system implementation to collect and validate the required information. For example, companies do not generally track only the performance obligations satisfied during the current reporting period that pertain to contract assets or liabilities existing as of the previous reporting period and do not generally track the cash received or amounts transferred to receivables that relate to contract assets or liabilities existing as of the previous reporting period. We believe the negligible benefit of this reconciliation does not outweigh the cost of providing it, so the reconciliation of contract balances should be removed from the final standard.

Regarding interim disclosures, we believe the primary purpose of interim financial reporting is to provide users with timely information related to material changes from the preceding annual information provided, consistent with the guidance issued by the Securities and Exchange Commission in Regulation S-X, Article 10 governing interim financial statements. Therefore, we are concerned that the Revised ED requires many of the annual disclosures to also be presented on an interim basis without regard to whether there were material changes from the preceding annual information or not. In addition, the interim disclosures will significantly increase information that will need to be compiled and analyzed within the accelerated timing for quarterly reporting. We are not opposed to the disclosure of disaggregated revenue on an interim basis but are generally not supportive of the remaining quantitative disclosures required in the proposed model on an interim basis.
TIMING OF RECOGNITION AND INCOME STATEMENT CLASSIFICATION FOR CERTAIN CONSIDERATION PAYABLE TO CUSTOMERS SHOULD BE CLARIFIED

We are concerned that the guidance in the Revised ED related to timing of recognition for certain consideration payable to customers that does not require a substantive further exchange by customers is not clear and will lead to inconsistency in practice based on differing interpretations. In accordance with current GAAP, consideration payable to customers that does not require a substantive further exchange, such as price protection payments, is typically recognized in the same period as the related revenue as fees are required to be fixed or determinable when revenue is recognized. We believe inconsistency in practice could result in the timing of recognition of these payments pursuant to the Revised ED based on whether the payments are viewed as variable consideration or as consideration payable to customers as defined in the Revised ED.

If these payments are viewed as variable consideration, a reasonable interpretation of the guidance in paragraphs 53 and 54 of the Revised ED would be to recognize estimated price protection payments as reductions to revenue in the same period as the related revenue because this reflects the amount to which an entity estimates it will be entitled for the transaction. Any subsequent promise made to customers related to price protection payments would therefore have no impact on the timing of recognition of estimated payments. If these payments are viewed as consideration payable to customers, a reasonable interpretation of the guidance in paragraph 67 of the Revised ED would be to recognize estimated price protection payments as reductions to revenue at the later of when the related revenue is recognized or when the entity promises to pay the consideration which would not necessarily be in the same period. We believe further clarification is needed related to the timing of recognition for payments to customers that do not require a substantive further exchange by the customer. To avoid inconsistency, we propose that clarifying language be added to paragraph 67 of the Revised ED to limit that paragraph to consideration payable to customers that require a substantive further exchange by customers. Price protection payments that do not require a substantive further exchange by customers would therefore be concluded to be variable consideration within the scope of paragraphs 53 and 54 of the Revised ED and estimated price protection payments would need to be recorded in the same period as the related revenue.

We are also concerned that inconsistency in practice may result based on varying interpretations of the guidance in the Revised ED related to classification of certain consideration payable to customers. The Revised ED proposes that consideration payable to customers is presumed to be a reduction of revenue unless the amount pertains to a distinct good or service. The ED provided an example in the interpretive guidance that slotting fees (e.g. a vendor provides consideration to a reseller to obtain space for the vendor’s products on the reseller’s store shelves) would be considered a distinct good or service and would therefore not be recorded as a reduction of revenue. This example was removed in the Revised ED with no discussion related to the basis for the removal. We believe that payments to resellers for activities that take place in the resellers’ place of business, such as slotting fees, should not typically be considered payments for distinct goods or services and therefore should be treated as reductions to revenue. The benefit obtained from these payments could not be received from any party except the specific reseller. This should result in a determination that such payments are not in exchange for distinct goods or services. We believe the Board should clarify that payments to customers for slotting fees and similar activities do not represent payments for distinct goods or services to avoid inconsistency in application.
DETERMINING WHETHER A FINANCING COMPONENT IS SIGNIFICANT TO A CONTRACT SHOULD BE CLARIFIED

We are concerned there may be inconsistency in determining whether a financing component is significant to a contract based on the factors presented in paragraph 59 of the Revised ED. In particular, it is not clear if any individual factor presented in paragraph 59 is determinative when assessing the significance of a financing component to a contract. We believe that all factors presented in the Revised ED should be considered when assessing the significance of a financing component to a contract and that no factor is individually determinative. Therefore, if the expected length of time between contract performance and payment exceeds the one year practical expedient, we believe it may still be appropriate to conclude that the contract does not contain a significant financing component based on appropriate consideration of the other relevant factors and believe this view is consistent with that expressed by the Board in paragraph BC147 of the Revised ED. Clarifying the language in paragraph 59 of the Revised ED will prevent concluding that a financing component is significant to a contract just because the period between contract performance and payment exceeds one year without assessing other relevant contract specific factors including common industry pricing practices and lack of an alternative pricing scheme that is practical to implement.

Please contact me at (408) 862-1401 if you have any questions regarding our response or other aspects of the Revised ED.

Respectfully,

Betsy Rafael
Vice President, Corporate Controller
Principal Accounting Officer