March 13, 2012

Ms. Leslie Seidman
Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Dear Ms. Seidman:

Re: File Reference No. 2011-230

Mayer Hoffman McCann, P.C. (MHM) welcomes the opportunity to comment on the revised Proposed Accounting Standards Update, Revenue Recognition, Revenue from Contracts with Customers (Topic 605) (the Exposure Draft).

As noted in our letter to the Financial Accounting Standards Board dated October 22, 2010, we strongly support the Financial Accounting Standard Board’s (Board) convergence efforts and its efforts to address the inconsistencies and weaknesses that currently exist in revenue recognition standards and practices. We commend the Board on its effort to identify and understand the issues and concerns facing the financial reporting community subsequent to the issuance of the original exposure draft. We believe the clarifications and simplifications proposed by Board significantly improve the proposed standard.

The remainder of this letter presents our observations on certain other matters related to the revised Exposure Draft.

Scope
Paragraph 13 of the revised Exposure Draft defines a contract as an agreement between two or more parties that creates enforceable rights and obligations. Paragraph 13 goes on to state that the business practices and processes of an entity should be considered in determining whether an agreement with a customer creates such enforceable rights and obligations. Pursuant to Paragraph 24 of the proposed standard, we understand that the customary business practices of an entity might also result in the creation of a performance obligation. While the notion of an entity’s business practices implying an obligation that must be considered for accounting purposes is not new (e.g., the practice of certain software companies freely distributing software upgrades when available), we wonder if confusion in implementation will arise when considering the guidance provided by paragraphs 13 and 24. Could an entity’s customary business practice result in the creation of a contract or a performance obligation? It may be beneficial for the Board to provide further clarification on how it intends paragraphs 13 and 24 interact with each other.
Collectability
The Exposure Draft significantly changes the presentation of expected impairment losses related to amounts due from customers. The presentation of credit risk in a line item adjacent to revenue will assist the users of financial statements who attempt to reconcile revenue to cash ultimately collected from the customer (assuming no significant financing component). We agree with the appropriateness of this presentation. However, it is not completely clear where impairment will be classified if the arrangement has a significant financing component. We encourage the Board to provide further guidance on the classification of impairment for those arrangements with a significant financing component. Additionally, we note the potential conflict in the impairment model provided by ASC 310 and IFRS 9 (e.g., the classification of subsequent changes to the initial impairment assessment for receivables would be recognized in the line item adjacent to revenue, while subsequent impairment of a financial instrument is recognized as other income and expense). We encourage the Board to continue their deliberation of this potential inconsistency as they finalize the impairment model for financial instruments.

Notwithstanding the above comments, we believe the concept of a “financing component” will be particularly difficult to implement in practice. In many industries, sales transaction are subject to intense negotiation. Payment terms are often some of the hardest fought battles between a vendor and its customer. We struggle to envision the form of support that management will offer its auditor with respect to whether or not certain arrangements contain a financing component. Some payment structures that may appear to represent a financing component were likely not intentionally negotiated as such. This may make the discussion between management and its auditor particularly difficult. We are not completely convinced that the benefit related to this guidance will outweigh the cost and effort necessary to comply with the guidance. Accordingly, we recommend the Board consider limiting the consideration of whether an arrangement contains a financing component to an initial assessment performed at the inception of an arrangement.

Uninstalled Materials
Paragraph 46 of the Exposure Draft describes circumstances under which uninstalled materials would be excluded from the measurement of satisfaction of a performance obligation. We recommend that the restraint described in this paragraph be limited to circumstances in which the goods would otherwise be included in the input measurement as some input methods (such as a labor measurement) would not include the cost or the quantities of the goods. We also recommend that the measurement “at the contract inception” will not take into account management decisions regarding the timing of procurements during a long-term performance obligation and, therefore, this point in time measurement should be removed from the standard. In paragraph 46(b) we are not sure if the conjunctive wording of design and manufacture is intended by the Boards. For example, if the entity were involved with manufacturing the goods but not designing would it meet this standard? We agree that under a cost-to-cost calculation of progress uninstalled materials with significant timing until installation or integration should be included from the measurement. We also agree that revenue should be recognized equal to the cost of those materials for which the customer has obtained control. However, we do not agree with the measurement described in Example 8. We believe that as the goods are installed or integrated into the performance obligation the costs should be included in the cost-to-cost measurement and contract-wide margin recognized. Example 8 effectively creates a separate performance obligation for the uninstalled materials with a zero profit margin for the life of the performance obligation which is not a reasonable measure of performance.

Onerous Performance Obligation Exemption and Unit of Account
Paragraph 86 provides an exemption from the application of the onerous performance obligation guidance if, at contract inception, the entity expects to satisfy the contract over a period of one year or less. We believe that this exemption is unwarranted and unnecessary. It provides an exclusion which is not present
in the existing standards and moreover, seems to be arbitrary and subject to potential manipulation for contracts that are close to one year in length. By using the exemption, an entity could have a small loss on a contract expected at inception to be satisfied over more than one year which would be required to be recognized while at the same time, having a much more significant loss on a contract expected at inception to be satisfied over less than one year, which it would not reflect in its financial statements. Instead of providing the one year exemption, we believe that materiality should be the sole arbiter in determining which losses should be accrued. Additionally we believe that the appropriate unit of account for the evaluation of “loss-making” provisions is the contract level. There are many reasons that entities frequently negotiate performance obligations that result in a loss. Typically, the entity accepts a loss on a performance obligation because the overall contract is profitable. For that reason, it appears that the users of financial statements and investors remain focused on the overall performance of a contract as compared to a separate component of a contract (e.g., separate performance obligation). Accordingly, we do not believe that accruing losses at the level of a performance obligation provides meaningful information to the users of financial statements and investors and believe that loss provisions should continue to be made at the level of the contract.

Allocate the Transaction Price to Distinct Performance Obligations
We observe that the Exposure Draft allows the use of a “residual” technique (under certain circumstances) to develop the standalone selling price of a good or service. The use of a residual technique has been an important part of the accounting for multiple element arrangements related to both software and nonsoftware products and services. We understand a residual technique can also be used to estimate the standalone selling price of a separate performance obligation. The standalone selling price determined using a residual technique is then used to allocate the transaction price under the relative selling price method. Under current guidance, if allowed, the residual method is used instead of the relative selling price method (e.g., certain software transactions). It is unclear whether this distinction could result in a different allocation under the proposed standard. For example, when two products are typically sold bundled together (and also sold individually), complications in determining the standalone selling price can arise when the two products are combined with a third product. Because of the prevalence of multiple element arrangements and likely heavy reliance on residual techniques, we recommend the Board issue further guidance to provide additional clarity on the use of residual techniques.

Contingent Revenues and the Introduction of the Term “Reasonably Assured”
While we conceptually support the idea of a “constraint” related to contracts with variable consideration, we are concerned that the Exposure Draft fails to adequately define the term “reasonably assured” which could lead to confusion, manipulation or aggressive accounting. Further, we believe that the subjective nature of the term "reasonably assured" creates unnecessary exposure for both management and auditors to significant “second guessing” by other interested parties. We recognize it is extremely difficult to put all variable consideration into a single category and then attempt to constrain it with the new and difficult to understand term of reasonably assured, however, without further clarity from the Board on how to interpret the term “reasonable assurance”, we believe it will be extremely difficult to implement the guidance across different industries and companies.

Retrospective Application
We believe that nonpublic entities should not be required to adopt the proposed standard using a retrospective application. While it is clear that retrospective application will provide useful information to the users of financial statements, this requirement will be particularly burdensome for many nonpublic entities. Those entities with significant complex multiple element arrangements and/or complex long-term contracts may be particularly impacted by the requirement. Retrospective application may require entities
to maintain two sets of books during the retrospective period likely resulting in a significant investment in time and expense. While we believe the “reliefs” granted by the Board will help the implementation process, we believe nonpublic entities should be given the option of adopting the standard on a prospective basis for all new or modified contracts after the effective date of the proposed standard. If the Board were to allow a prospective adoption, additional disclosures that would improve comparability could be added to the disclosure requirements. For example, for the year the proposed standard is adopted, the Board could consider requiring disclosure of the amount of revenue that would have been recognized had an entity continued to report revenue under the guidance prior to the Exposure Draft. We believe this would highlight the impact of adopting the proposed standard in a manner that may be more cost effective for nonpublic entities.

We appreciate the opportunity to provide comments on the Exposure Draft. Please contact James Comito (858.795.2029) if you have any questions.

Respectfully Submitted,

Mayer Hoffman McCann P.C.
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?

Agree. We believe significant improvement has been made that should result in a much easier implementation for certain industries that might have faced significant challenge under the guidance provided by the original exposure draft.

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?

Please see our additional comments in the above paragraph titled “Collectability”.

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 the 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?

See our comments in the above paragraph titled Contingent Revenues and the Introduction of the Term “Reasonably Assured”

Question 4: For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period 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 onerous test? If not, what alternative scope do you recommend and why?

See our comments in the above paragraph titled Onerous Performance Obligation Exemption and Unit of Account.

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 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 cost 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.

We believe that interim financial information is extremely important to financial markets and the users of financial statements. For that reason, we support the inclusion of the aforementioned disclosures in interim financial statements. Business continues to evolve at a rapid pace. The wants and needs of customers require companies to continually evaluate their product/service offerings and the manner in which they promote and bundle their products. The natural result is the increasing variability and complexity of sales transactions. Financial accounting and reporting professionals (including the standard setters) have reacted to this pace of change, however, accounting principles by themselves often do not tell the entire story. It is increasingly important that footnote disclosures provide transparency and clarity in order to allow the financial statement user to understand the economics of the transaction as well as the significant judgments made by management in the accounting for the transaction. While we understand that some feel the amount of required disclosure is already burdensome, we believe that the importance of revenue recognition coupled with the observations noted above support the disclosures required by the Board.

**Question 6**: For the transfer of 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 end 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?

Agree.