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Technical Director,
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Exposure Draft (Revised) – Revenue from Contracts with Customers (Topic 605)

Dear Technical Director,

We appreciate the opportunity to comment on the revised exposure draft, Revenue from Contracts with Customers. We are pleased with the Board’s advancement towards a single revenue recognition model that aligns with the current conceptual framework.

Attached are our answers to the specific six questions contained in the exposure draft.

Sincerely,

Zhen Wang
Steven Davis
Sarah Perrone
Viva Shetty
Cintia Gudorf
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?

We agree that the revenue recognition criteria, “realized or realizable” and “earned” in SFAC 5, and “transfer of significant risks and rewards of ownership” in IAS 18 can be replaced by “transfer control” in paragraphs 35 and 36. We agree with the update, including the Board’s addition of “the transfer of the significant risks and rewards of ownership of an asset to the customer” as an important indicator of when control is transferred at a point in time, as this enhances the feasibility of the proposal and consistency between current practice and the proposal. We believe that the criterion “control” reflects the ‘conceptual primacy’ of assets and the superiority of the ‘asset/liability’ view over the ‘revenue and expense view’, and keeps consistency with the tentative amendment of the definition of assets, (“a present economic resource to which the entity has a right or other access that others do not have”), within the joint project of the IASB and FASB related to conceptual framework- elements and recognition. The control criterion meets the requirement of providing the financial information based on its’ substances that when an entity transfers the control over something, the entity is transferring an asset. We also believe the criterion, “control” eliminates the inconsistency of existing standards related to the point of revenue recognition, increases understandability of when the revenue recognition occurred, and improves comparability of revenue recognition practices across entities, industries, and capital markets. We also believe use of the “control” criterion can avoid the enterprise manipulating revenue and profit during several accounting periods through intentionally specifying “transfer of significant risks and rewards” items in the contracts, especially in transactions between related parties.

Because revenue is recognized only when the control of a good or service is transferred, earnings could dramatically fluctuate during several accounting periods, which would reduce the comparability of the financial statements for the enterprises with long production cycles, such as large equipment manufacturing enterprises, software development enterprises, and construction enterprises. We believe it is necessary to provide more detailed implementation guidance for the enterprises with long production cycles.
**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?

We agree with the Board’s proposal to apply IFRS 9 or ASC 310 to an entity when accounting for consideration that may be deemed uncollectable. We also believe that the additional line item, when applied to the income statement, will create increased understandability for the users of the financial statements. This additional line item will also create more faithful representation due to the increased rationale for determining an amount to be uncollectible when applying the proposed accounting. Instead of choosing an estimated percentage as uncollectible, an entity could make a more definite assumption based on the credit risk of the other party in the contract. Due to the contracts being bifurcated into revenue and financing portions as per ASC 310, BC174 and BC175 should be included in the pronouncement as examples to clarify the presentation of credit risk for entities with a high financing portion in a contract.

**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?
We agree with the constraint that the revenue recognized should not exceed the amount that is predictive to the entity based on similar performance obligations. We agree with the update the Board made (noted in BC202) to the language from the 2010 proposed update to focus on the language of “predictive” rather than the broader characteristic of “relevance.” Additionally, the indicators provided in paragraph 82 allow the entity focus to on those aspects of a transaction that are predictive and separately report the portions of a transaction which cannot be recognized until they are reasonably assured that they will be received. By focusing on the predictive value of the recognized revenue, entities will be able to provide confirmatory value of the revenue associated with these similar performance obligations. The emphasis on predictive value will help both entities and users of the financial information to more accurately assess the predictive value of the revenue to which the entity is reasonably assured.

**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?

We disagree with the onerous test because it does not result in either the recognition of incurred costs or the recognition of revenue. We also believe the proposed accounting might not accurately reflect the economics of the arrangements, particularly when the entity obtains benefits beyond the consideration for the individual performance obligation or the contract such as incentives or rewards for early completion or meeting certain quality standards. However, if an onerous test is to be performed, it should be performed at the contract level or higher and wider economic benefits of the arrangement might be considered. For example, an entity may offer a good or service at a loss in a partial arrangement, but the arrangement as a whole is profitable. An entity may also knowingly enter into an unprofitable contract to supply goods and services because the entity is obtaining benefits beyond the consideration from the customer.
**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.

We do not agree that an entity should provide each of those disclosures in its interim financial statements. We believe that the proposed disclosures cannot achieve a balance between the cost to produce the information and its benefits to the financial statement users. It would be very expensive for an entity to gather, compile and have all of the information prepared. Besides the financial burden, the entity would have a time constraint as well since form 10Q (used for quarterly reports under Section 13(a) or 15(d) of the Exchange Act) needs to be filed within 40/45 days after the end of the fiscal quarter. We ask the Board to consider that due to filing deadlines, the entity might not be able to provide the required information in such a short period of time.

Because the proposed disclosures, besides item number four, can enhance the information provided to the users of the financial statements, we suggest that the Board require those disclosures as part of the annual financial reports. We believe that segment revenue disclosures
required by IAS 34 are adequate and sufficient. On its interim report, an entity should disclose any new foreseeing material change to the revenue, or cost to perform its contract obligations.

**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?

At the present time, the FASB and IASB have different standards for derecognition and measurement of nonfinancial assets. We believe that this difference in opinion creates scope limitations until the Boards decide which method of derecognition to apply. For this particular issue, we believe that the current IFRS definition would be the most beneficial. Once this issue is resolved, we agree with applying the proposed guidance to transfers of nonfinancial assets that are not output of ordinary activities. By applying the proposed guidance for control and measurement, this would provide consistency across standards.