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Indianapolis, IN 46202-5151

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

March 21, 2012

Re: File Reference No. 2011-230 Exposure Draft of the Proposed Accounting Standards Update (Revised) – Revenue Recognition

Dear Director,

As current Masters of Science students at the Kelley School of Business, Indianapolis, we truly appreciate the effort and time the members take to develop these standards. Certainly we are pleased to have this opportunity to respond to the Proposed Accounting Standards Update—Revenue Recognition (Topic 605): Revenue from Contracts with Customers. Revenue recognition is fundamental to all entities, both as a relevant performance indicator and also in determining the timing and nature of the recognition of profits. As a result, we believe and fully support that it is essential to have consistency in deriving revenue. In general, we support the IASB and FASB’s broad and specific objectives of developing a fully, or at least, an almost fully converged standard based on a single approach to the accounting for revenue. We agree with the proposed five step revenue recognition model and understand how applying judgment to individual circumstances can provide more useful information. We fully support the suggested customer consideration approach as opposed to the one of fair value. This will make the results more understandable, more comparable, more relevant and less complex to analyze or apply.

The principles in the exposure draft, which put more emphasis on control of the assets than the transfer of risks and rewards, are clearly consistent with the general move towards using control as a basis for recognition and measurement in IFRS. This well aligns with the proposed definition of an asset in the Joint Project of IASB and FASB conceptual framework, last updated on November 23, 2010.

Please follow below our responses to the specific questions raised in the summary:
**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 with the model that revenue will be based on the changes in contract assets and liabilities. Revenue should only be recognized on the fulfillment of a performance obligation under a contract. The transfer of control evidences fulfillment. This principle will enhance decision usefulness in determining when a contract obligation is truly fulfilled and when it should be recognized.

However, this proposal may present challenges for companies that do not determine the satisfaction of a performance obligation by evaluating the transfer of control of assets to customers. It is difficult to assess whether the draft proposal contains sufficient information about how control would be determined in practice to decide whether the principles can be applied consistently to complex transactions such that there substance is articulated. Guidance on the transfer of control provided in paragraph 35 and 36 needs to be improved upon in order to make the model operational.

**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 concept that revenue should only be recognized to the extent that it is collectible. According to the definition of recognition is the process of formally incorporating an item into the financial statements of an entity as an asset, liability, revenue, expense, or the like. A recognized item is depicted in both words and numbers, with the amount included in the statement totals. Our disagreement is with the proposed presentation of the revenue concept. Any impairment or loss is to be a separate line item adjacent to the revenue recognized, which the board has determined will increase understandability of revenue information. We disagree. In Example 1 below, if we understand the boards’ meaning of “adjacent” correctly, then bad debts would be included in the total revenue calculation. Comparability would be greatly affected because the total revenue numbers would be skewed depending on the customers’ credit risk and the amount of write off’s in that particular month. Investors and management would have trouble comparing revenue growth and sales performance calculations.

We recommend keeping bad debt as a separate line item after total revenue because netting the number would also skew the revenue information. Since bad debt expense does not meet the definition of a revenue item, the placement suggested would compromise the understandability of revenue. Our placement suggestion would be before gross profit so that understandability would not be compromised and yet the total revenue comparisons can still take place. Example 2 illustrates our proposed solution.
### As Proposed

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<thead>
<tr>
<th></th>
<th>Example 1</th>
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<tbody>
<tr>
<td>Revenue Rent Income</td>
<td>January</td>
<td>February</td>
<td>March</td>
<td>April</td>
<td>May</td>
<td>June</td>
</tr>
<tr>
<td></td>
<td>25,000.00</td>
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<td>25,000.00</td>
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<tr>
<td>Late Fee</td>
<td>350.00</td>
<td>350.00</td>
<td>350.00</td>
<td>350.00</td>
<td>350.00</td>
<td>350.00</td>
</tr>
<tr>
<td>Bad Debt</td>
<td>(1,000.00)</td>
<td>(750.00)</td>
<td>(600.00)</td>
<td>(350.00)</td>
<td>(500.00)</td>
<td>(800.00)</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>24,350.00</td>
<td>24,600.00</td>
<td>24,750.00</td>
<td>25,000.00</td>
<td>24,850.00</td>
<td>24,550.00</td>
</tr>
</tbody>
</table>

### Alternative View

<table>
<thead>
<tr>
<th></th>
<th>Example 2</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Revenue Rent Income</td>
<td>January</td>
<td>February</td>
<td>March</td>
<td>April</td>
<td>May</td>
<td>June</td>
</tr>
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<td></td>
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<td>350.00</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>25,350.00</td>
<td>25,350.00</td>
<td>25,350.00</td>
<td>25,350.00</td>
<td>25,350.00</td>
<td>25,350.00</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(500.00)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bad Debt</td>
<td>(1,000.00)</td>
<td>(750.00)</td>
<td>(600.00)</td>
<td>(350.00)</td>
<td>(500.00)</td>
<td>(800.00)</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>24,350.00</td>
<td>24,600.00</td>
<td>24,750.00</td>
<td>24,500.00</td>
<td>24,850.00</td>
<td>24,550.00</td>
</tr>
</tbody>
</table>
**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 proposal that 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 upon fulfillment of a performance obligation. This means that the consideration is “more likely than not” of being collected. Until that time, the inclusion of variable revenue is highly subjective. Most financial statement users will not want to see those amounts included in revenue until their realization is reasonably assured. It contrasts with the current approach under IAS 18 Revenue that requires that revenue “can be measured reliably” and with the previous exposure draft which required that revenue should be “reasonably estimated.” which would seem to be a more objective measure. The proposal for the cumulative amount also resolves the weakness and ambiguity in the previous exposure draft that required that revenue should be reasonably estimated without making precise thresholds to such estimations.

We also believe that the indicators proposed in paragraph 82 are appropriate and reasonably sufficient to determine if an entity’s experience (or other evidence) is not predictive of the amount of consideration to which the entity will be entitled. The indicators will also help provide information that meets the fundamental qualitative characteristic of faithful representation of financial information for decision makers such as investors and creditors.

**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 agree with the scope of onerous test advanced in paragraph 86. We also agree with the guidance that a liability and an expense are invoked when a contract is onerous. However, we have some concerns on the recognition guidance pertaining to the realized liability. Recognizing a liability and an expense before the implementation of a contract and before the recognition of possible revenue will be inconsistent with the matching concept. Onerous contract by definition are contracts that an entity would rather not be committed to because the entity will experience
an outflow of economic resources in excess of inflows of resources. This is not to say that no revenue will be received in the future periods of the contract. The guidance to recognize a liability and an expense in the year a contract has been tested to be onerous will burden the financial statements of the year in which the liabilities and expenses are recognized, while the rest of the contract period may not faithfully represent a better performance. In this regard, we recommend continuing to recognize the estimated outflow of economic resources resulting from the onerous contract that should be recognized over the contract period in proportion to the revenue recognized in various years of the contract term.

**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 agree with these disclosures because they will help provide more useful information to investors and creditors by breaking down the information that is currently aggregated. We believe these disclosures would have a relatively low cost due to the software and financial reporting systems used by companies. However, we also believe that within small companies the costs of providing the disclosures may outweigh the benefits. Small companies’ systems may not have the same functionality as the larger companies in having the capabilities of preparing the disclosures. Therefore, a distinction should be made between requirements for large and small companies as well as the qualifications to determine if a company is either a small or large company.

We certainly support the suggested disclosures regarding revenue and contracts with customers. The categories of disclosures proposed are on issues that are material for decision making, and providing additional information about these key issues would enhance the investors and creditors appreciation of its effects on the financial statements. Such fundamental disclosures are consistent with decision usefulness and the enhancing qualitative characteristic of understandability of financial information by investor, creditors and other users.
**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?

We agree that an entity should apply the proposed guidance on control and measurement in order to take into consideration the transfer of nonfinancial assets that are not an output of an entity’s ordinary activities because of the following reasons:

1. This standard can be easily employed by the preparers and be well understood by the users
2. This standard is consistent with the principles that are displayed in financial reporting in IFRS and GAAP.

In summary, we agree with the general aspects of the proposed Accounting Standards Update (Revised)—*Revenue Recognition (Topic 605): Revenue from Contracts with Customers*. We hope that the suggestions we did provide for improvement of the standards update will be considered.

Sincerely,

Rebecca Dunn
Baoshan He
Jespo Mbwoge
Delena Riley
Kevin Smith