March 22, 2012
Technical Director - File Reference No. 2011-230
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Revenue Recognition (Topic 605)

Dear Director:

We would like to thank the Board for its continued commitment to the convergence project and soliciting further comments within this updated proposal.

As students completing our master's program in accounting, it is valuable to be able to read and submit public comments to identify the issues of application. We support simplifying how standards are applied, and we see the value and need for convergence in an increasingly global trade environment.

In our responses that follow, we recognize the difficulty in applying broad principles that may not include the specificity required in some industries, and the cost constraint that may exist for some industries and businesses upon transition to new standards. Additionally, we generally agree with the disclosure objectives.

Sincerely,

Ayyad Alatiah
Julia Kaufman
Bennett Luedeka
Christie Schoeneman
Hui Zhang
We broadly agree with the principles in paragraphs 35 and 36 as they seem to capture the fundamental nature of fulfilling a performance obligation over time.

We disagree however with the proposed definition of when an asset has no alternative use because the proposed definition considers customer protective rights, a determining factor of when an asset has no alternative use. We believe this emphasis on customer protective rights is inconsistent with the determination of control. It is also inconsistent with the guidance in paragraph 37b, which states that retention of legal title solely as a protective right does not preclude a customer from obtaining control of an asset. Finally, it conflicts with the consolidation guidance in IFRS 10 and ASC 810, which requires that investor-protective rights do not result in control over an investee.

We suggest removing “customer protective rights” as an indicator of when an item has no alternative use to restore consistency with the use of control elsewhere in GAAP.

In regards to "no alternative use", some products can be capable of being assigned to different customers at early stages. Then they become customer specific at later stages; so, we suggest that more specific guidance is provided as to how to account for such situations.

We do not agree that a separate line item related to uncollectible amounts should be required upon initial recognition of receivables. The option already exists for an entity to choose to display a line item of allowance for doubtful accounts; yet most financial documents simply list a single line of net receivables. We believe the main purpose of this current presentation is to prevent an advantage possibly existing to a competing entity that could simply reverse-engineer the calculation used to arrive at the firm's allowance for doubtful accounts.

We agree with the second half of Paragraph 69 regarding a separate line item for impairments, which would provide decision-useful information to financial statement users. We feel the conceptual framework necessitates the reporting of impaired items as they would affect the decision-making of an interested party.
**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 that if the promised amount of consideration in a contract is variable, the cumulative amount of revenue recognized as of the reporting date is limited to the amount of the transaction price to which the entity is reasonably assured to be entitled. The limitation on the recognized amount of variable consideration will improve the relevance of expected future revenue to help the users of financial information estimate future cash flows. And we believe the criteria stated in paragraph 81 are consistent with the fundamental recognition criteria of the conceptual framework, helping make the amount of revenue recognized predictive and verifiable. However, we are concerned that indicators listed in paragraph 82 are too vague to make financial information verifiable. For instance, the subitem (b) does not provide any guidance on the definition for “a long period time”. We suggest that the Board should make the indicators clear and provide some examples to each indicator.

**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 generally agree with the proposed scope of the onerous test. By applying the onerous test to performance obligations that an entity expects at contract inception to be satisfied over a period of time greater than one year, the onerous test only affects those contracts that are already being evaluated for loss and impairment. Current codification (ASC 605-35) already requires companies to evaluate the revenues and expenses of long-term contracts. By limiting the scope of the onerous test to those contracts satisfied over time, little extra work is required because under current GAAP these aspects are already being valued. This helps with the cost constraints and is a great improvement from the original exposure draft requiring the onerous test on all performance obligations regardless of time. The only thing we would suggest is additional guidance in situations where the performance obligation is onerous but the entire contract is still profitable. This situation may result in somewhat confusing or misleading information to users without further explanation and clarification.
**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 support the Boards’ goal of improving the financial statement users’ ability to understand the nature, timing, amount and uncertainty of revenue and cash flows. However, we believe that the disclosures required are not relevant for all industries. As such, it would be more beneficial to allow different industries to apply the above principles as applicable to their financial statement users. Please see our discussion of each of the five questions below:

1. We agree that the disaggregation of revenue is an important financial statement disclosure (both at interim and year end). However, the basis for meaningful disclosure should not be uniform as different entity and industry specific factors affect the importance of disaggregation. I agree with the Board’s decision to “disaggregate revenue into the primary categories that best depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.”

2. The tabular reconciliation does not seem to provide useful decision-making information to financial statement users as it is only an account reconciliation. Additionally, the cost for compiling a reconciliation for contract assets and liabilities may be a significant cost for many companies. Furthermore, for certain types of contracts, this type of reconciliation will not provide consistent, meaningful information to the financial statements (e.g., contracts with a short duration, contracts that require a high-level of judgment, etc.). We do not believe that this should be a required disclosure.

3. The analysis of an entity’s remaining performance obligations is valuable in helping users of the financial statements estimate the timing and expected future revenues. We agree with the
boards' decision to allow companies to disclose the information on a quantitative basis (using a
time band series) or by using a mixture of quantitative and qualitative information in scheduling
the amount of remaining performance obligations.

4. We agree with the Board's decision to require disclosure of onerous performance
obligations, and we agree with the board that this disclosure will provide meaningful
information to financial statement users.

5. This reconciliation appears to provide helpful information relating to the costs to obtain or
fulfill contracts with customers. Nevertheless, we believe that it may be difficult for financial
statement preparers to directly identify every asset obtained related to the fulfillment of a
contract. We do not believe that this should be a required disclosure.

Overall, we note that the extensiveness of the above disclosures on an interim basis may be
excessive. Especially since there have been no significant changes in principles, policies,
practices, trends, or other information, as noted in FASB Topic 270 Interim Reporting.

**Question 6**: For the transfer of a nonfinancial asset that is not an output of an entity's ordinary activities (for
element, 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 the 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
activity. This information is useful to users and can help provide a clearer picture of the entity
as a whole. If the proposed exposure draft is implemented, then once companies familiarize
themselves with the new procedures, it would take very little additional effort to apply such
standards to nonfinancial assets.