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PRIVATE COMPANIES PRACTICE SECTION

August 14, 2009

Russell G. Golden, CPA
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Re: July 7, 2009 EITF Draft Abstracts, Issues No. 08-1, "Revenue Arrangements with Multiple Deliverables," and No. 09-3, "Applicability of AICPA Statement of Position 97-2 to Certain Arrangements That Contain Software Elements" [File Reference No. EITF0801&0903]

Dear Mr. Golden:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the Draft Abstracts and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC welcomes the guidance the EITF has provided by these abstracts. The relative-selling price method appears to be a more rational approach to recognizing revenue components of transactions with multiple deliverables. It appears this methodology may more closely reflect the economic realities of certain transactions and eliminate, in certain situations, distortions in revenue recognition that have occurred in practice. This problem has occurred in particular with early-stage entities that have not been able to develop vendor-specific objective evidence (VSOE) and were thereby required to defer revenue recognition. Such deferrals intuitively did not reflect the level of effort and the earnings process.

TIC appreciates the numerous application examples provided in the Draft Abstract for Issue 08-1. Many of the scenarios discussed would be present in smaller private entities and clearly illustrate the importance of this proposal to TIC's constituency. The examples emphasize that multiple deliverables exist in many more agreements than preparers and practitioners may realize.

However, TIC believes the extensive disclosure requirements proposed in EITF 08-1 would be considered unnecessary by most lenders to private entities. TIC has offered an alternative disclosure for the Board's consideration.

SPECIFIC COMMENTS

EITF Issue 08-1:

1. Do you agree with the Task Force's decision to address this Issue considering the potential overlap between this Issue and the FASB and IASB joint project on revenue recognition?

In an ideal situation, maintenance of current GAAP should be deferred while major convergence projects are underway. However, the reality is that guidance such as this is needed, and the convergence of revenue recognition guidance is likely to be a long and probably contentious project due to the broad implications for many entities. As such, TIC agrees that this guidance should be issued now as a stop-gap measure. Moreover, this guidance does not appear to be misaligned with the overall direction of the Boards' Discussion Paper, *Preliminary Views on Revenue Recognition in Contracts with Customers*.

2. Do you agree with the Task Force's decision to eliminate the residual method of allocation and require a vendor to allocate arrangement consideration at the inception of an arrangement to all deliverables in the arrangement using the relative-selling price method? Is the relative-selling price method operational and does it provide a principle that could be applied consistently?

We agree with the elimination of the residual method and believe that the relative-selling price method will be operational and can be consistently applied within a particular entity. However, because this methodology is heavily dependent on entity-specific estimates, there are likely to be differences among entities in particular industries. This potential lack of comparability is an acceptable trade off.

3. Issue 08-1 significantly expands the disclosures that are required relating to multiple-

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deliverable revenue arrangements (including those arrangements affected by Issue 09-3).

a. Do you agree that the disclosures in the consensus-for-exposure would provide useful information for financial statement users? If you do not believe those disclosures would provide useful information, what disclosures should be required and why would they be useful?

The disclosure requirements as presented are quite comprehensive and may be too much in many cases. In particular, the suggested disclosures relating to example 11 extend to four pages of text. Users of most private company financial statements would not need, and may not understand, revenue information at this granular level of detail. Understanding that such disclosure should be scaled to particular situations, the example provided may be viewed as the "standard" that should be followed.

Therefore, if the Task Force intends to provide disclosure examples, TIC believes they should address the needs of entities of varying sizes and complexity. Precedent for this approach exists **i**n FASB *Accounting Standards Codification*[TM] *(*ASC) 825-10-55, which provided illustrative disclosures of the fair value of financial instruments for simple and complex entities, as well as financial and non-financial entities.

TIC also believes the disclosure in paragraph 21(h) should be deleted, since it is repetitive of the general disclosure requirement in FASB ASC 250-10-50-4 regarding changes in accounting estimates. TIC believes that sufficient disclosure guidance exists with respect to changes in estimates and that adding a redundant requirement to the Draft Abstract is unnecessary and may be confusing to some.

TIC would like to offer for the Board's consideration an alternative disclosure example suitable for most nonpublic entity financial statements. After briefly describing the nature of the entity's multiple-deliverable arrangements, the significant deliverables within the arrangements and the general timing of their performance or delivery, TIC proposes the following simplified disclosure, which also includes the transition disclosure required by paragraph 23 of the EITF draft abstract:

The Company's accounting policy for recognizing revenue from multiple deliverable arrangements is to use the best estimate of selling price when vendor specific objective evidence (VSOE) or third-party evidence do not exist. Previously the Company recorded its revenue from multiple deliverable arrangements under the VSOE model and the difference in revenue recognition between the two policies is (immaterial, $XX or cannot be determined) in relation to the financial statements.

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The Company's arrangements do (do not) provide for (refunds, cancellations, termination or performance) provisions.

The proposed alternative disclosure for nonpublic entities would not include:

- the individual methods applied to determine selling price on a contract-by-contract basis,
- whether the significant deliverables for each contract qualify as separate units of accounting, or
- the general timing of revenue recognition for significant units of accounting.

b. Are there additional disclosures that would provide useful information for financial statement users relating to multiple-deliverable revenue arrangements that the Task Force should consider requiring?

None noted.

4. The Task Force discussed whether these disclosures should also include the effects of changes in selling prices, allocation methods, or assumptions if they have a significant affect on profit margins but decided not to require such disclosure. Should the disclosure requirements of Issue 08-1 be expanded to include disclosure of the effects of changes in selling prices, allocation methods, or assumptions on profit margins, if significant?

TIC does not believe this additional disclosure is necessary or desirable.

5. Do you agree that this Issue should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted as of the beginning of a fiscal year provided the vendor has not previously issued financial statements for any period within that year?

TIC agrees with this implementation schedule.

6. The consensus-for-exposure requires an entity to disclose in the year Issue 08-1 and/or Issue 09-3 are adopted, the amount of revenue recognized under those Issues and the amount of revenue that would have been recognized had the entity applied Issue 00-21 and/or SOP 97-2. The Task Force believes that this information is necessary to describe the affect of the adoption of these Issues to financial statement users. Do you agree with that decision?

TIC disagrees with this requirement and believes the cost of maintaining two revenue recognition systems in the year of adoption will outweigh the benefits for nonpublic companies.

EITF Issue 09-3:

7. Do you agree with the Task Force's decision to address this Issue considering potential overlap between this Issue and the FASB and IASB joint project on revenue recognition?

TIC agrees with the decision. Please see our comment to question 1.

8. Do you agree with the Task Force's decision to modify the scope of SOP 97-2 to address software enabled devices rather than to address broadly the measurement and separation criteria within SOP 97-2?

Once again this appears to be a practical expedient to provide maintenance to an area of revenue recognition that has proved troublesome. Wholesale changes to SOP 97-2 should probably be deferred pending the outcome of the convergence project on revenue recognition.

9. Do you agree that the scope modification of Issue 09-3 is operational and can be applied consistently? If not, why not?

We agree that the scope modification is operational and should be able to be applied consistently in most situations.

10. If your answer to Question 10 is no, is there a better way to modify the scope of SOP 97-2 to improve financial reporting for software enabled devices while retaining the use of SOP 97-2 for software transactions?

No comment

11. Do you agree that this Issue should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted as of the beginning of a fiscal year provided the vendor has not previously issued financial statements for any period within that year?

We agree with this schedule for implementation.

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TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Stephen Bodine

Stephen Bodine, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committee

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