

New Jersey Society of Certified Public Accountants

425 Eagle Rock Avenue Suite 100 Roseland, NJ 07068-1723 phone 973-226-4494 fax 973-226-7425 web www.njscpa.org

October 22, 2010

Via electronic mail to: director@fasb.org

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

File Reference: No. 1820-100

To whom it may concern,

The Accounting and Auditing Resource Group of the New Jersey Society of Certified Public Accountants ("NJSCPA") is pleased to offer our comments on certain matters in the Proposed Accounting Standard Update to Revenue Recognition (Topic 605), *Revenue from Contracts from Customers*. The NJSCPA represents over 15,500 certified public accountants. The comments herein represent those of our Resource Group only and do not necessarily reflect the views of all members of the NJSCPA.

We commend the FASB and the IASB for proposing rational, consistent revenue recognition standards for recognition and measurement of revenue arising from most industries. We recognize that the dispersed and partial coverage of the current guidance unintendedly served as an obstruction to correct implementation.

Recognition of revenue, Question 3, when control has transferred to a customer

We considered how the proposal would impact long-term construction contracts presently accounted for under the percentage of completion method. We believe that the final standard should scope out such contracts, and retain the percentage of completion method of accounting for them. The percentage of completion method is a comprehensive revenue recognition model that is widely understood, accepted, and applied by many user groups, such as lenders, sureties, owner/managers, and the investing public. We agree with the FASB/IASB's general intent of installing a broad, consistent and rational revenue recognition method across most industries. However, as applied to long- term construction contracts presently accounted for under the percentage of completion method, the limited benefit of such consistency does not justify the loss of a present method that is superior in most respects to what is proposed.

We also considered the impact on such long-term construction contracts if the proposal were to be adopted as proposed. We believe that it does not offer sufficient guidance as to when and how a customer takes control of work in process in a long-term construction contract. This creates the potential for inconsistent and potentially incorrect application of the proposed guidance. We understand that the convergence of accounting standards includes a shift to more principles-based accounting standards. However, if such long-term construction contracts are not scoped out of the final ASU we strongly urge you to provide additional, specific implementation guidance for them, particularly regarding when the customer takes control.

Effective date and transition, Question 13, retrospective application

Paragraph 85 of the proposal states that the new standard shall be applied retrospectively, in accordance with ASC Topic 250. We believe that there is limited benefit to such a requirement and additionally, certain industries would find this overly burdensome to implement. We further noted that paragraph BC 232 of the

Page 2

proposal allows for limiting the retrospective application of an accounting policy if it is burdensome. We anticipate that many entities will deem retrospective application of this guidance to be such, thus opening the door to potential loopholes. Accordingly, we recommend that clarification of what is considered burdensome is included in the final standard, specifically additional implementation guidance concerning applying ASC 250-45-9. We urge the Board to add a specific requirement for disclosure by entities who did not adopt the proposed guidance because of impracticability under ASC 250-45-9, and why. We believe this will promote transparency in financial statements.

Nonpublic entities, question 18, implementation

In our opinion, nonpublic entities and the users of their financial statements would be best served by a deferred implementation date, and limited disclosure requirements. This was a successful strategy with prior far-reaching standards. A deferred implementation date and limited disclosure requirements would enable these entities to accurately and efficiently plan for and adopt the new requirements.

Specifically, we recommend an effective date of one year after issuers, and the following disclosure modifications for nonpublic entities:

- Exemption from quantitative disclosures of disaggregation of revenue (paragraph 74)
- Exemption from reconciliation of contract balances (paragraph 75)
- Exemption from disclosures regarding onerous performance obligations (paragraph 79). We believe
 such disclosures could put a private entity at a competitive disadvantage, and any related loss
 contingencies are addressed in ASC 450.
- Exemption from <u>quantitative</u> disclosures of how the transaction price was determined and allocated (paragraph 83)

Regarding paragraphs 74 and 83, we see value in qualitative disclosures of these matters.

Other comments

We understand that the international convergence of accounting standards includes a shift to more principles-based accounting standards. We believe that our recommendations for scoping out certain long-term construction contracts, and providing specific implementation guidance as discussed above will enhance this transition rather than run counter to it.

Respectfully submitted,

Margaret F. Gallagher, CPA

Co-chair, Accounting Standards Subcommittee

Margaret Lallagher /ms

Accounting and Auditing Resource Group

New Jersey Society of Certified Public Accountants