

October 22, 2010

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Via email: director@fasb.org

# File Reference No. 1820-100, Proposed Accounting Standards Update ("ASU"), Revenue Recognition (Topic 605)

McKesson Corporation ("McKesson" or the "Company") appreciates the opportunity to comment on the Proposed Accounting Standards Update, "Revenue from Contracts with Customers," (the "Proposed Update"), issued by the Financial Accounting Standards Board (the "Board").

McKesson is a healthcare service and information technology company that delivers medicine, pharmaceutical supplies, information and care management products and services designed to reduce costs and improve quality across the healthcare industry. The Company's fiscal 2010 total revenues were \$108.7 billion and its assets were \$28.2 billion.

We understand and concur with the Board's objective to create a single revenue recognition standard that improves consistency across various industries and capital markets.

We agree with the Board's asset and liability approach to revenue recognition and generally with most principles of the Proposed Update. However, we believe that there are areas that require further consideration and/or additional implementation guidance. Our comments are as follows:

# 1. Transition - The cost for retrospective application of the Proposed Update will outweigh the benefit

- During the retrospective application period, we will be required to:
  - Maintain two different sets of accounting records, reflecting two revenue recognition methods/ processes
  - Collect historical data needed to comply with the Proposed Update related to long-term contracts
  - Implement/maintain new internal controls for the new revenue recognition processes in addition to existing controls
  - Increase headcount to manage the two revenue recognition processes and systems
  - Incur additional audit fees as work must be performed to audit the two sets of accounting records and related processes

- As a result of the additional work above, we believe that the retrospective application of the Proposed Update will be complicated, expensive and impractical for the preparers of the financial statements without a corresponding benefit to the users of financial statements.
- We believe that the prospective application of the Proposed Update to new and materially modified contracts entered into on or after the effective date is a viable alternative to the retrospective application for all periods presented. Qualitative disclosures similar to those required by ASU 2009-13, "Multiple-Deliverable Revenue Arrangements," and ASU 2009-14, "Certain Revenue Arrangements That Include Software Elements," would provide users of the financial statements the ability to assess the effect of the Proposed Update on the year of adoption.

# 2. Effective Date - Implementation will be complicated and require a long transition time if the prospective application is not permitted

- Significant changes will need to be made to our information systems to comply with the Proposed Update. These changes will require a lengthy planning and implementation process. Furthermore, we are unable to begin any specific systems work until the final standard is released and the effective date is known.
- Significant efforts will be required to:
  - Capture new data required by the Proposed Update
  - Collect historical data needed to comply with the Proposed Update related to long-term contracts
  - Set up a dual-reporting general ledger and consolidation system for the retrospective application period
- Additionally, new internal controls must be developed prior to the beginning of the retrospective application period and maintained, along with existing controls, until the date of application.
- Hence, if the prospective application is not permitted, we strongly believe that the effective
  date of the Proposed Update should be deferred for a number of years in order to allow
  sufficient time for companies to modify their financial systems, implement new internal
  controls and collect the necessary financial information.

# 3. Transfer of Control - More clarity and implementation guidance are required surrounding the transfer of control of software licenses bundled with customization/implementation services

- We believe that additional guidance is needed as to when the control of a software product transfers to a customer where the contract includes complex and long-term customization/ implementation services. The current guidance requires arrangements that include services which contain significant production, modification or customization of software to be accounted for on a contract accounting basis, most typically the percentage-of-completion.
- The Proposed Update states that "control of a good or service refers to the customer's ability to direct the use of, and receive the economic benefit from, a good or service." In these types of arrangements, control might not, in substance, transfer upon the delivery of the underlying software product because the customer does not fully benefit from the use of the software until the software is fully implemented for the customer's intended use. However, the customer often receives partial or substantial economic benefit during the implementation period.

Without more clarity in the final standard, diverse accounting practices may result, creating
inconsistency. Some might argue that revenue for the software should be recognized upon
delivery. Others might argue that it would be appropriate to apply the concept of "continuous
transfer of control" and recognize revenue over the implementation period. Yet, others might
believe that the transfer of control occurs only when the software implementation is fully
completed.

### 4. Collectibility - The following concepts require further consideration and guidance:

- (a) The probability-weighted approach for estimating expected consideration would create a significant burden to the preparer without a corresponding benefit to the user of the financial statements
- Developing a weighted-average expected consideration for numerous and varying customers would be impractical. Additionally, re-evaluating these assumptions on a quarterly basis would also be impractical.
- We believe that the use of management's best estimate of the most likely outcome should be allowed, which would provide decision-useful information to the users of the financial statements and be less burdensome to the preparers.
- (b) More clarity is needed as to whether revenue can be recognized upon cash receipt where the probability-weighted expected consideration cannot be estimated until cash is collected
- Implementation Guidance paragraph 79 states that if the probability-weighted amount of consideration cannot be reasonably estimated, "no revenue shall be recognized until either cash is collected or an amount can be reasonably estimated." This guidance seems to imply that revenue, not income, can be recognized upon cash receipt if the company was unable to reasonably estimate the probability-weighted amount. This guidance appears to conflict with the guidance in paragraph 43 which states that the effects of changes in the assessment of credit risk shall be recognized as income or expense rather than as revenue. We believe additional clarification is needed in this area.
- We also believe that subsequent adjustments to collectibility assessments should be recognized in revenue; thus cash collected from the customers will match the revenue recognized.

## 5. Time value of money - This concept requires further consideration and clarification

- Developing a discount rate that is specific to each customer or contract would be impracticable unless major system and process changes are made.
- We believe this requirement would create an unnecessary administrative burden to the
  preparers with a limited benefit to the users of the financial statements. The application of
  this concept should be limited to contracts where it is clear that a financing component exists,
  such as in situations in which a significant amount of time passes between transfer of control
  of a performance obligation and collection of cash. This could be defined in the final standard.

## 6. Disclosure - The following proposed disclosures require further consideration and guidance:

#### (a) Reconciliation of contract balances

- It would be cost prohibitive and impractical to prepare the reconciliation of contract balances
  for a large number of customer arrangements with varying levels of performance obligations.
  Major system and process changes will be required to capture the data needed for such
  disclosure.
- This information for contracts with a short duration will not be useful for the users of the financial statements. According to the Background Information and Basis for Conclusion paragraph 176, the intent of the proposed reconciliation is to clarify the relationship between the balance sheet amounts (trade receivables and deferred revenue) and the timing of revenue recognized in the income statement. However, the numerical reconciliation will not necessarily provide the decision-useful information as intended.
- We believe that this portion of the Proposed Update should be eliminated. However, if the Board concludes that such disclosure is necessary, we believe the disclosures should be limited to long-term contracts with an original duration of more than one year. Additional examples should be provided that illustrate the level of detail required and how it should be reconciled to the financial statements.

#### (b) Performance obligations

#### We believe that:

- Information on the amount of revenues expected to be recognized in future years will be confusing and potentially misleading to the user of the financial statements. Significant judgment will be required in developing such estimates.
- A forward-looking statement (projection of future revenues) should not be included in the financial statements prepared in accordance with generally accepted accounting principles. Rather, it would be more appropriate to discuss such "trend" information and risks associated with the long-term contracts as a narrative explanation in "Management's Discussion and Analysis," which is required by the Securities and Exchange Commission.

In summary, we appreciate the Board's objective to create a single revenue recognition standard. We look forward to receiving a robust framework and implementation guidance for addressing revenue recognition issues, which satisfies the requirements of various constituents and is also cost effective. If requested, we would be happy to discuss these matters further with you at any time.

Jeff**r**y C. Campbell

Executive Vice President and Chief Financial Officer

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Vice President and Controller