From: <u>Dave P. Tuttle</u>
To: <u>Director - FASB</u>

Subject: File Reference No. 2011-230

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Technical Director Financial Accounting Standards Board

Re: *Proposed Accounting Standards Update (Revised)*, Revenue Recognition (Topic 605), Revenue from Contracts with Customers

Soren McAdam Christenson LLP is pleased to provide our input on the proposed standards identified above. We are a local firm with one office located in Redlands, California. We provide services to private companies, not-for-profit organizations and individuals. We have approximately 50 total personnel.

We generally are in agreement with the proposed standards. However, we do have two specific comments on the guidance that we do not believe is appropriate:

- 1. We do not agree with the proposed guidance contained in paragraph 69. It does not make sense to present the loss for uncollectible amounts as a separate line adjacent to the revenue line item. Bad debts are simply an expense of doing business and should be presented together with other expenses. It appears that the justification for this presentation is included in paragraph BC169(b) "so that those losses on contracts with customers can be easily compared with the revenue recognized." We do not understand this rationale. For most business entities, the costs of materials, or personnel or a number of other items are generally much more important costs that need to be compared to the revenue recognized, and they are not required to be presented adjacent to the revenue line.
- 2. We agree with the core principle that "an entity shall recognize revenue . . . in an amount that reflects the consideration to which the entity expects to be entitled. . . ." However, the guidance provided in Example 14 in IG71 does not follow this principle. In the example, an insurance agency is to recognize revenues on trailing commissions at the time a policy is sold. However, the insurance agency is not entitled to the trailing commissions at the time of the sale. In fact, the agency is not entitled to trailing commissions until the customer makes the decision to renew the policy. These revenues should not be recognized until the customer elects to continue the policy for another year. This type of transaction should be handled in the same manner as described in paragraph 85.

If you have any questions, please fee free to contact the undersigned.



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