

# ***FASB Revenue Recognition***

## **Electronic Feedback Form Response**

Date of Entry: 3/12/2012

### **Respondent information**

#### **Type of entity or individual:**

Individual

#### **Contact information:**

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### **Questions and responses**

1. Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

I agree with the Board's position on a performance obligation over time. However, I believe Paragraph 35 (b)(i) "the customer receives and consumes the benefits of the entity's performance obligation as the entity performs" is unnecessary since in this situation met the first criteria the customer controls as the asset is created.

2. Paragraphs 68 and 69 state that an entity would apply Topic 310 or IFRS 9 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

I agree that collectability should not be factored in revenue recognition, I also agree with Boards proposal that if an entity is significantly uncertain about the customer's subsequent payment at the inception of the contract, then contract definition is not met under the Subtopic.

Presenting impairment of receivables (bad debt) as an adjustment to the revenue line item may be misleading for the user. Since the receivables are a product of previous periods' revenues, and adjustment of the impairment of the receivables to current period revenues does depict amount, timing, and uncertainty of revenue.

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?

I agree with the proposed constraint on the amount of variable consideration. An entity's predictive experience of the amount of consideration entitled would prevent it from being overly optimistic on the customer performance if the amount of consideration deepens on it. The Board needs to clarify paragraph 82 (d). A large number of possible consideration amounts are not distinctive on its own.

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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?

I agree with the Board regarding of level on which an entity should perform an onerous test. It is consistent with the core principle of this proposed Revenue Recognition ED. An entity will be required to identify the separate performance obligation in the contract(s) and measure progress toward complete satisfaction of that performance obligation if the performance obligation is satisfied over time. Thus, identifying onerous performance obligation should not impose any additional challenge or cost to the entity. If a performance obligation is onerous, but the contract as a whole is expected to be profitable, then the transaction price allocated to the performance obligation may not be reasonable taking into consideration the expected costs are not substantially increased since the inception of the contract.

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5. The Boards propose to amend Topic 270 on interim reporting and IAS 34, Interim Financial Reporting, 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: A. The disaggregation of revenue (paragraphs 114 through 116) B. A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117) C. An analysis of the entity's remaining performance obligations (paragraphs 119 through 121) D. 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) E. 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.

A. The disaggregation of revenue into the categories that depict the nature, timing, and uncertainty of revenue and cash flows will enhance the predictive value of financial reports. The disaggregation of revenue from contracts with customers should be readily available for management decision making and should not impose additional cost to the entity.

B. Tabular reconciliation of contract assets and liabilities will not be useful for the users of financial statements. The reconciliation may outweigh its disclosure in certain industries.

C. Disclosure of an analysis of the entity's remaining performance obligations would be helpful for the users in understanding the revenue recognition policy of the entity. The management would be more careful in analyzing long-term contracts in the notes rather than in management discussions.

D. Tabular reconciliation of the movements in onerous liability would not be useful for the users and would be cumbersome for the preparers. Qualitative and quantitative information on the existence of onerous performance obligations and significant changes in these from previous reporting period is sufficient for the users.

E. It is helpful for the users to understand the movements for any long-term assets recognized in balance sheet. It would clarify management's judgment on capitalization and amortization of the costs.

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6. For the transfer of a nonfinancial asset that is not an output of an entity's ordinary activities (for example, 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 the proposed guidance on control to determine when to derecognize the asset and apply the proposed measurement guidance when determining 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?

I 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 for consistency of triggering events for revenue and gain recognition.

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A1. Do you agree that the proposed amendments that codify the guidance in the proposed Update on revenue recognition have been codified correctly? If not, what alternative amendment(s) do you recommend and why?

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A2. Do you agree that the proposed consequential amendments that would result from the proposals in the proposed Update on revenue recognition have been appropriately reflected? If not, what alternative amendment(s) do you recommend and why?

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ClarifyingComments. Please provide any additional comments on the proposed Update:

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OtherComments. Please provide any comments on the electronic feedback process:

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