



April 29, 2019

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

File Reference No. 2019-300

The Accounting Principles Committee of the Illinois CPA Society (“Committee”) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update (“ASU”), *Business Combinations (Topic 805)– Revenue from Contracts with Customers – Recognizing an Assumed Liability (the “Update”)*. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

We support the amendments proposed by the Board to improve comparability by specifying the circumstances in which an acquirer should recognize contract liabilities for revenue contracts with customers that are acquired in a business combination. We also believe the Board should consider extending the proposed Update to transactions accounted for within the scope of Subtopic 610-20, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets to the extent assumed in a business combination. Our responses to the questions in the proposed Update are included below.

* * * * *

We appreciate the opportunity to provide our comments and observations on the proposed Update and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Sincerely,

Brian Kot, CPA
Chair, Accounting Principles Committee

William Keirse, CPA
Vice Chair, Accounting Principles Committee

Question 1: *Should entities be required to recognize a contract liability from a revenue contract with a customer acquired in a business combination using the definition of a performance obligation in Topic 606? If not, please explain why and what recognition criteria are more appropriate.*

Response: We agree that entities should be required to recognize a contract liability from a revenue contract with a customer acquired in a business combination using the definition of a performance obligation in Topic 606. We note that in certain circumstances, entities may also acquire contract liabilities from a revenue contract with a customer in transactions that do not qualify as business combinations, but rather are acquisitions of assets and liabilities. ASC 805-50-30-3 provides guidance for entities to allocate the cost to acquire to the individual assets and liabilities that make up the group. As the scope of this proposed Update does not address situations where contract liabilities are received in asset acquisitions, we believe the Board should consider those transactions in their *Improving the Accounting for Asset Acquisitions and Business Combinations (Phase 3 of the Definition of a Business Project)* as well to improve comparability.

Question 2: *Is the recognition that would be required by the amendments in the proposed Update operable? If not, please explain why.*

Response: We believe the amendments in the proposed Update are operable, but suggest that the Board consider rewording the amendment to paragraph ASC 805-20-25-15B as follows to avoid confusion, as some stakeholders may believe there is a need to identify “received consideration” or “amount due” for an acquired contract liability. We believe that the amendment to the Master Glossary, which defines “contract liability,” is sufficient.

805-20-25-15B An acquirer shall recognize a liability assumed in a business combination from a contract with a customer if that liability represents an unsatisfied performance obligation under Topic 606 ~~for which the acquiree has received consideration (or the amount is due) from the customer~~ (that is, a contract liability).

Question 3: *Would the proposed amendments result in financial reporting outcomes that are appropriate and meaningful to users of the financial statements? If not, please explain why.*

Response: We believe the proposed amendments will result in more comparable outcomes which are appropriate and meaningful to financial statement users. We also do not expect a significant difference for most industries in using the definition of performance obligation versus current practice of using the legal obligation concept.

Question 4: *Should the proposed amendments be more broadly applied to similar transactions beyond contracts with customers, such as contracts within the scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets? If yes, please provide examples of potentially affected transactions.*

Response: Yes. We believe the amendments should be expanded more broadly to those contracts within the scope of Subtopic 610-20 as it is possible that an acquirer could assume a “contract liability” resulting from a transaction entered into by the acquiree within the scope of Subtopic 610-20 prior to the acquisition.

Question 5: *The proposed amendments require no incremental disclosures. Should disclosures related to the proposed amendments or transition disclosures be required? If yes, please explain why and provide the additional disclosures that should be required.*

Response: No, we do not believe incremental disclosures are necessary.

Question 6: *Do you agree with the proposed prospective transition requirement? If not, what transition method would be more appropriate and why? How much time would be needed to implement the proposed amendments? Should early adoption be permitted? Should entities other than public business entities be provided with an additional year to implement the proposed amendments? Why or why not?*

Response: We do agree with the proposed prospective transition method in the proposed Update. We agree that entities should be allowed to adopt the proposed Update early. We do not believe that entities other than public business entities should be provided an additional year to implement the proposed Update as the Update is adopted prospectively, and therefore we believe that the cost and effort to apply the proposed Update to future transactions will not be significant.

Question 7: *What would be the implications, if any, of finalizing the proposed amendments on the recognition of a contract liability from a revenue contract with a customer acquired in a business combination without finalizing amendments on measurement and other topics that may result from feedback received as part of the concurrently issued Invitation to Comment?*

Response: We are not aware of any implications resulting from finalizing the proposed Update prior to finalizing amendments on measurement which may result from Invitation to Comment.

APPENDIX A
ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2019-2020

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Jared Bourgeois, CPA	PricewaterhouseCoopers LLP
Ryan Brady, CPA	Grant Thornton LLP
Ashley Carboni, CPA	KPMG LLP
Michael Couillard, CPA	Baker Tilly Virchow Krause LLP
Matthew Denton, CPA	Sikich LLP
Jason Eaves, CPA	Crowe LLP
William Keirse, CPA (Vice Chair)	Ernst & Young LLP
Scott Lehman, CPA	Crowe LLP
Melissa Lynch, CPA	Plante Moran, PLLC
Reid Mitchell, CPA	Wipfli LLP
Jason Plourde, CPA	Grant Thornton LLP
Elizabeth Prossnitz, CPA	BDO USA LLP
Darshana Raigaga, CPA	BDO USA LLP
Christopher Shue, CPA	Capin Crouse LLP
Daniel Siegert, CPA	Deloitte LLP

Medium: (more than 40 professionals)

Almira Goethe, CPA	CDH, PC
Danielle Martin, CPA	Porte Brown LLC
Jeffery Watson, CPA	Miller Cooper & Company Ltd

Small: (less than 40 professionals)

Peggy Brady, CPA	Selden Fox, Ltd.
Brian Kot, CPA (Chair)	Cray Kaiser Ltd CPAs

Educators:

Mollie Adams, CPA	Bradley University
John Hepp, CPA	University of Illinois at Urbana-Champaign

Industry:

Jeffrey Ellis, CPA	FTI Consulting, Inc.
Michael Maffei, CPA	GATX Corporation
Thomas Masterson, CPA	Medix
Matthew Mitzen, CPA	CNA Financial Corp.
Lisa Sezonov, CPA	Northern Trust
Richard Tarapchak, CPA	Reynolds Group Holdings
William Wang, CPA	MAT Holdings, Inc.
Daniel Wilfong, CPA	Sunset Transportation, Inc.

Staff Representative: Rafael Wiesenberg, CPA

Illinois CPA Society