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Technical Director
Financial Accounting Standards Board
FASB, 401 Merritt 7, PO Box 5116
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File Reference No. 2019-300

Proposed Accounting Standards Update:
*Business Combinations (Topic 805)*
*Revenue from Contracts with Customers—Recognizing an Assumed Liability*

The California Society of CPA's ("CalCPA") Accounting Principles and Assurance Services Committee (the "Committee") is the senior technical committee of CalCPA. CalCPA has approximately 42,600 members. The Committee consists of 54 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

The questions posed to respondents and the Committee's responses follow:

**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:** Yes. The recognition and measurement of performance obligations at acquisition is more consistent with the comprehensive accounting for revenue recognition from contracts with customers, and more consistent with the definition of a liability in the Concepts Statements, than recognition and measurement only if legally enforceable.

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

**Response:** Measurement issues may arise in the application of the proposed update which could result in continued inconsistency. See Question 7.

**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:** Yes. The resultant reporting would be appropriate and meaningful, but consideration should be given to addressing measurement issues of related assets concurrent with the effective date of the ASU. See Question 7.

**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:** No. The ASU is operable primarily because it is consistent with Topic 606, which is a comprehensive model for revenue recognition from contracts with customers. Applying the ASU to transactions outside of the scope of Topic 606 would be inappropriate.

**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. No additional disclosures are deemed 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:** Due to the nature of the ASU, that is the measurement of assumed liabilities from a business combination, prospective transition is deemed appropriate and early adoption should be permitted. We do not anticipate extensive time to implement the ASU but recommend an additional year for entities other than public businesses to ensure adequate education.

**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:** As noted above, adoption of the proposed ASU without finalizing the topics in the ITC could result in inconsistent application. As noted in the ITC, if the FASB were to adopt the principle that timing of revenue recognition should not be affected by the timing of receipt of consideration there may be unintended consequences requiring further guidance.

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We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,

Matthew J. Lombardi
Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants