

April 28, 2019

Financial Accounting Standards Board  
Technical Director  
File Reference No. 2019-200

Submitted via e-mail to [director@fasb.org](mailto:director@fasb.org)

**Re: FASB ITC, Issued February 14, 2019, Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805**

Dear Technical Director:

The Virginia Society of CPAs (VSCPA) Accounting & Auditing Advisory Committee has reviewed the FASB ITC, Issued February 14, 2019, *Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805*, issued by the Financial Accounting and Standards Board (FASB). The VSCPA is a leading professional association dedicated to enhancing the success of all CPAs and their profession by communicating information and vision, promoting professionalism, and advocating members' interests. The VSCPA membership consists of more than 11,000 individual members who actively work in public accounting, private industry, government and education. We appreciate the work the Board has undertaken on this effort and the opportunity to respond to this proposed statement.

We support FASB's efforts to provide guidance to improve consistency in measurement and other topics related to revenue contracts with customers under Topic 805. The invitation to comment should serve to improve the relevance of financial statement information for measurement and other topics related to revenue contracts with customers under Topic 805. Please see our comments on the following pages.

Again, the VSCPA appreciates the opportunity to respond to this Discussion Paper. Please direct any questions or concerns to VSCPA Peer Review Operations Manager Alan Nicholas at [anicholas@vscpa.com](mailto:anicholas@vscpa.com) or (804) 612-9419, or VSCPA Communications Manager Chip Knighton at [cknighton@vscpa.com](mailto:cknighton@vscpa.com) or (804) 612-9408.

Sincerely,

Charles M. Valadez, CPA, CGMA, CITP  
Chair

2018-19 VSCPA Accounting & Auditing Advisory Committee

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**Responses to FASB – FASB Invitation to Comment – Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805**

**Submitted by: George G. Crowell, CPA and M. James Hartson, Jr., CPA**  
**Submitted on behalf of: Virginia Society of Certified Public Accountants**

**Question 1.1:**

Should the timing of payments affect the subsequent amount of revenue recognized by the acquirer? **No.**

Why or why not? **Payments are separate from revenue recognition under GAAP. The payment stream would not affect the amount of revenue in the hands of the acquiree; therefore, it should not affect revenue recognized by the acquirer.**

Are there other accounting outcomes applied in practice for different payment terms scenarios that are not illustrated? **None that I am aware of at this point.**

**Question 1.2:**

If the timing of payments should not affect the subsequent amount of revenue recognized by the acquirer, would an acquirer need to recognize an identifiable asset separate from other contract-related assets and liabilities, as illustrated in the scenarios? **Yes.**

Why or why not? **This asset is really an offset to reduce the associated liability to its FMV as of the date of acquisition; therefore, it should be separated to better identify its nature as more of a contra-liability vs a true asset.**

Are there other approaches that should be considered (for example, measuring a contract liability on the basis of Topic 606 instead of Topic 805)? **No, I believe Topic 805 incorporates Topic 606 in the measuring of the contract liability while addressing the need to value the assets and liabilities of the acquiree at their FMV.**

**Question 1.3:**

Would the recognition of an identifiable asset for each contract be operational? **Yes.**

Are there alternative approaches that would make this more practical to apply? **Yes, a preparer of the financial statements could group contracts into homogeneous groups of contracts that have similar terms and payment streams as this would create only immaterial differences from recognizing an identifiable asset for each contract in the group.**

**Question 1.4:**

Would that identifiable asset meet the definition of an asset? **Yes.**

- (a) If so, is the identifiable asset a financial asset, a customer-related intangible asset, or a contract asset? Please explain your review. **It would be a contract asset. The creation of the asset is directly related to the determination of the contract liability or performance obligation of each contract (or group of similar contracts). The asset itself would not exist without the associated contract. It would not be a financial asset as it is not related to any type of financial asset type, and it would not be a customer-related intangible asset as the asset is tied directly to the contract and not the customer.**
- (b) Should the unit of account of the asset be each contract, each customer, or a group of contracts for similar customers? **The default should be each contract as the unit of account. I believe an option to allow grouping of relatively homogeneous contracts as one asset would be beneficial. The contracts must have similar contract terms (period of contract, payment terms, etc.) I do not feel that any unit of account by customer would be useful. There could be significant differences between the terms of different contracts with the same customer creating a disconnect between the recognition of revenue on individual contract and the terms of those contracts. The recognition of contract revenue would be on a contract basis outside of acquisition; therefore, should remain the same through acquisition.**

**Question 1.5:**

Would an entity still need to consider whether to recognize an order of production backlog if guidance requires the recognition of an identifiable asset that results in the same amount of revenue recognized by the acquirer after acquisition for contracts with different payment terms? **No.**

Why or why not? **In the acquisition the acquirer would recognize either an order of production backlog asset or an identifiable contract asset, but not both. If the recognition of an identifiable contract asset is required, then the value would have to be excluded from the order of production backlog to avoid double counting.**

**Question 1.6:**

Would additional guidance on subsequent measurement be needed for the identifiable asset? **No. The value of the identifiable asset is a byproduct of the amount to be received in excess of the fair value of the contract on the date of acquisition.**

**Question 1.7:**

Would guidance on payment terms improve the usefulness and comparability of financial information provided to users? **I believe that it would. When you have inconsistency in recording similar transactions, the difference could result in a reader of the financials drawing two different conclusion on the companies' financial statements when the underlying terms of contracts and revenue are the same.**

**Question 1.8:**

Should contingencies related to the amount of consideration to be received affect the subsequent amount of revenue to be recognized by the acquirer?

Are there other variable payment arrangements that should result in a different conclusion?

**Question 1.9:**

Should an acquirer continue to apply the sales and usage-based royalty constraint or variable consideration constraint guidance in Topic 606 as part of a business combination to an acquired revenue contract in which one or more performance obligations have been satisfied before acquisition?

**Question 1.10:**

How should an entity subsequently measure and derecognize the asset that would result if contingencies related to the amount of consideration to be received do not affect the subsequent amount of revenue recognized by the acquirer?

**Question 2.1:**

In what circumstances, if any, do you think an entity should include a contributory charge for the use of a related asset in measuring the fair value of a contract liability acquired in a business combination? **The only situation where a contributory charge for the use of a related asset should be included in measuring the fair value of a contract liability is if an asset is used, the fair value of the asset is reduced below its original cost (permanently), and there is no other method of recording the reduction in the value of the asset. If the related usage of the asset would recognize an expense (depreciation on a backhoe) as part of its use in the contract, then I do not think a contributory charge would be necessary or helpful.**

**Question 2.2:**

If guidance is provided on how to measure the fair value of a contract liability assumed in a business combination, would additional guidance be needed on how to measure the fair value of related assets? **No. Most assets in this situation would be calculated as a byproduct of recognizing the revenue/liability from a contract obtained in business combination under the approach discussed in this ITC.**

**Question 2.3:**

Should the performance obligation unit of account used in Topic 606 for revenue recognition (for example, the unit of account for a license to symbolic intellectual property) be used as the unit of valuation in a business combination under Topic 805? **Yes, this would provide consistency with revenue recognition both before and after acquisition. I believe total revenue recognition for a contract should be consistent through the acquisition process. An example would be if the total revenue for a contract was \$1,000 and the acquiree has recognized \$500 of the revenue, then the acquirer should recognize an amount near the other \$500. This number would have possible adjustments associated with any costs affecting the fair value of the contract, but the differences should be minimal (similar to Outcome 1 - 4's selling effort plus a reasonable profit amount).**