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May 30, 2019

Technical Director
Financial Accounting Standards Board
File Reference No. 2019-200
FASB, 401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: Invitation to Comment (“ITC”) Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805

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 Committee appreciates the opportunity to share a summary of the views of its members regarding the accounting for revenue contracts in a business combination. The Committee considered the views expressed in both chapters of the ITC. We also considered views expressed in comment letters already submitted and published.

We noted several respondents, including Ernst & Young, BDO, Ball Corporation, IBM Corporation, Connor Group and IMA/FRC, suggested providing, for revenue contracts, a scope exception from the general fair-value measurement provisions applicable for assets and liabilities acquired in a business combination. A significant majority of our Committee members supported this approach.

We concur there may be practical challenges in building a separate model for recording balances related to revenue contracts including: (1) how to determine the fair value of assets and liabilities associated with revenue contracts, (2) how to subsequently apply ASC 606, and (3) how the model may impact existing valuation practices for customer contract related identifiable intangible assets.

The Committee members agree with the observation made by others that any practical implementation of the approaches in the ITC will likely include compromises that would mean the ultimate recorded value is not fair value. The Committee is therefore concerned that the level of effort necessary to implement the ITC approaches will exceed related benefits to the users of the financial statements for many business acquisitions.

Moreover, under the scope exception approach, revenue recorded by the acquirer will be the same regardless of the timing of cash payments, effectively meeting the objective in Chapter 1 of the ITC, albeit not in the manner contemplated in the ITC. The question addressed in Chapter 2 of the ITC will become a moot point, as contract liabilities will generally be valued using the amounts recorded by the acquired entity.

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,

A handwritten signature in cursive script that reads "Nancy Rix".

Nancy A. Rix, Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants