

July 13, 2009

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Re: December 19, 2008 FASB Discussion Paper, *Preliminary Views on Revenue Recognition in Contracts with Customers* [File Reference No. 1660-100]

Dear Mr. Golden:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the Discussion Paper and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC generally favors the Board's goal of consolidating a significant amount of revenue recognition guidance into a single, concise standard. A reduction in the number of applicable standards should achieve the goal of greater consistency.

However, TIC believes the goal of consistency should be secondary to the goal of providing decision-useful financial reporting. Decision-useful financial reporting cannot be separated from the financial statement users and the economic environment in which they operate. The need for decision-useful financial reporting has driven the development of industry-specific guidance. For example, the contractor industry has a substantial body of specific, well-established accounting guidance that is operational. While this guidance may need certain updates (for example, see letter from the Construction Financial Management Association dated June 19, 2009), TIC believes this industry-specific guidance should remain separate from any new consolidated general revenue recognition standard.



TIC is also concerned that including contractor accounting may produce other unintended consequences, such as analogizing contractor accounting to other industries which are adequately covered by the general revenue recognition principles.

The specific comments included below assume that contractor accounting will be excluded from the scope of any new general revenue recognition standard.

TIC recommends that the planned ED contain extensive implementation guidance. TIC also suggests industry-based field testing.

SPECIFIC COMMENTS

Chapter 2

Question 1

Do you agree with the Boards' proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

TIC agrees with the Board's proposal. This is a necessary and important project. In general, the contract-based approach appears to be logical and operational. However, additional clarity is needed for revenue arrangements with multiple deliverables. TIC believes that the performance obligation model will result in many more transactions having multiple components. This will be a major change for many financial statement preparers and users. Due to the legacy rules-based standards, TIC believes that more substance must be added to this principles-based concept to make it operational.

Question 2

Are there any types of contracts for which the Boards' proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

As discussed above in the general comments section, TIC believes that although industry-based guidance can sometimes produce revenue recognition patterns that are not consistent with the proposed general revenue recognition principle, certain industry guidance is a necessity and needs to be maintained. Because financial reporting is not an end itself, but rather a tool for financial statement users, the decision-usefulness of the financial reporting must take precedence over any concerns regarding theoretical consistency. TIC believes that

industries with unique economic characteristics and existing, well established accounting guidance should be excluded from the general revenue recognition principle. These areas include financial institutions, insurance, and contractor accounting.

Question 3

Do you agree with the Boards' definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

Yes. The creation of an enforceable obligation is a key aspect of the definition. TIC believes contracts do not have to be in writing.

Chapter 3

Question 4

Do you think the Boards' proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

TIC believes that the proposed definition needs more specific guidance, particularly for contracts with multiple deliverables. A more economic approach should be taken, as opposed to a strictly legal approach. TIC believes that customer intent does play a role in understanding the economics of a transaction and should not be excluded from the factors to consider in defining performance obligations.

Question 5

Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

Yes. TIC believes separation of performance obligations is necessary for some complex arrangements. However, this separation will also allow earlier recognition of revenue. TIC believes additional disclosures should be required for revenue recognized on multiple element arrangements where certain performance obligations have not yet been met.

Question 6

Do you think that an entity's obligation to accept a returned good and refund the customer's

consideration is a performance obligation? Why or why not?

No. Rather, it is a separate transaction—the unwinding of a sale. Further, TIC believes the current sales return guidance is operational, and well understood. Identifying return obligations as performance obligations would add unnecessary complexity, without any offsetting benefit for the users of financial statements.

FASB *Accounting Standards Codification*TM Section 605-15-25 (formerly FASB Statement No. 48, *Revenue Recognition When Right of Return Exists*) has effectively provided guidance for consignment and sell-through risk situations such as the following: An entity sells goods to Wal-Mart early in the new year for sale in the Spring. A condition of the sale is that Wal-Mart can return any unsold items at the end of the season. The seller must be willing to accept the returns as a condition of selling its products through Wal-Mart. In such sales, the right of return is only a conditional obligation and therefore does not meet the definition of a performance obligation.

Question 7

Do you think that sales incentives (for example, discounts on future sales, customer loyalty points, and “free” goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

In general, TIC agrees that sales incentives give rise to performance obligations. With sales incentives, such as coupons that give the buyer free merchandise or service, the seller is obligated to honor the coupons without additional purchases by the buyer.

However, TIC does not believe that discounts alone give rise to a performance obligation, unless the discount would give rise to a future sale at a price less than cost in the foreseeable future and therefore put the entity in a loss position. Discounts are not true obligations of the seller since the buyer must spend more to get the discount.

TIC suggests the FASB provide more guidance on this issue, including as many examples as possible.

Chapter 4

Question 8

Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining

when a promised good or service is transferred.

Yes. This appears to be operational.

Question 9

The Boards propose that an entity should recognize revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

TIC notes that certain service contracts, depending on the legal form of the contract, may not allow any revenue recognition for an extended period of time. These contracts (e.g., long term consulting contracts with one deliverable at the end of the project) are not currently accounted for using contractor accounting, although the results are generally similar to contractor accounting. The extended length of time before any revenue recognition would not be decision-useful to users of those financial statements. Although assets may not be continuously transferred from a legal perspective, TIC believes the economics of these arrangements generally indicate a continuous transfer of assets.

Chapter 5

Question 10

In the Boards' proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.

(a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?

Yes. This is operational and well understood by financial statement preparers and users.

(b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?

Yes. To not remeasure the performance obligation when deemed onerous would fail to recognize the true economics of the changing circumstances that caused the performance obligation to become onerous.

(c) Do you think that there are some performance obligations for which the proposed

measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.

No.

(d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.

No.

Question 11

The Boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (for example, selling costs) are included in the initial measurement of the performance obligations. The Boards propose that an entity should recognize those costs as expenses unless they qualify for recognition as an asset in accordance with other standards.

(a) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?

TIC believes these amounts should be included in the initial measurement of an entity's performance obligation. Revenue should not be recognized from obtaining a contract.

(b) In what cases would recognizing contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.

TIC believes that contract origination costs should only be capitalized if they qualify for capitalization under other existing GAAP.

Question 12

Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's standalone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?



Yes. TIC believes this is the most operational basis.

Question 13

Do you agree that if an entity does not sell a good or service separately, it should estimate the standalone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?

Because standalone selling prices frequently will not be observable (particularly for more complex transactions), TIC generally supports using estimates to allocate a transaction price. However, the use of estimates should be limited to situations where an entity could reasonably sell the good or service on a standalone basis.

In addition, TIC believes that a framework should be developed for making estimates which is consistent with the economics of the underlying transaction(s). For sales in which a standalone transaction is not economically realistic, a framework is needed for the recognition period. For example, guidance is needed for the treatment of non-refundable upfront fees, such as initiation fees.

Due to the potentially subjective nature of the estimates, additional disclosures should be required for revenue recognized on multiple element arrangements where certain performance obligations have not yet been met.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Stephen Bodine, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committee

