



October 22, 2010

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 1820-100: Proposed Accounting Standards Update, “Revenue Recognition Topic 605 – Revenue from Contracts with Customers”

The Accounting and Auditing Committee (the “Committee”) of the Pennsylvania Institute of CPAs (“PICPA”) appreciates the opportunity to comment on the Proposed Accounting Standards Update to *Revenue Recognition (Topic 605), Revenue from Contracts with Customers*. We share the Board’s objective to develop an improved and consistent financial reporting model for the recognition, measurement, and presentation of revenue from contracts with customers in an entity’s financial statements. However, we are concerned over the application of the proposed standard as it pertains to long-term contracts and its impact on the ability of specific industries, (e.g. construction companies) to provide consistent and reliable information to financial statement users. We also have concerns over the cost to nonpublic companies of complying with many of the proposed disclosure requirements.

Our specific comments are included in the attachment.

We appreciate your consideration of our comments. We are available to discuss any of these comments with you at your convenience.

Sincerely,

Richard E. Wortmann, CPA
Chairman, PICPA A&A Committee



Question 1: Paragraphs 12-19 propose a principle (price interdependence) to help an entity determine whether to:

a) combine two or more contracts and account for them as a single contract:

b) segment a single contract and account for it as two or more contracts: and

c) account for a contract modification as a separate contract or a part of the original contract.

Do you agree with that principle?

The Committee agrees with a) and b) but anticipates that without additional clarification, the price interdependent criteria in c) will result in disparate application in practice.

Question 2: The Boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the proposed good or service is distinct. Do you agree with that principle?

The Committee in general agrees with the principle. However, the Committee is concerned regarding the application to long-term contracts. Specifically, the Committee is concerned regarding the highly subjective (and potentially arbitrary) delineation of the specific performance obligations and the associated estimated costs. For example, some construction contracts could be viewed as a single performance obligation with continuous transfer of goods or services. Others may make arbitrary assignments. This subjectivity is likely to result in a significant lack of comparability. The Committee is especially concerned regarding the impact on construction contractors, their lack of systems and processes to handle implementation of this standard. In addition, the Committee believes that the percentage of completion method as established under current US standards presents a more realistic model for revenue recognition than does the proposed standard. Should the Board decide not to reconsider revising the guidance for all long-term contracts, the Committee recommends that the FASB scope construction contracts out of the proposed guidance.

Question 3: Do you think the proposed guidance in paragraphs 25-31 and related implementation guidance are sufficient for determining when control of a promised good or service has been transferred to a customer?

The Committee believes that the guidance provided for determining when control has transferred is not sufficient, especially as it relates to construction contracts.



Question 4: The Boards propose that if the amount of consideration is variable, an entity should recognize revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Do you agree that an entity should recognize revenue on the basis of an estimated transaction price? If so do you agree with the proposed criteria in paragraph 38?

The Committee agrees with both.

Question 5: Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if it effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect *how much* revenue an entity recognizes when it satisfies a performance obligations rather than whether the entity recognizes revenue?

The Committee notes that managing credit risk frequently is viewed as cost of business rather than a component of revenue and therefore believes that the accounting should follow the business purpose.

Question 6: Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component. Do you agree?

The Committee agrees with this proposal.

Question 7: Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the standalone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree?

The Committee agrees with this proposal with reservations. The Committee does not agree as it relates to long term contracts. See comments on Question 1

Question 8: Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards, an entity should recognize an asset only if those costs meet specified criteria. Do you think the proposed guidance on accounting for costs of fulfilling a contract is operational and sufficient?

The Committee disagrees with the guidance. See comments on Question 9.



Question 9: Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognizing an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognized for an onerous performance obligation. Do you agree with the costs specified?

The Committee generally agrees with the costs specified. However, some Committee members believe that certain costs incurred to obtain a contract, such as commissions paid, are appropriately attributable to the contract costs and should not be expensed when incurred.

Question 10: The objective of the Boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective?

The Committee believes that the proposed disclosures go beyond the Boards' stated objectives, and that for nonpublic companies the cost of producing the disclosure information would exceed the information's value to users of the financial statements.

Question 11: The Boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with a duration expected to exceed one year. Do you agree with the proposed disclosure requirement?

The Committee agrees with the proposed disclosures, except that these disclosure requirements should not apply to nonpublic companies.

Question 12: Do you agree that an entity should disaggregate revenue into categories that best depict how the amount, timing, and uncertainty of revenue and cash flows are affected by economic factors?

The Committee agrees with the proposed disclosures, except that these disclosure requirements should not apply to nonpublic companies.

Question 13: Do you agree that an entity should apply the proposed guidance retrospectively?

The Committee believes that consistency of presentation is a key component of financial statement presentation, but notes that retrospective application of the proposed guidance would be burdensome.



Question 14: The proposed implementation guidance is intended to assist an entity in applying the principles in the proposed guidance. Do you think the implementation guidance is sufficient to make the proposals operational?

The Committee finds the rationales in some of the examples unclear. Specifically, in Example 11, Construction Contract, the basis for determining the distinct components of the construction contract in example 11, does not seem to conform to paragraphs 21 through 24 of the proposed ASU. The Committee also believes that the rationale in estimating future renewals options as found in Example 27, Maintenance services with a renewal option, is obscure, and does not appear to meet the objectives of this project as noted in IN2. The example also appears to conflict with the application of the core principle (IN8), specifically IN9 (e) recognize revenue when the entity satisfies each performance obligation.

Question 15: The Boards propose that an entity should distinguish between the following types of product warranties:

- a) a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.
- b) a warranty that provides a customer with coverage for faults that arise after product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract. Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty?

The Committee finds the distinction between the two types of warranty obscure and believes without addition clarification the proposal will result in disparate application in practice.

Question 16: The Boards propose the following if a license is not considered to be a sale on intellectual property:

- a) if an entity grants a customer an exclusive license to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the term of the license: and
- b) if an entity grants a customer a nonexclusive license to use its intellectual property, it has a performance obligation to transfer the license and it satisfies that obligation when the customer is able to use and benefit from the license.



Do you agree that the pattern of revenue recognition should depend on whether the license is exclusive? Do you agree with the patterns of revenue recognition proposed by the Boards?

The Committee has not developed a position on this proposal.

Question 17: The Boards propose that in accounting for the gain or loss on the sale of some nonfinancial assets, an entity should apply the recognition and measurement principles of the proposed revenue model. Do you agree?

The Committee agrees with this proposal.

Question 18: Should any of the proposed guidance be different for nonpublic entities? If so, which requirements and why?

The Committee believes that the cost of providing many of the proposed disclosures will exceed the benefit to users of nonpublic entity financial statements. We urge the Boards to limit the disclosure requirements for nonpublic entities. With respect to construction contractors, many of the applications currently used by contractors are not designed to collect the information necessary to account for the contracts as intended by the proposed ASU, nor are contracts written in a way to break down contracts into separate and distinct performance obligations in the event the Board determines that construction contracts by design have continual transfer of goods or services. The cost for contractors to be able to comply with the proposed recognition requirements would be unduly burdensome and result in either undeterminable GAAP misstatements or a migration to another financial reporting framework; both of which would have the undesired result of loss of comparability between entities.