



February 3, 2012

Ms. Susan M. Cospers, CPA  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

Re: Proposed Accounting Standards Update, Revenue Recognition (Topic 605)

Dear Ms. Cospers:

We appreciate the opportunity afforded to us to offer comments on the above referenced Accounting Standards Update (the "ASU"). Revenue recognition is one of the most important elements of effective financial reporting and the Boards' efforts in creating a comprehensive standard to address what has historically been addressed with specific rule and industry based guidance is welcome. The comments we offer are done in the spirit of assisting the Boards in arriving at the best possible final standard.

First, some context for our comments, ParenteBeard LLC is a large regional accounting firm headquartered in Philadelphia, Pennsylvania, with operations throughout the Mid-Atlantic Region. We are currently ranked in the top 25 of U.S. accounting firms, with approximately 1,200 team members including 140 partners. Our practice is diverse; we have large concentrations in banking, health care, higher education, manufacturing and distribution and construction. Our practice is primarily privately owned businesses and not for profit organizations, but we do have a large public company practice and are a PCAOB annually inspected firm.

**Overall Comments:**

The Boards have done a good job of addressing and incorporating the comments provided with respect to the Preliminary Views document and the original ASU exposure draft. In particular the attention provided to private entities and the relief provided with respect to disclosures and measurement methodologies is helpful.

However there are certain items that we believe the Boards should address to make the proposed standard more operational.

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**Incremental costs of obtaining a contract (paragraphs 94-97):** This section represents, we believe a significant change in current practice which will not necessarily benefit the users of financial statements. Moreover, it will be a potential area for abuse with entities capitalizing too much of these costs. This provision will likely lead to increased costs in connection with internal control over financial reporting and increased costs incurred by auditors in attempting to validate the appropriateness of such costs. While the practical expedient may offset some of these costs in certain entities, many more may seek to defer expense recognition. We suggest that the better approach here is for the standard to be silent with respect to deferring expense recognition and let preparers continue to refer to other sections of the codification or the conceptual framework for determining when the costs of obtaining a contract should be capitalized.

**Implementation guidance:** The provided guidance is well done, however there are two industries which are likely to face significant implementation guidance which have not been addressed; real estate and health care. In the case of real estate, a large body of guidance has been developed resulting in a very rules based environment for revenue recognition. How this new standard will be applied is likely to be subject to much variability and uncertainty. Illustrations related to real estate would be welcome.

With respect to health care, revenue recognition is particularly problematical due to the complexity of payer modalities and the need for health care providers to maintain accounting systems that provide information at full retail pricing for regulatory purposes. In addition, it is not clear whether hospital stays, such as for surgical procedures are continuous delivery of service or a multiple element contract. The Boards have paid much attention to the needs of the construction industry, but we would argue that health care is at least as large an industry and subject to significantly more complexity than construction.

**Transition:** We strongly suggest that a scope out for full retrospective application be provided for non-public entities. We suggest that prospective application be provided as an option much in the same way as such an option was provided when the standard for share-based payments was adopted. The cost of retrospective application will be unduly severe on many non-public entities and we believe it will exceed the perceived benefits for the users. Note that even if one year of financial statements were presented (which is an option for non-public entities, although not desirable) there is still the need for a determination of the cumulative effect change for a retrospective application. As such there is little cost savings if the single year statement is determined to be the solution.

We believe users can understand the change through disclosures and direct discussions with management.

**Question 1:** Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

Agree

**Question 2:** Paragraphs 68 and 69 state that an entity would apply Topic 310 (or IFRS 9, if applicable) to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

In general we agree with this display for most industries but believe there is likely to be gross distortions of income statements in the real estate industry, where the current revenue recognition model requires certain thresholds to be achieved prior to recognizing any revenue at all. Under this new model, it appears likely that the offset will now be a significant increase in expected credit losses to be accrued as revenue will be recognized, it seems, when the deed transfers. This "gross up" in the income statement may not be desirable.

**Question 3:** Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognizes to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

Agree

**Question 4:** For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognize a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

Agree

**Question 5:** The Boards propose to amend Topic 270 and IAS 34 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial statements. The disclosures that would be required (if material) are:

1. The disaggregation of revenue (paragraphs 114–116)
2. A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
3. An analysis of the entity's remaining performance obligations (paragraphs 119–121)
4. Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)
5. A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfill a contract with a customer (paragraph 128).

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Do you agree that an entity should be required to provide each of those disclosures in its interim financial statements? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial statements.

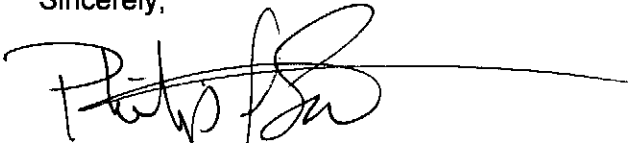
We agree with the scope out from these disclosures afforded to non-public entities and recommend that it be extended to all not for profit organizations, including those with conduit debt obligations. That is, the disclosure should be limited to SEC registrants only, and included as incremental disclosure for SEC only preparers, when displayed in the ASC.

**Question 6:** For the transfer of a nonfinancial asset that is not an output of an entity's ordinary activities (for example, property, plant, and equipment within the scope of Topic 360, IAS 16, or IAS 40), the Boards propose amending other standards to require that an entity apply (a) the proposed guidance on control to determine when to derecognize the asset and (b) the proposed measurement guidance to determine the amount of gain or loss to recognize upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement guidance to account for the transfer of nonfinancial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

Agree

Thank you for the opportunity to submit these comments. We look forward to the Board's consideration and future issuance of this important standard.

Sincerely,

A handwritten signature in black ink, appearing to read "Philip J. Santarelli", with a long horizontal line extending to the right.

Philip J. Santarelli, CPA  
Chief Risk Officer