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March 8, 2012

Via electronic mail to: director@fasb.org

Technical Director,
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
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File Reference No.: 2011-230, Exposure Draft – Revenue Recognition (Topic 605) –
Revenue from Contracts with Customers.

Dear Technical Director,

The Accounting and Auditing Standards Interest Group of the New Jersey Society of Certified Public Accountants ("NJSCPA") is pleased to offer its comments on certain matters in the Financial Accounting Standards Board's (FASB) and International Accounting Standards Board's (the "Boards") draft standard on revenue recognition, as presented in the FASB's Revised Exposure Draft of a Proposed Accounting Standards Update to Revenue Recognition (Topic 605), *Revenue from Contracts from Customers*. The NJSCPA represents over 15,500 certified public accountants. The comments herein represent those of some of our Accounting and Auditing Standards Interest Group only and do not necessarily reflect the views of all members of the NJSPCA.

We commend the Boards' efforts to converge and improve the accounting for revenue recognition and appreciate the opportunity to provide the following comments on the Exposure Draft.

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?

Answer: *We agree with the proposal that when an entity transfers control of a good or service over time, the entity satisfies a performance obligation and recognizes revenue over time. However, we would like to see more implementation guidance in this area specifically addressing related party contracts and possible arrangements which may not in substance meet the requirements in paragraphs 35 and 36.*

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?

Answer: *We agree with the proposal that the customer's credit risk should not be an adjustment of the transaction price and that revenue is measured at the amount to which an entity expects to be entitled. However, our opinions differed on the presentation of impairment losses as a separate line item adjacent to the revenue line item. Some of our group believed that many nonpublic entities believe that bad debts represent a cost of doing business rather than an adjustment of the contract price and that discounts, allowances and returns are all a function of and an adjustment to the contract price. Credit risk is typically the result of something other than the revenue earning process and should not affect the amounts that an entity reports as being entitled to. Others in our group agreed with the proposed presentation since they believed the presentation provides the reader with the amount of revenue*

an entity has "earned" or is "entitled" to but by including the impairment losses (bad debt expense) adjacent to revenue, the reader can better determine the amount of revenue an entity has "realized". They believe it is an improvement to current guidance that does not allow revenue recognition unless collectability is reasonably assured since it provides more information to the reader.

We believe that sharing both of our committee's views will be of value to the Boards.

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 than an entity would recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

Answer: *We agree that revenue recognized under a contract for satisfied performance obligations should be limited to the amount to which the entity is reasonably assured to be entitled. However, we believe that the standard should include clarification that "reasonably assured" is a qualitative threshold.*

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?

Answer: *We tentatively agree with the onerous performance obligation accounting for performance obligations satisfied over time. However, since the onerous consideration is at the performance obligation level and not at the contract level, consider adding guidance that in situations where the performance obligation is considered onerous but the total contract is profitable, an entity should reconsider the allocation of the transaction price to the separate performance obligations in the contract.*

In addition, it would be helpful to include implementation guidance and examples.

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).

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.

Answer: *We acknowledge that current revenue disclosures are often inadequate and frequently only include boilerplate language. Therefore, we appreciate the proposed specific disclosure requirements. Our concern is that the disclosure requirements might be too excessive, particularly in interim financial statements. We agree with the exemptions from some of these disclosure requirements for nonpublic entities since we do believe that the costs to those entities could exceed the benefits. With regards to interim disclosures, tabular presentations may be somewhat onerous, so please consider qualitative disclosures.*

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?

Answer: *We agree with the proposed control and measurement guidance to account for the transfer of non-financial assets.*

<u>Other</u>

Shipping and Handling Costs
We also noted that the proposed guidance did not address shipping and handling costs that are currently addressed under FAS ASC 605-45-50-3. The proposed amendments to the FASB codification relating to revenue recognition (Topic 605) delete FASB ASC 605-45. We could not locate the disclosure requirements relating to the placement of shipping and handling costs and question whether it was FASB's intention to eliminate the disclosure requirement?

Transition
Though we acknowledge the benefits of retrospective adoption and understand the importance of comparability, we ask the Boards to consider allowing an entity (particularly nonpublic entities) to adopt the provisions prospectively or on a modified prospective basis and to instead provide disclosures of any material difference in revenue if revenue for the prior periods presented was accounted for under the new guidance. We believe that requiring retrospective application will cause undue cost that will exceed the benefits.

Thank you for the opportunity to comment. We are available to discuss our comments with Boards' members or staff at their convenience.

Respectfully submitted,

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Accounting & Auditing Standards Interest Group
New Jersey Society of Certified Public Accountants

cc: Carole A. Hedinger, CPA, President
Ralph Albert Thomas, Executive Director
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