

March 13, 2012

Technical Director
File Reference No. 2011-230
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5446

Re: Proposed Accounting Standards Update (Revised) — *Revenue Recognition (Topic 605):
Revenue from Contracts with Customers*

Dear Director:

On behalf of the members of the Virginia Society of CPAs (VSCPA), the VSCPA Accounting & Auditing Advisory Committee has reviewed and discussed the above-referenced Proposed Accounting Standards Update. The VSCPA is a leading professional association dedicated to enhancing the success of all CPAs and their profession by communicating information and vision, promoting professionalism and advocating members' interests. The VSCPA membership consists of more than 10,000 individual members who actively work in public accounting, private industry, government and education. We appreciate the work the Financial Accounting Standards Board (FASB) has undertaken on this effort and the opportunity to respond to this proposal.

In our comment letter in response to the original exposure draft in 2010, we expressed our view that the proposed standard would fail to improve the quality of financial reporting. We felt that due to the complexity of the proposed standards, the expanded use of estimates requiring judgment and the elimination of the percentage-of-completion method, the quality and usefulness of financial reporting would likely be decreased. While the current exposure draft represents a significant improvement from the initial draft issued in 2010, our view remains that the proposed standard will not improve the quality of financial reporting. The changes in the exposure draft represent a fundamental shift in the revenue recognition treatment for many U.S.-based entities. We do not believe that the benefits of adopting the proposed standard outweigh the significant costs required to make this dramatic change.

The VSCPA has the following specific comments related to select questions as outlined in the "Questions for Respondents" section of the proposal:

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?

Response: In general, we agree with this proposal. We expressed concerns with the concept of multiple performance obligations in our comment letter to the original exposure draft in 2010. Overall, we believe the current exposure draft is an improvement over the original. More guidance has been provided regarding the requirements for determining whether transfer of control has taken place including guidance on the satisfaction of performance obligations.

We note that the new methodology for determining whether transfer of control has taken place will require the use of judgment. This will cause challenges in both the consistency of entities' year to year financial statements, as well as, comparability among various entities. In light of this, we recommend that FASB provide additional guidance for making these determinations in order to reduce the need for judgment.

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?

Response: In our response to the original exposure draft, we requested that FASB continue the segregation of impairment of the receivable from revenue. Accordingly, we agree with FASB's proposal to present impairment of the receivable as a separate line item from revenue. While we do not fully understand the benefits of presenting impairment of the receivable adjacent to revenue as opposed to its current placement in expenses, we do not object to this treatment.

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?

Response: We agree with this provision.

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?

Response: We agree with this provision for recognition of a liability in connection with onerous contracts. We anticipate that determining what costs will be included in making the determination of whether a contract is onerous will require significant judgments which, as noted previously, can adversely affect consistency and comparability. Accordingly, we request that FASB provide additional guidance on what costs should be considered in making this determination.

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.

Response: We agree that an entity should be required to provide each of these disclosures in its interim financial statements.

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?

Response: We agree with this provision.

Additional Comments

In our comment letter on the 2010 exposure draft, we requested that FASB provide guidance on determining whether financing recognized as part of a contract is material. The revised draft provides a recommendation of one year for this determination. We thank the Board for responding to the request and agree with the guidance provided.

Finally, given the timing of this exposure draft, which was released on Jan 4, 2012, with comments due Mar. 13, 2012, we urge the Board to extend the comment period, as the entire comment period fell during the busiest time of year for calendar-year entities.

The Committee appreciates the opportunity to respond to this Proposed Accounting Standards Update. Please direct any questions or concerns to VSCPA Government Affairs Director Emily Walker at ewalker@vscpa.com or (804) 612-9428.

Sincerely,

Jamie C. Wohlert, CPA
2011–2012 Chair
VSCPA Accounting & Auditing Advisory Committee