

March 13, 2012

SENT VIA EMAIL

Ms. Susan M. Cospers, Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference: 2011-230 Revenue Recognition (Topic 605) Revenue from Contracts with Customers

Dear Ms. Cospers,

Moss Adams LLP is pleased to comment on the proposed Accounting Standards Update, Revenue Recognition (Topic 605), *Revenue from Contracts with Customers* (the “proposed ASU”).

Moss Adams LLP is the 11th largest accounting and consulting firm in the United States, and the largest headquartered in the West. Founded in 1913 and headquartered in Seattle, Washington, Moss Adams has 21 locations in Washington, Oregon, California, Arizona, New Mexico and Kansas. Our staff of over 1,700 includes more than 220 partners. Moss Adams provides accounting, tax, and consulting services to public, private, and nonprofit enterprises.

We appreciate the Board’s efforts to improve the standards on revenue recognition and we support the main objective of the proposed ASU to provide financial statement users with a more clear and consistent depiction of the framework entities would use to recognize revenue from contracts with customers, as well as more consistency with International Financial Reporting Standards.

Our responses and related comments to the specific questions included within the exposure draft are contained in Attachment 1 to this letter. Additionally, we have the following general observations of the proposed ASU in regards to the organization of content and industry specific implementation guidance:

Organization of content

We believe the organization of concepts in the proposed ASU, including the implementation guidance, could be improved to enhance the reader’s clear understanding and application of the proposed ASU. For example, there are instances where the reader is directed to paragraphs preceding as well as succeeding the current paragraph for all of the factors to consider in understanding and applying a specific concept. We have included a specific example of this in Attachment 1.

The proposed implementation guidance appears to have been organized in two ways. Paragraphs IG1-IG58 provide interpretative guidance and are organized based on common



transaction fact patterns, while paragraphs IG59-IG81 provide illustrative examples that are organized topically in a manner consistent with the layout of the proposed standard.

We recommend the information within the proposed ASU be consolidated or moved so that, to the extent possible, all the information related to a specific concept is located together. The implementation guidance should integrate the interpretative guidance with the illustrative examples and be organized topically in a manner consistent with the layout of the proposed standard to improve the understandability and application.

Industry specific implementation guidance

We believe the examples in the proposed ASU's implementation guidance should contain more industry specific guidance focused on the application of the revenue recognition model to transactions that currently are subject to industry specific revenue recognition guidance. Such industries include health care, software, construction, and real estate among others. We also feel the existing examples should offer more clarity and be better connected with implementation in actual industry specific transaction scenarios. In Attachment 1 to this letter we have provided example scenarios where implementation guidance could be enhanced to address such transactions. Attachment 1 also includes comments and questions we have relating to examples in the proposed ASU's implementation guidance.

Moss Adams appreciates the opportunity to comment on the proposed ASU. We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience. If you would like to discuss our comments or have any questions, please contact Bret Rutter in our Professional Practice Group at 206-302-6800.

Yours truly,

A handwritten signature in blue ink that reads "Moss Adams LLP".

ATTACHMENT 1

The following are responses to the questions in the proposed ASU:

Question 1 – Paragraph 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?

We agree with the proposed ASU as to when an entity transfers control of a good or service over time and as a result when an entity satisfies a performance obligation and recognizes revenue over time. However, we would like to see more clarity relating to certain concepts within these and other related paragraphs.

With regards to the concept of evaluating whether an asset has an alternative use to the entity (paragraph 36), we believe more clarity is required in order to define the practical limitations an entity must consider when evaluating whether the entity can readily redirect the promised asset to another customer. More specifically, we believe guidance should be added to paragraph 36 to clarify the level of effort necessary by the entity to redirect the promised asset to another customer before concluding the criteria in paragraph 35b have not been met.

Example 7 in the proposed ASU (paragraph IG64) addresses a relatively straight forward situation based in real estate development. Users from other industries could benefit from an alternate fact pattern with respect to what constitutes a “practical” alternate use of a relatively unique asset (equipment or real estate), or component(s) thereof, that are not manufactured or constructed until an order is placed and design specifications completed. It is common in such situations that, although the entity could potentially have another use for the asset, or component(s) thereof, at some point in the future, the entity does not currently have another customer order that the asset or component(s) thereof, could be used to fulfill.

Consider an example where Company A is the reporting entity which builds and installs wind turbines. Company A contracts with its customers for a fixed fee to build and install the turbines based on site specifications influenced by geographic region, terrain and weather patterns.

Company A incurs a significant amount of prefabrication work in building the towers, blades, and related sub-assemblies which is performed in Company A’s manufacturing facility prior to delivery to the wind park site for installation. Company A is contractually obligated to provide the components and progress through the construction of the wind park based on predetermined timelines and milestones to avoid incurring obligations for liquidated damages.

The blades, towers, and related sub-assemblies are engineered to be site specific, so as a normal practice, Company A does not pre-fabricate these components prior to securing a



contract. While there is a reasonable possibility that another contract with the same, or a different, customer with a similar geographic region, site conditions, and wind turbine specifications could be secured in the foreseeable future, no specific similar orders are in the current backlog and it is undetermined how much if any modifications to these components would be necessary to redirect them to another contract.

Should the fabrication of the blades, towers, and related sub-assemblies in Company A's facility be considered part of the performance obligation satisfied over time in accordance with paragraph 35b, or at a point in time when the components are delivered to and/or installed at the customer's wind farm site in accordance with paragraph 37?

We believe the criteria for evaluating whether an asset has an alternative use to the entity in paragraph 36 is unclear in this fact pattern as it does not provide sufficient guidance as to what is a practical limitation on the entity's ability to readily direct the promised asset to another customer.

Additionally, with regard to the organization of content regarding evaluating transfer of control in the proposed ASU, we recommend the indicators of control in paragraphs 31-33 and 37 be combined and referred to in a single section titled "Indicators of Control". Doing so would provide a single location in the proposed ASU to which the reader can be directed to refer when evaluating control for purposes of revenue recognition. Paragraph 35a of the proposed ASU directs the reader to paragraphs 31-33 and paragraph 37 for guidance on determining control. Paragraph 37 refers the reader back to paragraphs 31-33, but paragraphs 31-33 do not refer forward to paragraph 37, despite paragraph 37 containing additional factors for consideration.

Additional wording should be added to clarify that the discussion of transfer of significant risks and rewards of ownership of the asset in paragraph 37d of the proposed ASU is only one of several indicators of the transfer of control and not a more heavily weighted criteria to determine transfer of control as this concept is so heavily relied upon in current revenue recognition guidance.

In service arrangements it is difficult to determine what the asset is and when the customer obtains control of that asset. Paragraph 32 explains that "... services are assets, even if only momentarily, when they are received and used ...". However, the results of some services may be received by the customer but go unused for a period of time. We recommend paragraph 32 be clarified to incorporate that the transfer of control of "an asset" in a contract to provide services occurs when the customer obtains the benefits, if any, of the services provided.

Lastly, we recommend adding clarification on how service type arrangements would meet the scope of the proposed guidance by incorporating the concept expressed in paragraph BC83a into paragraph 35b as follows:



35b. The entity's performance does not create an asset (as is the case in many service arrangements) or an asset with an alternative use to the entity (see paragraph 36) and at least one of the following criteria is met

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?

We agree with the proposal for the presentation of the amounts resulting from credit losses to be presented in a separate line item adjacent to revenue. We recommend information be disclosed in the notes to the financial statements to identify for the user any significant credit losses relating to revenue recognized in prior reporting periods.

In addition, we would like clarity as to the treatment of transactions where goods or services are transferred, but subsequent to contract inception the entity determines it does not intend to receive consideration in return. For example, we are interested in the treatment of charity care recognition by healthcare entities. Under the proposed guidance in paragraphs 68 and 69, if the entity makes an assessment subsequent to entering into the contract that a patient or resident qualifies for charity care, would a credit loss be recognized and classified as uncollectible revenue since the entity will not pursue payment for the services rendered due to the entity's charity care policies despite being entitled to payment under the terms of the contract? Classification as a credit loss can significantly affect reimbursement from government payors. This does not seem appropriate if the patient qualified for charity care based on the entity's policy. We recommend the proposed ASU include an example as well as additional clarity on factors to consider in such scenarios where it is difficult to assess at contract inception whether a particular patient would qualify for charity care or whether revenue would be recognized and then subsequently, an impairment of the receivable would be recognized associated with any credit loss.

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?

We agree that a constraint is needed on the cumulative amount of revenue recognized when sufficient uncertainty exists regarding the amount of consideration an entity will be entitled to receive. However, we believe additional clarity should be included to explain the concept of “reasonably assured” as the criteria in paragraphs 81 - 82 of the proposed ASU are overly broad in scope and could be interpreted to apply to many contracts with variable consideration such that entities may revert back to the objective criteria currently available under existing guidance. Alternatively, the use of the term “reasonably assured” should be removed through rewording paragraph 81 to indicate that when the amount of consideration to which an entity expects to be entitled to is variable, the cumulative revenue should be constrained unless both of the criteria in 81a and 81b are met; combined with corresponding changes to other paragraphs using the term “reasonably assured”. In either case, we believe the proposed ASU should more clearly emphasize the use of judgment as expressed in paragraph 83 by moving such concept to the beginning of the section on constraining the cumulative amount of revenue recognized.

We believe the proposed ASU could be more clear by cross referencing between the guidance on determining the transaction price when variable consideration exists (paragraphs 53 – 57) and the guidance on constraining the cumulative amount of revenue recognized (paragraphs 81 – 85) due to the manner in which these are highly interrelated.

Further, we believe implementation guidance should be added to address situations where entities have new products or services but the information on similar types of performance obligations or experience may not be available to the entity to use as support for determining the amount of variable consideration the entity is reasonably assured to be entitled. Consistency of revenue recognition across industries, or from entity to entity, may be hindered when applying the criteria in the proposed ASU due to the significant judgment involved in this evaluation process.

We disagree with the inclusion of the specific exception in paragraph 85 involving licensed intellectual property where consideration is variable based on the subsequent sales by an entity’s customer. Paragraph 85 is inconsistent with the remainder of the proposed ASU which does not otherwise provide specific rules for revenue derived from certain asset types. We believe the guidance in paragraphs 81-84 should be made sufficiently clear to address situations where predictive experience, or other evidence, is not present without the need for such a specific exception that may have unintended consequences. The qualitative factors present in many transactions involving licensed intellectual property could be improperly analogized to situations not involving licensed intellectual property that otherwise are believed to not require a constraint to the cumulative amount of revenue to be recognized based on the proposed ASU. However, we do believe it would be appropriate to include implementation guidance addressing situations involving licensing of intellectual property



and a discussion of why it may be difficult in many such situations for an entity to conclude it has sufficient predictive experience, or other evidence, to determine that a constraint on the cumulative amount of revenue is unnecessary because a customer's subsequent sales are not "reasonably assured", yet still allow for judgment in the determination of when an entity's experience is believed to be sufficiently predictive.

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?

We agree that a practical expedient to the onerous test is needed for entities that have a large number of performance obligations that are generally satisfied in one year or less.

We do not fully support the scope of the onerous test as included in the proposed ASU which would only be applied to performance obligations satisfied over a period exceeding one year. We believe the one year time period is arbitrary. Having a prescriptive one year period will lead to different treatment of highly similar performance obligations by two entities, or substantially similar performance obligations within the same entity, where one performance obligation is expected to be satisfied during a period slightly in excess of a year and one during a period of one year or slightly less. Consistency across performance obligations within an entity, across entities, and across industries will be negatively affected by this bright-line one year threshold.

We recommend that all performance obligations be included in the scope of the onerous test. However, as a practical expedient, the threshold should be modified to only focus on performance obligations that would more likely than not have a significant impact on the entity if they become onerous. Further, we suggest that homogenous performance obligations be considered in a pool when applying the onerous test, as the approach under the proposed ASU will be overly burdensome to many entities.

For example in the long-term care industry entry fees for Continuing Care Retirement Communities are generally a one-time, up-front fee paid by the resident for the privilege of occupying a living unit. Entry fees vary based on the type of living unit selected and the arrangement for services and care. Some entry fees are **non-refundable**; after a certain period of time, the facility retains the fee. Other agreements provide that an entry fee is **partially refundable**, on either a flat percentage or a declining scale. These agreements specify that a certain percentage of the entry fee is refundable within certain, specified limits. While yet other entry fees are **fully refundable**. In considering how to group the performance obligations related to these contracts for purposes of applying the onerous test, we suggest contracts be grouped by type of contracts (i.e. nonrefundable, partially refundable, fully



refundable, etc.), and then be separated further based upon services included in the contract (independent living, assisted living, skilled nursing, etc.). The entity would then perform the onerous test on the group of performance obligations within each of the identified categories of contracts, rather than on each individual performance obligation.

We recognize our recommendation would require the identification of characteristics to be used in evaluating whether performance obligations are homogeneous for purposes of aggregation in performing the onerous test at a level higher than the individual performance obligation.

We support the consistency between the recognition of revenue and the performance of an onerous test at the performance obligation level. However, we believe it is more practical and reflective of the business decision of entering into a contract if the assessment is at the contract level unless the economics of a transaction or customer relationship warrants consideration either at the performance obligation level or at a level involving the combination of multiple contracts or performance obligations.

We also recommend guidance be included on how to account for and classify the liability and corresponding expense proposed by the ASU.

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.



We do not agree with the disclosure requirements for either public or nonpublic entities as contained in the proposed ASU. We believe that the proposed disclosures are overly cumbersome and do not provide significant relevant information to users to justify the significant cost it would impose on preparer and auditors.

We believe the process for collecting the information to support the proposed disclosures would require significant costs and be overly burdensome on preparers. There would also be a risk of inconsistency from entity to entity and across various industries.

We believe the development of a comprehensive disclosure framework is necessary in order to provide decision useful information for users, and believe that the proposed disclosures should be evaluated in conjunction with the FASB's Disclosure Framework Project.

We believe such disclosure framework should focus on the qualitative aspects of an entity's revenue policy with regards to major classes of revenue, including the relative importance and the significant judgments within each class of revenue.

Question 6 – 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?

We believe this concept makes sense, as it would bring consistency to the control and measurement guidance in other areas of accounting for transactions that impact items of income or loss. However, the time and effort that will be required to fully consider its impacts are significant enough to warrant a separate project so as to not further delay the completion of this revenue recognition project. We recommend such matter be further evaluated in a separate project where it can more fully be considered and commented on, rather than including it as part of the revenue recognition project.

Additional Comments and Questions

We have included the following comments and questions that are in addition to our responses to the questions above.

Recommended Changes to Paragraph 45 of the Proposed ASU

45. A shortcoming of input methods is that there may not be a direct relationship between the entity's inputs and the **progress towards satisfaction of a performance obligation** ~~transfer of control of goods or services~~ to the customer because of unplanned inefficiencies in the entity's performance or other factors. Hence, when using an input method, an entity shall exclude the effects of any inputs that do not depict the ~~transfer of control of goods or services~~ **progress towards satisfaction of a**



performance obligation to the customer (for example, the costs of **unplanned** wasted materials, labor, or other resources to fulfill the contract that were not reflected in the price of the contract).

Additional Implementation Guidance Example Related to Revised Paragraph 45 of the Proposed ASU

An entity enters into a contract with a customer to build a structure with 9' ceilings. During the estimating process the entity includes in its total estimated costs to fulfill the contract the price of 10' framing studs and recognizes they will all have approximately 1' or 10% cut-off each one that will be recycled by the entity. Similar such planned scrap exists for many of the materials included in the initial cost estimate due to building materials generally being available in only certain dimensions. However, since the cost of this discarded material was included in the original total estimate of costs to be incurred it is not considered to be unplanned wasted material and the effects of this would not be excluded if measuring progress using an input method of costs incurred relative to the total expected costs to be incurred.

Later in the project, the entity recognizes they failed to properly read the architectural drawings and installed a door in the incorrect location. The effects of the labor and material costs to install the door in the incorrect location plus any costs to remediate the incorrect location should be excluded from measurement towards satisfaction of the performance obligation on the basis that such costs were unplanned inputs that did not depict progress towards satisfaction of the performance obligation. The labor and material costs to install the door in the proper location should be included as they do provide for progress towards satisfaction of the performance obligation to the customer.

Suggestion and Questions for Healthcare Industry Specific Implementation Guidance Examples

Refundable fees: Continuing care retirement communities enter into numerous types of contracts for services. Some of these are non-refundable and others are refundable either partially or completely. In such cases where the fees are refundable upon re-occupancy, guidance currently proposed by the Technical Corrections Exposure Draft would amend paragraph 954-430-25-1 such that only a portion of the refundable fee would qualify as deferred revenue and subsequently amortized over the life of the Continuing care retirement community when the contract between the Continuing care retirement community and the resident explicitly stipulates that a portion of the advance fee is refundable only to the extent of the proceeds of re-occupancy of the contract holder's unit and it is the entity's policy or past practice to comply with that limitation. It appears as if paragraph 954-430-25-1 would be superseded in the proposed ASU and it is unclear on how these fees would be treated. Would these fees be classified as a liability or would they be amortized as deferred revenue over the life of the building?

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Some continuing care retirement communities enter into contracts where the upfront contract fees are only for room and board, while care related fees are charged as and when used by the resident at the current market rates. Would such contracts not be included in the scope of the proposed ASU, as the room fee could be interpreted to be a lease?