

U. S. General Services Administration (GSA) Consolidated Comments on FASB ED
2011-230 Revenue Recognition (Topic 605)

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?

GSA Comments: Regardless of the possible complexities of measuring progress towards completing performance obligations, GSA agrees with the specifications that allow an entity to recognize income over time when transfer of control of those goods or services over time are controlled by the customer as they are created or enhanced. GSA also believes that paragraph 35(b) provides a reasonable exception that allows entities to recognize income over time where the customer does not necessarily have control, but the entity has no alternative use for the goods or services. This is especially needed for products/work-in-process that take significant resources and timeframes and customers cannot possess, control, or occupy the product until significantly complete. GSA would suggest that the language (or the implementation guidance) allow for revenue recognition over time where the contract is significant in dollar amount, the products or services contract requested are "made to order" (or to the specific needs of the customer) and normal business practice require a significant time frame to create or enhance.

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?

GSA Comments: GSA agrees with the methodologies and presentations proposed, and see significant benefit in presenting credit losses adjacent to the revenues of each activity. GSA believes that the visibility of credit risk is critical and may bring great value to the user of the financial statement. The core principle of this proposed accounting standards update is to recognize revenue in an amount that the entity is expected to be "entitled." According to paragraph BC164, the 2010 exposure draft had language that revenue would be recognized at the amount expected to be received versus entitled. GSA believes that recognizing revenue at the amount expected to be received due to credit risk would be time consuming as credit risk would need to be applied to each customer's contract and monitored for updates. The wording of paragraph 69 of this proposed accounting standards update is unclear. The first sentence stated that "Upon initial recognition of the receivable, any difference between the measurement of the receivable in accordance with Topic 310 and the corresponding amount of revenue recognized shall be presented in profit or loss as a separate line item adjacent to the revenue line item." This sentence needs clarification as to whether each receivable

recognition and the related allowance be recorded, or whether loss estimated can be determined in aggregate. Loss estimation per contract would be very burdensome, and in some cases less accurate than estimates made against portfolios of receivable balances.

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?

GSA Comments: GSA agrees with the list of constraints that may indicate that an entity's experience is not predictive of the amount of consideration to which the entity will be entitled. Most of the examples provided regarding paragraph 81 & 82 in the implementation guidance had to do with possible commissions or royalty income based on some other entity's sales or measured assets. GSA believes these examples illustrated events out of the entities control that have a direct impact on the timing and amount of any consideration.

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?

GSA Comments: GSA requests further definitional guidelines be provided for the onerous test to ensure evaluations can be consistently applied by reporting entities and less open to judgments, which may be questioned by outside parties or auditors.

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.

GSA Comments: GSA believes that the disclosure requirements, especially for interim reporting are unduly onerous, and would likely require significant cost to record data necessary for such disclosures. Providing quantitative and qualitative data for each of the five proposed disclosures may prove to be more costly than beneficial if all are required. GSA believes that most entities should publish qualitative data in regards to the disaggregation of revenue. For example, they can provide information on sales by the types of goods or services and or possible type of contracts (fixed price, time and material contracts, etc.). However, other details requested under paragraph 115 (geography, customer type, contract duration, etc) may be too tedious for the beneficial impact to the user of the financial statements. It does help that nonpublic entities will not be required to provide quantitative data; they may present qualitative data. GSA believes that some form of disclosure regarding known onerous contracts and liabilities would be beneficial; however, the requirement to determine and track all onerous contracts may not be cost effective.

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?

GSA Comments: GSA agrees that entities should use the same control and measurement guidance to account for the transfer of nonfinancial assets that are not an output of the ordinary activities. This will ensure some consistency between various entities. GSA believes that the difference in accounting will only relate to the presentation of profit and loss versus gain and loss.