

March 7, 2012

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

By e-mail: director@fasb.org

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

(File Reference No. 2011-230)

Dear Ms. Cospers:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned Exposure Draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the Exposure Draft and prepared the attached comments. If you would like additional discussion with us, please contact J. Roger Donohue, Chair of the Financial Accounting Standards Committee at (516) 887-7573 or Ernest J. Markezin, NYSSCPA staff at (212) 719-8303.

Sincerely,


Richard E. Piluso
President

Attachment

**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON
PROPOSED ACCOUNTING STANDARDS UPDATE (REVISED) –
REVENUE RECOGNITION (TOPIC 605) REVENUE FROM CONTRACTS
WITH CUSTOMERS**

(FILE REFERENCE NO. 2011-230)

March 7, 2012

Principal Drafters

**Deepak Doshi
Sharon Sabba Fierstein
Jo Ann Golden
Fred R. Goldstein**

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NYSSCPA Staff

Ernest J. Markezin
William R. Lalli

New York State Society of Certified Public Accountants

Comments on

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

(File Reference No. 2011-230)

We have reviewed the Financial Accounting Standards Board's (FASB or the Board) proposed Accounting Standards Update (Revised) – Revenue Recognition (Topic 605) Revenue from Contracts with Customers (the Update), and we appreciate the opportunity to provide our responses to the questions for respondents.

General Comments

We support the efforts of the FASB and the International Accounting Standards Board (IASB, and together with the FASB, the Boards) to clarify the principles of recognizing revenue and to develop a common revenue standard for U.S. generally accepted accounting principles (U.S. GAAP) and International Financial Reporting Standards (IFRS).

We agree with the focus of the Boards' latest revisions in this re-exposed proposed guidance for revenue recognition in response to comments received on the previous Exposure Draft. We understand the Boards' concern regarding the complexity of this topic and how this complexity may be interpreted (or misinterpreted) in the Codification's guidance.

Responses to Specific Questions

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:

We agree with the proposed guidance in Paragraphs 35 and 36 which 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.

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:

We agree with the proposed guidance in Paragraphs 68 and 69 which 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 and that the corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item.

We also agree with the proposed constraint on the amount of revenue that an entity would recognize for satisfied performance obligations concerning entity experience and collectability.

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 the proposed guidance in Paragraphs 81 and 82 concerning constraints on the cumulative amount of revenue that an entity would recognize for satisfied performance obligations.

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 an 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:

The concerns we have with the guidance in paragraph 86 are:

1. The scope of application is narrowed to performance obligations that are expected to be satisfied over a period of time greater than one year. The basis for conclusion paragraphs BC 208 to BC 210 provide the reasoning for excluding

performance obligations that are expected to be performed over a period less than one year. The reasons provided are: the proposed rules are closest to current GAAP (subtopic 605-35), cost-benefit concerns and losses for such performance obligations are covered under existing Generally Accepted Accounting Principles (GAAP), *i.e.*, inventory rules provide guidance on impaired inventory.

We do not agree that the reasons provided in BC sections are valid. We will address each one:

- **BC 208:** The current GAAP (subtopic 605-35-25, paragraphs 45 to 50) refers to a contract. There is no distinction made related to contract duration. Par 25-45 and 25-46 are reproduced to illustrate:
 - 25-45:** For a contract on which a loss is anticipated, GAAP requires recognition of the entire anticipated loss as soon as the loss becomes evident. An entity without the ability to update and revise estimates continually with a degree of confidence could not meet that essential requirement of GAAP.
 - 25-46:** When the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract shall be made. Provisions for losses shall be made in the period in which they become evident under either the percentage-of-completion method or the completed-contract method.
- **BC 209:** For performance obligations expected to be satisfied over a period of time, the entity is required to measure progress toward completion. This requires the use of various allowable methods such as input methods and output methods. Under the input method (the most commonly used), the measure of completion is generally based on costs incurred to total estimated costs. The point is that to determine onerous obligations in these instances, no additional effort is necessary.
- **BC 210:** The example provided is inventory impairment. Our concern is that the proposed GAAP deals with a performance obligation while current GAAP may deal with the performance at contract level. There may be loss at performance obligation level and not at a contract level. As such, the proposed GAAP and existing GAAP together may not require impairing an asset as stated in BC 210.

We suggest that the one year threshold should not be included. An entity should be required to book an onerous obligation based on materiality as is the case with most GAAP.

2. The other concern is that an entity could reach different conclusions about nearly identical performance obligations. As an example, consider two performance obligations in a contract, one with estimated completion of 11 months and another with estimated completion of 13 months, both estimated to incur loss. The entity would record the loss on one performance obligation and would ignore the loss on the other one. An entity would be able to structure a transaction to obtain the desired accounting. We believe that the FASB should avoid providing a bright-line rule with respect to time.
3. An entity may have an overall profit on a contract but may incur losses on individual performance obligations that make up the contract. Our concern is whether it is logical to record loss on the first day when, at the overall contract level, the entity is not expected to record a loss.

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:

While we believe that additional disclosure regarding revenue recognition would enhance a company's interim financial statements, we strongly believe that the amount of disclosure being considered by the Boards would increase substantially both the costs to prepare and to review those financial statements. Specifically, our views on the specified disclosures are as follows:

1. *The disaggregation of revenue*—We believe that the requirement to disaggregate revenues from contracts with customers into the primary categories that depict how the nature, amount, timing, and uncertainty of the revenues and cash flows are affected by economic factors is appropriate. It is our expectation that disaggregation will be presented in a tabular format, accompanied by a high-level, qualitative discussion of the nature of each of the primary categories to enhance the reader's understanding of the entity's business. We recognize that the disclosure should not provide detailed information about Company's revenues that would compromise its competitive position. Further, we believe that this requirement should be applicable to both public and non-public entities. What is most important is that the disclosure be balanced sufficiently as to provide enough information to enhance the reader's understanding of the entity's business without duplicating the level of detail found in the entity's books and records.
2. *A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period*—We believe that this requirement on a quarterly basis would be extremely burdensome to financial statements preparers. Alternatively, we suggest that a disclosure that incorporates a high-level, qualitative discussion and highlights the nature and amount of significant changes would be useful to financial statements users.
3. *An analysis of the entity's remaining performance obligations*—We believe that this disclosure requirement is appropriate provided the analysis is limited to a high level discussion corresponding to the primary revenue categories identified in 1 above.
4. *Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period*—We believe that the requirement to present a tabular reconciliation (similar to the one described in 2 above) on a quarterly basis would be burdensome to financial statement preparers. Instead, we believe that the disclosure regarding onerous performance obligations could be appropriate, if it is done in a high-level, qualitative manner that highlights the nature and amount of significant changes. Also, it is our expectation that such situations would be unusual enough in nature that a qualitative discussion would suffice for financial statement readers.

5. *A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfill a contract with a customer*—Similar to 2 and 4 above, we believe that the requirement to prepare a tabular reconciliation of the movements of assets recognized from the costs to obtain or fulfill a contract with a customer on a quarterly basis would be burdensome for financial statement preparers. Instead we believe that the Boards' objective to provide disclosure regarding significant movements between periods can be met by providing such information in a high-level qualitative manner that highlights the nature and amount of significant changes. We believe that financial statement users are more interested in the company's analysis of the significant changes rather than the mere calculation and presentation of the items comprising the changes.

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 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.

Question A1: Do you agree that the proposed amendments that codify the guidance in the proposed Update on revenue recognition have been codified correctly? If not, what alternative amendment(s) do you recommend and why?

Response:

We believe that it would be a very time consuming task to determine whether the proposed amendments codifying the guidance in the proposed Update on revenue recognition have been codified correctly. Such a task should not be the responsibility of the respondents, but rather the FASB Staff, to ensure accuracy and completeness.

Question A2: Do you agree that the proposed consequential amendments that would result from the proposals in the proposed Update on revenue recognition have been appropriately reflected? If not, what alternative amendment(s) do you recommend and why?

Response:

We believe that it would be a very time consuming task to determine whether the proposed consequential amendments in the proposed Update on revenue recognition have

been appropriately reflected. Such a task should not be the responsibility of the respondents, but rather the FASB Staff, to ensure accuracy and completeness.