new york state society of
NYSSCPA
certified public accountants

Home of the Trusted Professional
3 park avenue, at 34th street, new york, ny 10016-5991
212.719.8300 • fax 212.719.3364
www.nysscpa.org

October 22, 2010

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

Re: Exposure Draft, Proposed Accounting Standards Update, *Revenue Recognition (Topic 605) Revenue from Contracts with Customers*

(File Reference No. 1820-100)

Dear Mr. Golden:

The New York State Society of Certified Public Accountants, representing more than 27,000 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 Mark Mycio, Chair of the Financial Accounting Standards Committee at (212) 838-5100, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Margaret Ann Wood

Margaret A. Wood
President

Attachment

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NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

EXPOSURE DRAFT, PROPOSED ACCOUNTING STANDARDS UPDATE,
REVENUE RECOGNITION (TOPIC 605) REVENUE FROM CONTRACTS WITH CUSTOMERS

(FILE REFERENCE NO. 1820-100)

October 22, 2010

<u>Principal Drafters</u>

Deepak K. Doshi
Jo Ann Golden
Fred R. Goldstein
Elvira Tsvetanov

New York State Society of Certified Public Accountants

Financial Accounting Standards Committee

Comments on

Exposure Draft, Proposed Accounting Standards Update, *Revenue Recognition (Topic 605) Revenue from Contracts with Customers*
(File Reference No. 1820-100)

We have reviewed the Financial Accounting Standards Board's Exposure Draft, Proposed Accounting Standards Update, *Revenue Recognition (Topic 605) Revenue from Contracts with Customers*, (the Exposure Draft) and we appreciate the opportunity to provide our thoughts and responses to selected questions.

General Comments

We are in general agreement with the direction taken by the Boards' regarding revenue recognition and we are only providing commentary on specific areas of concern, as follows:

1. Whether the guidance on "change orders," that can have a significant impact on revenue recognition in certain industries, should be enhanced to reinforce the revenue recognition principles in the final promulgated standard, as discussed in our response to Question 1, and whether the Implementation Guidance and Illustrations, as discussed in our response to Question 14, should include examples of instances in which an entity should or should not recognize revenue resulting from change orders.

2. Whether the guidance at Paragraph 57 as discussed in our response to Question 8 should add the topic of capitalization of interest costs, Topic 835-20, *Capitalization of Interest.*

We have repeated only questions in which we have commentary, followed by our response.

Responses to Selected Questions

Recognition of revenue (paragraphs 8–33)

Question 1: Paragraphs 12–19 propose a principle (price interdependence) to help an entity determine whether to:

(a) combine two or more contracts and account for them as a single

contract;
(b) segment a single contract and account for it as two or more contracts; and
(c) account for a contract modification as a separate contract or as part of the original contract.

Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?

Response:
We agree with the Boards' proposed principle of "price interdependence" to help an entity in determining whether to combine or segment contracts and to account for a contract modification as a separate contract. However, we believe Paragraph 10 should specifically address "change orders" that are important in certain industries, such as construction, and whether a contract can be presumed to exist for revenue recognition purposes based on customer acceptance of the change order and an entity's history with customer acceptance of change orders.

Measurement of revenue (paragraphs 34–53)

Question 4: The Boards propose that if the amount of consideration is variable, an entity should recognize revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

Do you agree that an entity should recognize revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognizing revenue when the transaction price is variable and why?

Response:
We agree with the Boards' proposal that if the amount of consideration is variable, an entity should recognize revenue from satisfying a performance obligation only if the transaction price can reasonably be estimated. We also agree with the proposed criterion set out in Paragraph 38—provided that the following clarification in the language is made in (b):

(b) the entity's experience **or another entity's** experience is relevant to the contract because the entity does not expect significant changes in circumstances

Contract costs (paragraphs 57–63)

Question 8: Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (for example, Topic 330 or IAS 2; Topic 360 or IAS 16; and Topic 985 on software or IAS 38, *Intangible Assets*), an entity should recognize an asset only if those costs meet specified criteria.

Do you think that the proposed guidance on accounting for the costs of fulfilling a contract is operational and sufficient? If not, why?

Response:
We agree, as proposed in Paragraph 57, that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards. An entity should recognize an asset only if those costs meet specified criterion.

However, we suggest that Paragraph 57's examples should include Topic 835-20, *Capitalization of Interest*.

Disclosure (paragraphs 69–83)

Question 11: The Boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.

Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?

Response:
We agree with the Boards' proposal that an entity should disclose the amount of its remaining performance obligations and the expected time of their satisfaction for contracts with an original duration expected to exceed one year. We understand that its initial application may be time consuming for preparers to set up and consider assumptions beyond concerning rollout of performance obligations beyond one year.

Such initial application will likely require some additional time and effort to review by independent auditors or accountants providing other financial statement related services. We believe the benefits to financial statement users will likely outweigh the initial preparer efforts needed to summarize the information and maintain the benefits derived in future periods. CPA firms involved in auditing or providing other services related to financial statements used by preparers are likely to find efficiencies from the change as well.

Question 12: Do you agree that an entity should disaggregate revenue into the

categories that best depict how the amount, timing, and uncertainty of revenue and cash flows are affected by economic factors? If not, why?

Response:
We agree with the Boards' proposal, as outlined in Paragraph 74 that an entity should disaggregate revenue into categories that best depict how the amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. Information related to types of goods or services, geography, market or type of customer or contract type useful to financial statement users under preexisting accounting literature remain relevant in the proposed revenue recognition standard.

Effective date and transition (paragraphs 84 and 85)

Question 13: Do you agree that an entity should apply the proposed guidance retrospectively (that is, as if the entity had always applied the proposed guidance to all contracts in existence during any reporting periods presented)? If not, why?

Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.

Response:
We agree that an entity should apply the proposed guidance retrospectively (that is, as if an entity had always applied the proposed guidance to all contracts in existence during any reporting periods presented), because that is likely to result in better comparability in financial statements over time, and with that, better user understanding of company results.

We do not believe that there is an alternative transition method that would preserve trend information about revenue at a lower cost.

Implementation guidance (paragraphs IG1–IG96)

Question 14: The proposed implementation guidance is intended to assist an entity in applying the principles in the proposed guidance. Do you think that the implementation guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?

Response:
We believe that the proposed implementation guidance is sufficient to make the proposal operational. However, we strongly suggest an example involving circumstances in which revenue recognition should be recognized and when it should not involve "change orders." This might promote a better understanding and consistency in application of accounting in industries in which change orders are routine, such as in the construction

industry, and the related revenues recognized, and the timing thereof, might be significant.

Nonpublic entities

Question 18: Should any of the proposed guidance be different for nonpublic entities (private companies and not-for-profit organizations)? If so, which requirement(s) and why?

Response:
We do not believe that any of the proposed guidance should be different for nonpublic entities (private companies and not-for-profit organizations) because financial statement user needs may not be significantly different in most aspects of the guidance being proposed.