Via email to director@fasb.org

March 13, 2012

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856

Re: File Reference No. 2011-230: Proposed Accounting Standards Update (Revised), Revenue Recognition (Topic 605), Revenue from Contracts with Customers

Dear Ms. Cosper:

This letter is submitted in response to the request for public comment by the Financial Accounting Standards Board with respect to its Exposure Draft of the proposed Accounting Standards Update (Revised), Revenue Recognition (Topic 605), Revenue from Contracts with Customers. WeiserMazars LLP appreciates the opportunity to review and comment on this Exposure Draft.

Our responses to the questions in the Exposure Draft are included for your consideration.

If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Denise Moritz at 646.225.5913 or Mike Crown at 212.375.6748.

Very truly yours,

WeiserMazars LLP

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Comments on Proposed Accounting Standards Update (Revised), Revenue Recognition (Topic 605), Revenue from Contracts with Customers (File Reference No. 2011-230)

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: Paragraph 32 indicates that services could be assets “momentarily” and that it is upon the transfer of the control of such an “asset” that the entity shall recognize revenue. This concept appears to be somewhat non-intuitive and would rarely reflect the substance of service contracts. The customer would not envision receiving control of a “momentary” asset. Rather, both parties would likely construe the contract as requiring the “performance” of a service by the entity and the receipt of the benefit of that service by the customer. Paragraph 32 further indicates that the control of the benefit of the asset (i.e., service) includes the ability to prevent others from obtaining the benefit. Yet the service may be such that others may indeed obtain that benefit (such as snow removal from a lot shared by several businesses). Therefore, although the concept of exclusivity could be applied to some services, it should not be a condition for the recognition of revenue upon performance.

On the other hand, the transfer of control of an asset has precedent within GAAP, such as in business combinations. It should not be necessary to revisit the concept of control of a transferred asset, nor should it warrant a reconsideration of the definition of an “asset.”

This leads to ambiguities with regard to the recognition of revenue for the satisfaction of performance obligations over time. With regard to assets, since the concept of control presumes exclusivity at a given point in time, either the entity or the customer will control the asset in question. We agree that when that control is transferred by the entity to the customer, revenue should be recognized. Enhancing an asset that is in the control of the customer is, in essence, a service and revenue should be recognized as that service is performed.

Therefore, we recommend that revenue related to the transfer of the control of an asset (or assets) be recognized when that transfer occurs. Revenue related to the performance of services over time should be recognized proportionately to receipt by the customer of the benefit of the services. The transfers of multiple assets or services would be subject to the requirement of paragraphs 23 through 30.
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 do not agree with these proposals. Selling to a customer from whom the collection of the entire amount of consideration is not expected at the point of sale should not result in recording the full amount as revenue and an offsetting expense related to the amount not expected to be collected. Upon initial recognition, revenue should not include amounts not expected to be collected. We also believe that subsequent impairment of a receivable due to adverse changes in the credit risk of a customer should be recorded as an operating expense and not as an adjustment to revenue.

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 do not agree with this proposal. The amount of revenue to be recognized should be equivalent to the asset recognized upon the satisfaction of the performance obligation, less any resulting liability for unsatisfied performance obligations (e.g., deferred revenue). The amount of the asset to be recognized (i.e., accounts receivable) should be recorded in accordance with Topic 310. We believe that the amount of revenue recognized should not drive the amount of the receivable to be recorded; rather the receivable should determine the amount of revenue recognized. A receivable should not be recorded unless it meets the definition of an asset, such that its collection is probable. It is not clear how the concept of the “probable” future benefit inherent in the recognition of assets relates to that of “reasonably assured.”

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 do not agree with the scope of the onerous test. We believe the onerous test should be applied to all performance obligations, not just those expected to be settled over a period of time greater than a year. We also recommend that the concept of discounting be included in this section, as a liability for onerous performance obligations should be discounted if the time value of money is material. Inconsistency in practice could result if discounting the performance obligation is not explicitly mentioned.

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: The disclosure requirement for the disaggregation of revenue would not appear to provide more benefit to a reader of the financial statements than the current reporting requirements with regard to vulnerability to concentrations (275-10-50-16) and segment reporting. It would appear that such a requirement is adding unnecessary complexity and redundancy to the financial statements.

We agree that the other disclosure requirements should be provided in interim financial statements. Preparers of financial statements should be able to gather such information with minimal additional effort because such information would be available when management performs its monthly/quarterly financial analyses.
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 proposed amendment. We believe there should be one concept of “control” and a single method to measure the amount of consideration exchanged that should be applied to all transactions. Applying the proposed guidance to transfers of nonfinancial assets outside of an entity’s ordinary activities would be a step in that direction.

Other Observations/Comments:

1. Paragraphs 44-46, Input methods. We disagree that revenue should be recognized based on expenses and costs incurred. We believe the input methods mentioned in paragraph 44 are not relevant factors in determining the amount of revenue to recognize. In paragraph 45, second sentence, we find the use of the word “depict” to be unclear and recommend changing it to “results in.”

   Paragraph 45, second sentence, currently reads as follows:

   “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 to the customer (for example, the costs of wasted materials, labor, or other resources to fulfill the contract that were not reflected in the price of the contract.”

2. Paragraph 50, Determining the transaction price. The second sentence states “The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer,” then the last sentence states, “The transaction price does not include the effects of the customer’s credit risk, as discussed in paragraphs 68-69.” There appears to be a contradiction between these two sentences. It would seem that an entity would need to consider a customer’s credit risk when determining the amount of consideration an entity expects to be entitled to receive.

3. Paragraphs 91-93, Contract costs. We do not agree with the principles of capitalizing contract costs. We believe costs should only be capitalized if they meet the definition of an asset.