

June 26, 2015

Technical Director
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File Reference No. 2015-250

Proposed Accounting Standards Update: Revenue from Contracts with Customers (Topic 606)
Identifying Performance Obligations and Licensing

The Accounting Principles and Assurance Services Committee (the “Committee”) of the California Society of Certified Public Accountants (“CalCPA”) respectfully submits its comments on the referenced proposal. The Committee is the senior technical committee of CalCPA. CalCPA has approximately 43,000 members. The Committee consists of 57 members, of whom 43 percent are from local or regional CPA firms, 30 percent are from large multi-office CPA firms, 13 percent are sole practitioners in public practice, 9 percent are in academia and 5 percent are in international CPA firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

Question 1: Paragraphs 606-10-25-14(b) through 25-15 include guidance on accounting for a series of distinct goods or services as a single performance obligation. Should the Board change this requirement to an optional practical expedient? What would be the potential consequences of the series guidance being optional?

The Committee has no objection to changing this requirement to a practical expedient. The series requirement as written could increase complexity and also could be distortive if the underlying goods or services are distinct. Making the requirement a practical expedient would enable preparers to avoid the potential complexity of bundling what may be distinct goods or services and allow appropriate judgment in setting an accounting policy for these transactions.

Question 2: Paragraph 606-10-25-16A specifies that an entity is not required to identify goods or services promised to a customer that are immaterial in the context of the contract. Would the proposed amendment reduce the cost and complexity of applying Topic 606? If not, please explain why.

The Committee agrees with the proposed amendment and believes the proposed amendment will simplify the accounting.

Question 3: Paragraph 606-10-25-18A permits an election to account for shipping and handling as an activity to fulfill a promise to transfer a good if the shipping and handling activities are performed after a customer has obtained control of the good. Would the proposed amendment reduce the cost and complexity of applying Topic 606? If not, please explain why.

The Committee favors this change in most circumstances because it will simplify the accounting and better reflect the intentions of the parties. However, there may be circumstances where shipping and / or handling is a material portion of the contract, such as for delivery of a large piece of specialized equipment that is difficult to transport, and situations like this should not be covered by the practical expedient.

Question 4: Would the revisions to paragraph 606-10-25-21 and the related examples improve the operability of Topic 606 by better articulating the separately identifiable principle and better linking the factors to that principle? If not, what alternatives do you suggest and why?

The Committee believes that the proposed revisions to paragraph 606-10-25-21 clarify the language, but do not change the provisions. We favor the clarification.

Question 5: Would the revisions to paragraphs 606-10-55-54 through 55-64, as well as the revisions and additions to the related examples, improve the operability of the implementation guidance about determining the nature of an entity's promise in granting a license? That is, would the revisions clarify when the nature of an entity's promise is to provide a right to access the entity's intellectual property or to provide a right to use the entity's intellectual property as it exists at the point in time the license is granted? If not, what alternatives do you suggest and why?

The Committee believes that the revisions do clarify when the nature of an entity's promise is to provide a right to access the entity's intellectual property or to provide a right to use the entity's intellectual property as it exists at the point in time the license is granted. The provisions are still complex, but we have no suggestions to improve them.

Question 6: The revisions to paragraph 606-10-55-57 that state an entity should consider the nature of its promise in granting a license of intellectual property when accounting for a single performance obligation. Does this revision clarify the scope and applicability of the licensing implementation guidance? If not, why?

Yes. See our response to Question 5.

Question 7: Would the revisions to paragraph 606-10-55-64 adequately communicate the Board's intent (a) that restrictions of time, geographical region, or use in a license of intellectual property are attributes of the license (and, therefore, do not affect the nature of an entity's promise in granting a license or its assessment of the goods or services promised in a contract with a customer) and (b) about determining when a contractual provision is a restriction of the customer's right to use or right to access the entity's intellectual property? If not, what alternatives do you suggest and why?

Yes. The Committee believes that the revisions adequately communicate the Board's intent.

Question 8: Would paragraphs 606-10-55-65 through 55-65B and the related example clarify the scope and applicability of the guidance on sales-based and usage-based royalties promised in exchange for a license of intellectual property? If not, what alternatives do you suggest and why?

The Committee believes that the proposed changes clarify the scope and applicability of the guidance.

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We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "A.J. Major III". The signature is written in a cursive style with a large initial "A" and a stylized "J".

A.J. Major III
Chair
Accounting Principles and Assurance Services Committee