

November 13, 2015

Technical Director
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Proposed Accounting Standards Update: Revenue from Contracts with Customers (Topic 606) *Narrow-Scope Improvements and Practical Expedients*

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: Does the proposed addition of paragraphs 606-10-55-3A through 55-3C, as well as the addition of new examples, clarify the objective of the collectibility threshold? If not, why?

Yes, the Committee believes the proposed amendments clarify the objective of the collectibility threshold.

Question 2: Paragraph 606-10-25-7(c) was proposed to provide clarity about when revenue should be recognized for a contract that does not meet the criteria in paragraph 606-10-25-1. Does this proposed amendment improve the clarity of applying the guidance? If not, why?

The Committee believes that the proposed Paragraph 606-10-25-7(c) may improve the clarity of paragraph 606-10-25-7, although it finds it substantively no different than the existing paragraph 606-10-25-7(a). The only real difference is that the entity has stopped transferring goods and services to the customer. That could be problematic in a situation where, for business reasons, the entity does not immediately stop transferring goods or services even though it does not expect to get paid for them, but this might be considered a separate transaction outside the contract.

Question 3: The collectibility criterion in paragraph 606-10-25-1(e) refers to collectibility being probable, which is defined in Topic 606 as “likely to occur.” If the Board were, instead, to refer to collectibility being “more likely than not,” which would result in a converged collectibility criterion with IFRS, would the amendment improve the collectibility guidance in Topic 606? Explain your response.

The Committee believes that the collectibility criterion for revenue recognition needs to be high, and objects to any reduction from the “likely to occur” standard in Topic 606 to

the lower "more likely than not" standard in IFRS. While the Committee supports convergence, this is significant difference and the FASB criterion is the correct one for revenue recognition.

Question 4: Paragraph 606-10-32-2A provides a policy election that would permit an entity to elect to exclude all sales (and other similar) taxes collected from customers from the transaction price. Does this proposed amendment reduce the cost and complexity of applying Topic 606? If not, why?

The Committee believes that it would be preferable for the Board to require that all sales and similar taxes be excluded from revenues, regardless of the subtleties and complexities of the various jurisdictions' tax laws. We see little benefit to permitting alternative accounting methods for these taxes, as proposed, and see little merit to inflating revenues by amounts that never accrue to the entity.

Question 5: Revisions to paragraph 606-10-32-21 and the related example specify that noncash consideration should be measured at contract inception. Does this proposed amendment improve the clarity of applying the guidance? If not, why?

The Committee agrees that the proposed amendment improves the clarity of accounting for noncash consideration.

Question 6: Revisions to paragraph 606-10-32-23 clarify that the guidance on variable consideration applies only to variability in noncash consideration resulting from reasons other than the form of the consideration. Would the proposed amendments improve the clarity of applying the guidance? If not, why?

The Committee agrees that the proposed amendment improves the clarity of accounting for noncash consideration.

Question 7: Paragraph 606-10-65-1(f)(4) provides a practical expedient for contract modifications at transition. Would the proposed amendment reduce the cost and complexity of applying Topic 606? If not, why?

The Committee agrees with the practical expedient. It should reduce the complexity of applying Topic 606 and it is reasonable to expect that it will reduce costs.

Question 8: Revisions to paragraph 606-10-65-1(c)(2) clarify that a completed contract is a contract for which all (or substantially all) of the revenue was recognized under revenue guidance in effect before the date of initial application. Does this proposed amendment clarify the transition guidance? If not, why and what alternative would you suggest?

The Committee agrees that the proposed amendment clarifies the transition guidance and should be adopted.

Technical Correction:

The Committee supports the technical correction to remove the need to disclose current-period financial information in the period of adoption under former GAAP.

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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 that reads "A.J. Major III". The signature is written in a cursive style, with the first name "A.J." being more prominent and the last name "Major III" following it.

A.J. Major III
Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants