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Mr. Timothy S. Lucas  
Director of Research  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

#### Proposed Project – Revenues and Liabilities

Dear Mr. Lucas,

The Spring 2002 graduate class on Contemporary Topics in Accounting at Baruch College is pleased to provide you with our comments on the FASB's proposal for a new agenda project -- Issues Related to the Recognition of Revenues and Liabilities. We have just finished studying about revenue recognition and are now more aware of how complex this area of accounting is and how difficult it is to determine when the earnings process is complete. Accordingly, we believe the FASB should put the topic on its agenda.

We have read the guidance contained in Concepts Statement No. 5 with regard to when revenue should be recognized and concluded that it is inadequate to apply in practice. We need a better definition of revenue and better conceptual guidance on when the earnings process is complete. In addition, any inconsistencies in the conceptual framework on revenue recognition should be eliminated.

We have also studied the SEC's SAB 101 where the SEC staff establishes assumed facts for a wide variety of situations and asks if revenue can be recognized. We note the answer is always no! However, we also considered whether this guidance is appropriate and useful for other situations and concluded that it is inadequate for resolving revenue recognition questions. The four basic criteria in SAB 101 for revenue were taken from AcSEC's SOP on software revenue recognition but we understand AcSEC never considered whether such criteria should be applied more broadly. Further our class now appreciates the importance of due process and observes that the SAB was never exposed for comment and had many implementation issues. We also believe it is overly detailed, includes a lot of rules, but lacks a good conceptual foundation to make decisions.

In addition, we learned that the EITF has also been spending a lot of time on many revenue recognition issues and it appears it typically is a struggle for them to develop a consensus and that quite a few issues remain open. Therefore, we believe it is not

practical for the EITF to be the main source for the answers of all the emerging revenue recognition issues that companies face. A broad standard is necessary that is based on a good conceptual foundation. In addition, having learned about the GAAP hierarchy, we believe that rules on revenue recognition should be Level A GAAP and should go through a rigorous due process before adoption.

We also observe that almost every week there is another newspaper article about a company restating its financial statements because of a revenue recognition issue. Some of this may be due to fraud and deceit but if the accounting standards for revenue recognition were better perhaps less restatements would be necessary. Restatements damage the credibility of financial reporting and if clearer accounting rules and concepts were in place this could only help.

Accordingly, our class believes it is very important that the FASB add the topic of revenue recognition to its agenda. The conceptual framework should be revised to adopt concepts that would go much further to help companies make revenue recognition decisions that auditors will be able to audit. Standards are also necessary that give guidance for applying the concepts to basic revenue recognition issues. A good test would be to see how the FASB's guidance would be applied to the many SAB 101 and EITF issues. The FASB has the best due process approach for issuing good standards compared to the SEC staff and the EITF and it should be the organization to address these difficult issues.

With regard to the definition of liabilities, the FASB should only spend the time necessary to avoid conflicts with revenue recognition guidance. The conceptual questions on the definition of liabilities should not be used as a reason to delay the resolution of revenue recognition issues. Better concepts and rules are needed as soon as possible. We also believe that it would be good if this project helps stimulate international convergence on revenue recognition.

In conclusion, our class supports the FASB comprehensively addressing revenue recognition both at the conceptual level and the standards level and agree with the description in the prospectus on how the Board would likely approach the project. We also encourage the Board to try to make this a fast track project because companies and auditors need more guidance on revenue recognition now. As part of the project, the FASB should also consider if more specific disclosure is needed particularly regarding subjective estimates that might have a material impact if they have to be revised.

If you or your staff have any questions on our response you can contact us through our professor, Norman Strauss (646 312 3174)

Sincerely,

*Professor N Strauss, on behalf of  
the class -- see attached list*  
Contemporary Accounting Topics Class  
Baruch College

Contemporary Accounting Topics Class -- ACC 9807  
Baruch College  
Spring 2002

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