



11/16/2015

Technical Director  
File Reference No. 2015-320  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**Re: File Reference: Proposed ASU Topic 606 Amendments—Narrow-Scope Improvements and Practical Expedients**

Dear Technical Director:

RevenueHub is pleased to comment on the proposed amendments to ASU Topic 606 regarding narrow-scope improvements and practical expedients. RevenueHub is a student-run organization created by Brigham Young University's School of Accountancy. We research issues regarding Topic 606 and publish articles to address these issues. Our objective is to provide "plain English" articles that discuss application of the new standard, diversity in practice, and comparisons of future reporting requirements to current ones. We support the FASB's efforts to provide additional clarification on certain aspects of Topic 606 to reduce the diversity in practice. Our comments regarding the proposed amendments are included below.

**Comments on Questions for Respondents**

**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.*

We believe that lowering the collectibility threshold in order to converge with the IFRS would not improve the collectibility guidance in Topic 606. Changing the threshold from "likely to occur" to "more likely than not" may negatively impact the representational faithfulness of information in the financial statements because entities would potentially be recognizing more

revenue in current periods that would be reversed as bad debt expense in future periods. The example below demonstrates this issue.

On January 1, 20X5, Company A signs a contract to provide monthly computer support for three years to a customer for a stated price of \$360,000 (the example assumes \$120,000 of revenue is recognized per year), and Company A typically pursues 100 percent of the stated price from that type of customer. On the same day, the customer prepays \$60,000. In assessing whether this transaction meets the collectibility threshold, Company A determines that it is more likely than not that it will collect the entire consideration from the customer, but collection is not “likely to occur.” Based on that assessment (also assuming that the transaction meets all other criteria in paragraph 606-10-25-1), this transaction is considered a contract. On December 31, 20X5, Company A determines that the customer could no longer pay the rest of the consideration due to economic downturn in the customer’s industry. As a result, Company A may need to reverse the revenue that has already been recognized (\$120,000 for 20X5) and assess whether it could recognize the portion of the consideration received (\$60,000) as revenue based on paragraph 606-10-25-7.

In the example above, information regarding the contract in the interim financial statements would not accurately depict the economic substance of the transaction. That is, the “more likely than not” collectibility threshold would increase volatility in the company’s revenue recognition (i.e., revenue recognized in one period may be reversed in the next). As such, users of the financial statement would be basing financial decisions on overstated revenue as compared to today’s guidance.

**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?*

We support the Board’s efforts to reduce the cost and complexity of implementing Topic 606. However, we are concerned that the practical expedient may provide only limited relief to some entities. Eliminating the requirement of separately evaluating contract modifications fails to remove some of the more consequential difficulties preparers face. For example, an entity must still identify all satisfied and unsatisfied performance obligations *and* their standalone selling prices. The cost of obtaining this data may offset the relief provided by the practical expedient, especially for an entity with many contract modifications.

While we acknowledge some concerns, we ultimately feel that the hindsight expedient sustains the position that separate accounting for each contract modification prior to the contract modification adjustment date does not provide sufficient and useful information to justify the costs of accounting for each sequential modification. We believe that the proposed practical expedient is a step towards the right direction, but more should be done to reduce the cost and complexity of applying Topic 606.

Thank you for the opportunity to comment on this proposed update to Topic 606. If you have any questions, please contact Haoran Jiang (+1 801 696 4936) or Christian Jones (+1 650 814 8055).

Sincerely,

*RevenueHub*

RevenueHub