AICPA® PCPS
Private Companies Practice Section

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August 4, 2016

Susan M. Cosper, CPA
Technical Director
FASB
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PO Box 5116
Norwalk, CT 06856-5116

Re: May 18, 2016 Exposure Draft of a Proposed Accounting Standards Update (ASU), ***Technical Corrections and Improvements to Update No. 2014-09,*** **Revenue from Contracts with Customers (Topic 606) [File Reference No. 2016-240]**

Dear Ms. Cosper:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 412,000 members in 144 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC supports the proposed amendments that would affect nonpublic entities but recommends that the Board consider two clarifications relating to Topic 340 (Other Assets and Deferred Costs) before finalizing the proposed ASU. TIC recommends that the Board retain and amend, as necessary, the example involving costs incurred by a manufacturer to perform certain services related to the design and development of the products it will sell under long-term supply arrangements and to design and develop molds, dies, and other tools that will be used in producing those products. TIC also recommends that the Board consider including incremental contract costs associated with an expected contract renewal or extension in the calculation of the net consideration expected to be received when evaluating contract costs for impairment.

SPECIFIC COMMENTS

Question 1: *The proposed amendments to Subtopic 340-10, Other Assets and Deferred Costs—Overall, would supersede the guidance on accounting for pre- production costs related to long-term supply arrangements. Consequently, an entity would apply the guidance in Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers, if the costs relate to a contract with a customer. Do the proposed amendments resolve the scope issue? If not, please explain why and suggest alternatives. (Issue 1)*

Yes. TIC believes the proposed amendments would resolve the scope issue but may have the unintended consequence of deleting valuable guidance regarding certain preproduction costs related to long-term supply arrangements. Paragraphs 340-10-05-6 and 340-10-25-1 through 25-2 address a specific example involving costs incurred by a manufacturer to perform certain services related to the design and development of the products it will sell under long-term supply arrangements and to design and develop molds, dies, and other tools that will be used in producing those products. This guidance has been extremely helpful to preparers who face this accounting issue today. This guidance would be lost after the proposed amendments become effective, and TIC believes the proper accounting for these costs under ASU 2014-09 may not be obvious. TIC believes deleting an existing example in the *Accounting Standards Codification™* (the Codification) could create confusion as to how those costs would be accounted for under the new guidance.

TIC therefore recommends that the Board retain this guidance, amended as necessary, to improve clarity and consistency within the Codification. TIC believes, as a policy matter, that existing examples in the Codification should be carried forward and amended, wherever possible, when new guidance is issued. If the Board agrees with TIC's recommendation, the new guidance should be included within the body of the standard and not in the Basis for Conclusions, where it could be overlooked.

Question 2: *The proposed amendments are intended to improve the clarity of the impairment testing requirements in Subtopic 340-40. Would the proposed amendments improve the clarity of these requirements? If not, please explain why and suggest alternatives. (Issue 2 and Issue 3)*

Yes. TIC believes the proposed amendments would improve the clarity of the impairment testing requirements for a contract asset, including the consideration of expected contract renewals and extensions (with the same customer). However, TIC recommends that the Board consider clarifying the extent to which an entity should consider incremental costs associated with renewals.

In other words, if the entity includes an expected renewal option with the same customer in its evaluation of the impairment of capitalized contract costs, the final standard should clarify whether the calculation would also include the incremental costs (such as sales commissions) that are associated with the expected contract renewal. Since those costs factor into the calculation of the impairment loss under the original contract, it would seem appropriate for such costs also to factor into the net consideration expected from the contract renewal.

Question 3: *The proposed amendments would provide an accounting policy election about the level at which the provision for loss contracts is determined. Would the proposed amendments improve the operability of applying the guidance on the provision for loss contracts in Topic 605, Revenue Recognition? If not, please explain why and suggest alternatives. (Issue 4)*

Yes. TIC believes the proposed amendments, which would allow an accounting policy election to determine the provision for losses at the performance obligation level, would improve the operability of the guidance regarding the provision for losses on construction-type and production-type contracts.

Question 4: *The proposed amendments are intended to improve the clarity of the scope of Topic 606 for contracts within the scope of Topic 944, Financial Services—Insurance, and fixed-odds wagering contracts for an entity within the scope of Topic 924, Entertainment—Casinos. Would the proposed amendments improve the clarity of the scope guidance? If not, please explain why and suggest alternatives. (Issue 5 and Issue 8)*

TIC members do not have the relevant industry experience to respond to this question.

Question 5: *The proposed amendments would provide an additional practical expedient to the disclosure of remaining performance obligations in specific situations in which an entity need not estimate variable consideration to recognize revenue. Would the addition of this practical expedient diminish the usefulness of the disclosure information? If yes, please explain why. Would the proposed amendments reduce the cost and complexity of applying Topic 606? If not, why? Are there other situations in which an entity would be required to estimate variable consideration for disclosure but not for purposes of recognizing revenue? (Issue 6)*

TIC has not responded to this question since the disclosures in question do not apply to nonpublic entities.

Question 6: *The proposed amendments to the disclosure requirement in paragraph 606-10-50-15 are intended to expand the information disclosed when an entity applies one or more of the practical expedients in paragraphs 606-10- 50-14 through 50-14A. Do you agree with the proposed amendments? If not, what information should an entity be required to disclose about its remaining performance obligations when one or more of the practical expedients are applied? (Issue 6)*

TIC has not responded to this question since the disclosures in question do not apply to nonpublic entities.

Question 7: *While not proposed in this Exposure Draft, should an entity that applies one or more of the practical expedients to the disclosure of remaining performance obligations be required to disclose the amounts of variable and fixed consideration recognized in current-period revenue for contracts to which the entity applies one or more of the practical expedients? What would be the costs associated with including that disclosure? Would that disclosure provide useful information? Also, should an entity that applies one or more of the practical expedients be required to disclose information (for example, remaining contract duration) about each major customer as that term is used in Topic 280, Segment Reporting (that is, customers with revenue equal to or greater than 10 percent of total revenue)? (Issue 6)*

TIC has not responded to this question since the disclosures in question do not apply to nonpublic entities.

Question 8: *The proposed amendments to Example 7 in Topic 606 are intended to improve the alignment of the analysis in the example and the guidance in paragraph 606-10-25-12. Do the proposed amendments align the example with the guidance in paragraph 606-10-25-12? If not, please explain why and suggest alternatives. (Issue 7)*

Yes. TIC believes the proposed amendments closely align with Example 7.

Question 9: *The proposed amendments are intended to align the cost capitalization guidance for the capitalization of direct incremental costs for investment companies within the scope of Topic 946, Financial Services— Investment Companies, for advisors to public and private funds. Do the proposed amendments align the accounting for advisors to both public funds and private funds? If not, please explain why and suggest alternatives. (Issue 9)*

TIC members do not have the relevant industry experience to respond to this question.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Michael A. Westervelt

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees