October 30, 2020

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via email

Re: Proposed Statement of Financial Accounting Concepts—*Concepts Statement 8—Conceptual Framework for Financial Reporting—Chapter 4: Elements of Financial Statements*

File Reference No. 2020-500

Technical Director:

We appreciate the opportunity to comment on the FASB's Proposed Statement of Financial Accounting Concepts—*Concepts Statement 8—Conceptual Framework for Financial Reporting—Chapter 4: Elements of Financial Statements.*

We are a group of four students from Case Western Reserve University. We wrote this comment letter with the goal of improving our knowledge and understanding towards accounting standards updates and meanwhile providing our thoughts on this proposed chapter.

We acknowledge and support the FASB's efforts to make progress on revising the conceptual framework. We generally support the guidance in the proposed ASU and agree that it provides the Board with a framework for developing standards by identifying elements of financial statements that could be appropriate for recognition in the financial statements and relevant to the users of those financial statements.

Our detailed comments to the selected questions posed by the Board in the Questions for Respondents are included in the attached Appendix.

Again, we thank you for your efforts in trying to strengthen and improve the definitions of the fundamental elements of financial reporting. We would be pleased to discuss our comments with the FASB or its staff at your convenience. We can be reached by email. Our emails are: jxl2146@case.edu; jxz1272@case.edu; sxz668@case.edu; wxz347@case.edu .

Sincerely,

Jidong, Zhang

Wei, Zhou

Siyu, Zhang

Junyi, Long

APPENDIX: QUESTIONS FOR RESPONDENTS

1. ***The Board expects that most assets that met the definition of an asset in FASB Concepts Statement No. 6, Elements of Financial Statements, will continue to qualify as assets under the definition of an asset in this proposed chapter. Do you agree that the definition of an asset in this proposed chapter is consistent with the Board's assertion? If not, please provide examples.***

   We consider that the definition of an asset in this proposed chapter is consistent with the Board's assertion. Under the Concepts Statement No.6, "assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events". In this proposed chapter, "asset is a present right of an entity to an economic benefit". The present right means the right exists at the financial statement date, meaning that the asset has arisen from past transactions or events.

2. ***In particular, respondents are asked to focus on internally generated intangible assets. Is the definition of an asset in this proposed chapter helpful in resolving issues of identifying intangible assets?***

   Yes. According to the definition of an asset: "E16. An asset is a present right of an entity to an economic benefit. E17. An asset has the following two essential characteristics: a. It is a present right. b. The right is to an economic benefit." We believe that an intangible asset should also meet these requirements to be recognized in the financial statements. As for the economic benefit, the Proposed statement provides 3 ways of assets generating economic benefit for the company: "E20. An asset has the capacity to be beneficial to an entity by being exchanged for something else of value to the entity, by being used to produce something of value to the entity, or by being used to settle the entity's liabilities." We agree that intangible assets can realize these objectives just as other assets. Therefore, it is safe to use this standard to determine whether an asset can be classified as an intangible asset. But we think there should be some adjustments in paragraph E27:

"Assets may be intangible, and even if they are not separable or exchangeable, they may be usable by an entity in producing or distributing goods or services." In fact, we believe that some, not all, intangible assets can be exchangeable. For example, patents and recipes for producing products. Proposed statement also mentioned: "The ability to restrict others' access is a component of an asset of an entity". This principle also works for an intangible asset. The entity has to make sure that its intangible assets cannot be easily obtained or accessed through outsiders. In other words, the entity controls access to that right. In a word, all the requirements for an asset are also applicable to intangible assets. But it is not enough. We believe that the main issue exists in intangible assets is the valuation. Global accounting standards are transforming from cost accounting to fair value accounting. It can be extremely challenging to value intangible assets in fair value, due to their complex natures. Also, there are very few sources of market data available to the public. In order to list intangible assets on the financial statements, we need to know the dollar amount. Therefore, we believe that to improve the process of identifying intangible assets, the proposed statement should give us more guidance towards this valuation issue.

3. ***The Board's definition of an asset in this proposed chapter does not include the term control. However, this proposed chapter explains why and how control is interrelated to the definition of an asset. Is this discussion sufficient or is the term control necessary to include in the definition of an asset? If the term control is necessary to include, please explain how its inclusion would change the population of items that would meet the definition of an asset in this proposed chapter.***

We consider the discussion of the term "control" is not necessary to include in the definition of an asset. As is discussed in the chapter: "The ability to restrict others' access is a component of an asset of an entity because the ability to restrict creates an advantage in the form of privileged access and control of economic benefits", which has already discussed the meaning of "control"--the entity has the monopoly over a certain asset. The existing definition of assets includes the ability to generate benefits, which is also a form of control. BC4.16 also mentioned that: "many constituents misunderstood the notion of control...in applying the term control, some often failed to properly identify that which was controlled under the asset definition." Therefore, we believe that there is no need to include the term "control", which improves no accuracy of the definition but instead creates misunderstanding.

5. ***Other than as described in Question 4, to allow certain share-settled instruments to be liabilities, the Board expects the liabilities that met the definition of a liability in Concepts Statement 6 will continue to qualify as liabilities under the definition of a liability in this proposed chapter. Do you agree that the definition of a liability in***

this proposed chapter is consistent with the Board's assertion? If not, please provide examples.

We consider that the definition of a liability in this proposed chapter is consistent with the Board's assertion, even though there are some differences in wording. Under the Concepts Statement. 6, Liability are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. In this proposed chapter, a liability is a present obligation that requires an entity to transfer or otherwise provide economic benefits to others. Both of them agree present obligations are required to sacrifice economic benefits.

6. In practice, the more challenging applications of the definition of a liability in Concepts Statement 6 were related to business risks, constructive obligations, and stand-ready obligations. Is the discussion of those three areas in this proposed chapter adequate to understand and apply the definition of a liability?

Yes. However, stand-ready obligations need supplements. We consider the discussion of those three areas in this proposed chapter could almost help readers to understand and apply the definition of a liability. Business risk was not mentioned in Concept Statement 6, but is necessary, because some business risk may result in potential obligations. Constructive obligations, stand-ready obligations were mainly discussed in E49-E63. In this discussion, definition of a liability in Concepts Statements 6 were taken into comparison and consideration. It gave good examples like warranty coverage, but we believe that warranties are included in the price of product, it lacks the clear definition of service-related stand-ready obligations.

7. The Board suggested that integration with presentation principles would be helpful in distinguishing between the components of comprehensive income. To facilitate this distinction, paragraph E92 of this proposed chapter references presentation principles. Is distinguishing revenues from gains and expenses from losses essential as a matter of elements, or should those distinctions be exclusively a matter for presentation concepts? Please explain.

We believe that it is essential to properly define revenues, gains, expenses and losses. The fundamental difference between revenues and gains and between expenses and losses is more than a matter of presentation. However, the definition of revenues is not adequately distinguished from the definition of gains, so as that of expense and loss. Although we don't have a very specific distinction standard of these elements, FASB Concepts Statement No. 6 provided examples in the characteristics section that helped us better understand these concepts. But we still recommend that phrasing should be reintroduced to help preparers and users of financial statements differentiate between revenues and gains.

8. As described in Question 7, this proposed chapter seeks to distinguish between revenues, expenses, gains, and losses. Do the definitions of and other explanatory language related to revenues, expenses, gains, and losses make the distinction between these elements sufficiently clear?

As mentioned in above, FASB Concepts Statement No. 6 provided better explanations through the characteristics section, which helps to clarify the definition of revenues, expenses, gains, and losses. However, that's not enough. For example, under ASC 606 and the definition of revenues in CON 6, we do not believe this sale would be considered a revenue transaction; rather, it would result in a gain recognized under ASC 610-20. It's confusing because the description is too vague. In this case, we believe the proposed Chapter should define what the Board believes each financial statement element is, not only what it is not.

9. The Board has concluded that, other than when exceptions are specifically noted in this proposed chapter, the elements described in this proposed chapter would apply to not-for-profit organizations. Do you agree with this conclusion?

We consider that the elements described in this proposed chapter would apply to not-for-profit organizations. The definition of accounting elements such as assets and liabilities are applicable to not-for-profit organizations. But we believe that the "donated resources" mentioned in paragraph E73 should be elaborated in detail. FASB should give more guidance on how to distinguish donated resources from investments or what is the relationship between the two. Sometimes the donator wants something back from the non-profit organization. For example, a donator inputs capital in a non-profit-organization and asks them to conduct research for him/her, in return for the output such as patents. This situation works similar as the investments by and distributions to owners. Therefore, whether the "donated resources" like cash should be classified as equity or asset is worth discussing.

11. "Appendix A: Accrual Accounting and Related Concepts," includes discussion of several concepts that are used in this proposed chapter and in other chapters of the Conceptual Framework. Is this material helpful in a chapter discussing the elements of financial statements?

We believe that Appendix A is not so helpful in defining elements of financial statements. Accrual accounting concept has already incorporated in the receivables and payables related definitions and therefore has no additional contribution to the principles.