

Technical Director – File Reference No. 2020 – 500

November 8, 2020

Financial Accounting Standards Board

401 Merritt 7, P.O. Box 5116

Norwalk, Connecticut 06586-5116

To the Technical Director :

This commenter has reviewed the Proposed Statement of Accounting Concepts Statement No. 8, Conceptual Framework for Financial Reporting – “Chapter 4 : Elements of Financial Statements” given the questions for respondents in that narrative. Many constructive conversations on the subject of accounting and finance and related matters begin with statements and declarations of concepts, definitions and principles; and in fact, research documents on accounting and finance equally examine proper definitions before presenting analyses and related items in their writings. This commenter does agree the language of accounting definitions as previously outlined, and while sufficient for many purposes as it has been for years, should be clarified to rationalize what appear to be overly complex, even prolix definitions provoked by an increased and perhaps inappropriate focus on encompassing the varied and detailed economic activities of the enterprise. Orientation toward economic activities instead of overall concepts such as business purpose or the production of revenue and therefore income or more fundamentally the financial condition of the business, and from the standpoint of economic activities exclusively render the nature of traditional, tried and true accounting identities and definitions unto themselves more and more complex and opaque in ways that appear tangential to the actual financial condition of the enterprise. An overall example of this is the increasing emphasis upon more and more complexity around what constitutes revenue for the business and how this should be recorded. One cannot underestimate the increasing value of sufficient and proper accounting definitions in conceptualizing proper accounting principles for the financial statement preparer or examiner under the circumstances, and clarity and brevity in the definitions of elements of the financial statements is entirely and substantively sufficient and appropriate given the necessity of proper presentation of the financial condition of the enterprise. This commenter is very thankful to the Technical Director and the Board for the opportunity to comment on this topic. Responses to questions in the proposed SFAC are as follows :

Question 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. **Answer :** This

commenter agrees that the definition of an asset in this proposed chapter is consistent with the Board's decision including with consideration of the definition of an asset to provide present and future benefits, to enhance an already existing asset or to enhance the capital or equity of the enterprise.

Question 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? **Answer :** This chapter is helpful in resolving issues of identifying intangible assets including the sale, transferability and licensing of such assets.

Question 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. Control as discussed in this chapter appears to govern access to assets that is principally a legal consideration, not a valuation consideration. **Answer :** This commenter does not know how such control of an asset, to its rights and economic benefits, or to an obligation would enhance or detract from its intrinsic or transactional value since ordinarily varying assets and liabilities are subject to quite varying degrees of control severally and as different classes of assets themselves. This commenter believes that while assessing control and ascribing a value to it as associated with one asset or another might be possible, it would render and perhaps override in many cases the character of the definition of the asset as producing present economic benefit or benefits. Said control as illustrated in the chapter, when in evidence or as shown in a financial statement item, might even serve to taint the overall value of the item.

Question 4: The Board decided that an obligation to transfer either assets or, in certain limited circumstances, an entity's own shares would meet the definition of a liability. Is the discussion in this proposed chapter of the limited circumstances in which the entity's own shares would meet the definition of a liability sufficiently clear? **Answer :** The discussion around an obligation to transfer either assets or, in certain limited circumstances, an entity's own shares as illustrated in this chapter, and the way in which this would meet the definition of a liability is sufficiently clear.

Question 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. **Answer** : This commenter agrees that the definition of a liability in this proposed chapter is consistent with the Board's assertion as to share – settled instruments and liabilities and in view of the nature of liabilities as future economic sacrifices or enhancing the same, or as a subtraction from the equity or dilution of capital of the entity.

Question 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? **Answer** : This commenter agrees the chapter discussion as to business risks, constructive obligations, and stand – ready obligations is substantive and adequate enough to understand and apply the related definition of a liability.

Question 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. **Answer** : Distinguishing revenues from gains and expenses from losses is essential as a matter of elements and their definitions that concern, e.g., matching and related considerations. Definitions of these items are separate from presentation considerations such as amounts and timing, and events and circumstances.

Question 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? **Answer** : This commenter observes the language of this chapter on definitions and other explanatory language related to revenues, expenses, gains and losses makes the distinction between these elements sufficiently clear.

Question 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? **Answer** : As a basis for these considerations and not – for – profit organizations and the changes in net assets of the same, this commenter agrees that as noted and exclusive of the exceptions in the discussion as documented in this proposed chapter, the financial statement elements described would apply to not – for – profit organizations.

Question 10: This proposed chapter was developed on the basis of Concepts Statement 6, though several paragraphs have been removed or adapted. Are any of the paragraphs from Concepts Statement 6 that have been removed in drafting this proposed chapter necessary to keep? If so, why? **Answer :** This commenter observes that given the inclusion of sufficient language in the body of the proposed chapter and that in Appendix B, the proposed chapter as drafted does not call for keeping any of the paragraphs from the Concepts Statement No. 6 that have been removed.

Question 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? **Answer :** This commenter agrees the discussion in this proposed chapter of accruals and deferrals is sufficient and helpful, and avoids the provision of specific transactional guidance though there is no compelling need for inclusion of this in the chapter discussion of definitions and concepts of accrual and deferral, period expenses and revenues, gains and losses.

By,

Thomas Heaton Spitters, CPA

Thomas H. Spitters, CPA

San Francisco, CA 94104 – (415)800-4499 - Telephone – tom.spitters@hotmail.com – e-mail