Nov 6, 2020
Via Email to director@fasb.org
Technical Director
Financial Accounting Standards Board
401 Merritt 7 P.O. Box 5116
Norwalk, CT 06856-5116

Re: FASB Exposure Draft Proposed Statement of Financial Accounting Concepts Statement 8 (ED-CON_8)-Conceptual Framework for Financial Reporting-Chapter 4: Elements of Financial Statements
File Reference No. 2020-500

We appreciate the opportunity to comment on this Exposure Draft: Proposed Statement of Financial Accounting Concepts Statement No. 8 Ch. 4.

We are graduate students from Masters of Accountancy in Case Western Reserve University. We focused on accounting concepts and theory.

Overview

We are in support of the proposed statement outlined. Overall, we agreed with the assertions made by the board except for questions 2 and 3. In addition we also wanted to reiterate our position on questions 7 and 8.

We do not agree with the proposed definition of intangible assets due to the definitions of intangible assets and research & development are not clear and FASB doesn't provide enough examples and sufficient discussion about them. Hence, the exposure draft may be misinterpreted in practice. And we believed that the term "control" is necessary to include in the definition of "Asset".

Here we believe that the distinction of revenue, expenses, gains and losses are sufficient as stated. In addition, the distinction of revenue from gains and expenses from losses should remain distinct. This is because we are interested in how primary operating activities differ from non-primary operating activities. They are a matter of elements as outlined in paragraph E92.

Please see Appendix A for our responses to Questions 2,3,7, and 8.

We trust our comments are helpful to The Board in determining next steps for the project. Should you have any questions about our letters, please do not hesitate to contact us through email: bxc410@case.edu for Bojun Cui and for sam310@case.edu for Sanay Mohile.

Sincerely,
Bojun Cui **Sanay Mohile**

Appendix A:

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?

No, we don't think this proposed chapter is helpful in resolving issues of identifying intangible assets.

In the Exposure Draft, paragraph E16 states that *"An asset is a present right of an entity to an economic benefit*" and paragraph E30 states that "*Sometimes present rights with uncertain amounts and timing are referred to as contingent assets*" and "*for those rights, the fact that the outcome is unknown affects the measurement but not the existence of the asset*". These two statements conflict with paragraph E35 that states "*Some activities are undertaken with the expectation of obtaining an economic benefit in the future. Examples include research and development....*" and "f*or these and similar activities, assessments of when a present right exists and whether the right is to a related economic benefit may be especially uncertain.*" The cause of the conflict is that FASB doesn't provide sufficient discussion in here to clearly state what situation will cause the extinction of present rights and the related economic benefit to be uncertain. For example, research and development could provide the entity with a present right to economic benefits or bring "certain" economics benefits (estimated amount with high confidence) in the future. Hence, it should be recognized as assets. Even if the outcome of the R&D is uncertain, followed paragraph E30, it would be unfair to say the present right and related economic benefits do not exist on the R&D. However, E35 rejects to recognize it as assets. So, we suggest FASB should clear the conflict here or provide further explanation.

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.

We believe that the chapter should include the term 'control' to define an asset. In the Exposure Draft, paragraph E16 states that "*a. It is a present right. b. The right is to an economic benefit. The combination of these two characteristics ('it is a present right' and 'the right is to an economic benefit') allows an entity to obtain the economic benefit and control others' access to the benefit*" However, "present right" does not imply "control". Hence, based on the definition of "Asset" in the Exposure Draft, internally generated goodwill (part of market capitalization exceeding book value) could be recognized as assets because the internally generated goodwill present value (economic benefit) and is present right. And the entity cannot control the internally generated goodwill or the entity is not the only source to control it. The software ecosystem is an example. Popular technology could obtain economic benefits from the software ecosystem. However, popular technology is not the only source to control it and outside factors may control it too, such as the customer and the social media. Hence, an entity could obtain the economic benefit from internally generated goodwill but the entity cannot control it. And if we put “control” back in the definition of “Assets”, internally generated goodwill cannot be controlled and it cannot be recognized as assets. So, we believe that the term “control” is necessary to include in the definition of “Asset”.

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.

We believe that the distinction between revenue from gains and losses from expenses are important as a matter of elements. Understanding how income is made up is important. Whether there is a significant gain or loss on assets, or disposal of assets, or any lawsuits that may have affected the company that are being recorded as a loss. In addition if they are just one time events they may not be as important as revenues from primary operating activities.

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?

Yes, paragraph E89 states specific transactions for what would constitute a gain or loss. We believe these are sufficient for others to use and interpret this distinction between the elements.