Ms. Hillary H. Salo
Technical Director
Financial Accounting Standards Board
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By e-mail: director@fasb.org

Via email

Re: Invitation to Comment – *Concepts Statement No. 8, Conceptual Framework for Financial Reporting*, File Reference No. 2020-500

Dear Technical Director,

Thank you for this opportunity to comment on *The 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 and hereafter the "Exposure Draft").

We are master of accountancy students from Case Western Reserve University and we are pleased to provide comments on the Board's proposal. In general, we support the Board's efforts to update the definitions of certain elements of financial statements to reflect recent changes in practices and standards. But we do have some concerns. Below are our responses to the questions included in the exposure draft

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.

We think the definition of asset in this proposed chapter is consistent with the Board's assertion except the removal of term "control". According to original FASB Concepts Statements No.6, an asset has three essential characteristics: (a) it embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows, (b) a particular entity can obtain the benefit and control others' access to it, and (c) the transaction or other event giving rise to the entity's right to or control of the benefit has already occurred. "Control" was considered as essential term and was explicitly described. The proposed chapter could bring some confusion and change the conditions when asserting assets.

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 think more detailed explains should be included. E27 mentioned the intangible assets and describe that it is not separable or exchangeable. However, there is no example to clarify when internally generated intangible assets meet the definition of assets. If the intangible assets were not separable, how should we consider the situation when, for example, the owner allow others to use the license by paying money.

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 2020-500 Comment Letter No. 7 2 include, please explain how its inclusion would change the population of items that would meet the definition of an asset in this proposed chapter.

The discussion here is insufficient. For example, the lease arrangements gave the lessee the right to hold and use the property for a specified interval and the lessor the right to receive lease payments and any residual value. Also, timeshare property owners have the rights to use property during specified time periods. During this process, who is the one that really has the present right or controls the assets? What if someone controls the assets but do not have the present rights? We believe it is important to provide more detailed and explicitly demonstration. So that the term control is necessary to include on the definition of an asset.

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?

We agree that the discussion is clear here.

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.

Yes. We agree.

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?

We believe the discussion of business risks, constructive obligations, and stand-ready obligations is sufficient to apply the 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.

We think distinguishing revenues from gains and expenses from losses is important and should be stressed as a matter of elements. We agree with the point in E92 that distinguishing gains and losses from revenues and expenses can make displays of financial information about an entity's sources of comprehensive income as useful as possible. We think the information about sources of comprehensive income can guide the report users to see the real situation of a company. Such distinction can affect the users' decision.

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?

E86 describes gains as "Gains are increases in equity (net assets) from transactions and other events and circumstances affecting an entity except those that result from revenues or investments by owners". There are few descriptions of gains' characteristics. we feel confused to distinguish gain and revenues from such description. It just told us if the increases in equity are not from revenues or investments by owners, they are gains. We do not think it describes what is gain clearly. It may be more clearly if add some more explanation and characteristics of gains. For loss, we have the same opinion.

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?

We agree with the conclusion. This chapter clearly shows how the 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?

In BC4.53, it says that “the distinction between revenue and gain is more appropriately addressed as a gross versus net presentation issue. Specifically, revenue (that is, gross) presentation is preferred when margin information is relevant, whereas gain (that is, net) presentation is preferred when margin information is not relevant.” We agree this point and think the more detailed definition should be applied to revenues and gains. We think the conceptual framework should give user a clear guidance to identify the included elements.

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?

Yes, Appendix A is a helpful supplement to understand elements of financial statements better.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Xuhua Tan at xxt139@case.edu or Chao Dong at cxd366@case.edu .

Sincerely,

Xuhua Tan
XUHUA TAN

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CHAO DONG