

13 November 2020

Via email to director@fasb.org

Hillary H. Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2020-500 - Concepts Statement No. 8, Conceptual Framework for Financial Reporting

Dear Ms. Salo:

Thank you for the opportunity to comment on this exposure draft regarding the conceptual framework for financial reporting.

We are a group of four Master of Accountancy students at Case Western Reserve University. Case Western Reserve is one of the nation's top private research universities located in Cleveland, Ohio.

Overall, we support the topics discussed in Chapter 4: Elements of the Financial Statements of the Concepts Statement No. 8, Conceptual Framework for Financial Reporting, and the 10 elements that are defined within it.

We would first like to respond to Question 7, which is the Board's suggestion that integration with presentation principles would be helpful in distinguishing between the components of comprehensive income. We strongly believe that revenues and gains and expenses and losses should be separated as a matter of elements as well as a matter of presentation. Differentiating revenues and gains in the financial statements enables investors to develop a greater understanding of where income comes from. Income generated from the primary course of business would be categorized as revenue while income from other sources, such as non-equity, would be categorized as gains. Firms that have more gains than the revenue generated would rely more on non-primary sources for their income generation. This suggests that their primary course of business experiences difficulty in the current economy and could be a going concern. It is crucial for revenues and gains to be disclosed for these reasons as

separate line items. This format of presentation would benefit users of the financial statements as it would make interpretation of the statements easier.

A similar phenomenon occurs for expenses and losses. Expenses are usually distinguished between operating and non-operating on the income statement as well as a separate section for losses. Similar to income and gains, this format allows a clearer presentation for financial statement users.

The implementation of this distinction in the conceptual framework is key as the conceptual framework lays the foundation for the creation of the standards. If the conceptual framework did not lay the specifics for how to define revenues and expenses from gains and losses at the conceptual framework level then individuals preparing financial statements would have difficulty determining where to include certain items. Furthermore, standard setters would diverge from the framework by coming up with their own interpretations without any formal guidance in the conceptual framework. Since standards are built up from the conceptual framework, the framework should establish the differences in both elements and presentation.

Next, we would like to respond to Question 8, which asks if the distinction between the elements of revenues, expenses, gains, and losses are sufficiently clear based upon the definitions and language surrounding them. As mentioned above, revenues and expenses are used to describe inflows and outflows that result from the primary course of business. The proposal currently uses the term “delivering or producing goods, rendering services, or carrying out other activities” in order to reflect the primary source of income. However, we believe that this term is insufficient as it is unclear what “other activities” would entail. Given the diversity of businesses in the current market, many companies derive their primary source of income from neither services rendered nor production of goods. Moreover, we believe the phrase “other activities” is unclear in defining activities that constitute income from operating sources. Hence, we agree with the definitions of revenues and expenses prior to the proposal, which includes the phrase “delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations”. This term more specifically identifies the sources from which revenues and expenses derive themselves, instead of the more vague phrase of “other activities.” Additionally, we believe the definitions should reflect the exclusion of exchange transactions from revenues and expenses. These adjustments will make the definitions of revenues and expenses as a whole more comprehensive and clearer in terms of what should and should not be included.

If the definition of revenue is corrected in accordance with our prior suggestions, then we believe that the definition of gains as it stands in the draft would be sufficiently clear, as the definition provides that gains occur from transactions except those that result in revenues or investments by owners. Similarly, if the definition of expenses were to also adopt our suggestions, we believe that the definition of losses would then be sufficiently clear, as losses would be constituted of transactions that did not result in expenses or distributions to owners.

We appreciate the opportunity to comment on the proposed change to the conceptual framework. If you have any questions concerning our comments, please reach out to Marissa Muth (mam436@case.edu), Han Nguyen (hkn6@case.edu), Natalie Walton (naw48@case.edu), or Liliyana Wolberg (lsw43@case.edu).

Yours Truly,

Marissa Muth, Han Nguyen, Natalie Walton, and Liliyana Wolberg