Project **Revenue recognition**

Topic **Comment letter summary – main issues**

Introduction and purpose

1. The exposure draft issued by the FASB included a question on whether any of the proposed guidance should be different for nonpublic entities (private companies and not-for-profit organizations). This appendix summarizes responses on that question.
2. In addition to the concerns highlighted in this appendix, nonpublic entities shared many of the concerns of public entities that are highlighted in the main comment letter summary (Memo 134A / agenda paper 3A).

Summary of responses to Question 18

Overall views

3. Generally, respondents think that the proposed recognition and measurement guidance should be the same for public and nonpublic entities because:
   (a) Different requirements could lead to less comparability and consistency among public and private entities.
   (b) Public and nonpublic entities often compete in the same markets and therefore should be required to comply with the same standards.
   (c) It may be costly and cause confusion to have two sets of standards (one standard for public and another for nonpublic entities). Financial

institutions, audit firms, users and entities would be required to maintain personnel with expertise in more than one set of standards.

4. However, most respondents think that disclosures and effective date should be different for nonpublic entities.

5. Some respondents asked the Boards to clarify whether the proposed guidance would affect current accounting for contributions or grants.

6. A few respondents think that it should be the responsibility of other committees, such as the Private Company Financial Reporting Committee (PCFRC), to decide whether there should be different requirements for nonpublic entities, rather than the FASB.

Application to the construction industry

7. A majority of respondents who commented on question 18 were either small, privately held construction entities or the sureties who provide credit to these construction entities.

8. Many of these respondents do not agree with many aspects of the proposals (as described in Memo 134A / agenda paper 3A), and think that the information provided under ASC Subtopic 605-35 on construction-type and production-type contracts (formerly SOP 81-1) is useful and meets the needs of users in the construction industry. Therefore, they are not convinced that the proposals represent an improvement to current guidance. Accordingly, these respondents recommend that the Boards should either:

   (a) Provide a scope exception for nonpublic entities; or

   (b) Retain some of the main principles in SOP 81-1 or provide a scope exception for construction contracts.

9. Many sureties in the construction industry think that the proposals would not provide useful information about their clients' construction contracts and stated that if the proposals become effective for nonpublic entities, they would continue to require supplemental information from their clients, similar to what

they receive today in accordance with SOP 81-1. As a consequence they noted that nonpublic entities may be required to keep two sets of accounting records: one to comply with GAAP and another to comply with the needs of users (such as sureties).

Not-for- profit organizations

10. Of the respondents who commented on not-for-profit organizations, most noted that the focus, needs and user base of not-for-profit organizations is different from for-profit entities. Therefore, they think the Boards should consider separate guidance for these entities.

11. Some respondents think that the proposals should apply only to specified revenue generating activities, noting that the proposals would not be appropriate for grants or contributions.

> With respect to not-for-profit organizations and based on our general business experience, we believe the proposed ASU should apply to only certain elements of their revenue streams, namely those revenues that relate to the delivery or goods and services for a fee where there are for-profit enterprises offering similar services. Examples might include patient billings for hospitals, tuition and fees for students in higher education institutions, customer revenues for municipal owned public utilities and the like. (CL# 243)

12. Some respondents do not think it would always be appropriate to recognize a liability for an onerous performance obligation in situations in which goods or services are provided at a price that is less than cost. For example, a not-for-profit railway may recover only a small percentage of costs through customers and the remaining may be collected from the government.

Research contracts

13. A few respondents, mainly in the healthcare industry, questioned how the proposals would apply to research projects. Specifically they had concerns about identifying performance obligations and determining when control is transferred. For example, they asked whether the performance obligation is to

provide research services over time or to provide a research report at the completion of the project.

Disclosure

14. Many respondents think that nonpublic entities do not need to provide the same level of disclosure as public entities. They think that the proposed disclosure requirements would:

    (a) Not provide useful information to users of nonpublic entities. Most users of nonpublic entity financial statements have more direct access to management, can obtain information when needed, and already receive supplemental financial information in addition to what is required by existing guidance based on their individual needs.

    (b) Provide information that is too detailed and may not be useful to users of financial statements of nonpublic entities.

    (c) Be costly and time consuming with benefits that would not outweigh the costs, particularly if the disclosures are required on a quarterly basis.

15. Many nonpublic entities stated that they do not keep records that will enable them to present disaggregated revenue. In addition, they noted that the proposed disaggregation requirement is similar to segment reporting, which is not required for nonpublic and not-for-profit entities.

Effective date

16. Most respondents think that the effective date for nonpublic entities should be set one to two years after the effective date for all other entities to allow such entities additional time to evaluate the effect of the standard and make the necessary changes to implement the standard.

Costs and benefits

17. Many respondents think that implementing the proposed requirements may be extremely costly and time consuming and may not provide useful information for nonpublic entities. Additionally, they indicated that the benefits of the proposals may not outweigh the costs.

18. Specifically many respondents raised concerns that implementation of the proposals may lead to:

    (a) Increased costs from having to hire more personnel to implement the proposals and from the additional time required to educate new and existing staff. Many nonpublic entities are currently struggling to remain profitable and therefore do not welcome additional accounting costs.

    (b) Higher professional fees including audit fees or fees from external experts. Many nonpublic entities would be required to rely heavily on their CPA firms to provide assistance in implementing the proposals.

    (c) The need to reconcile GAAP financial information to the information required by sureties or other users.

    (d) Increased cost to users that provide credit to nonpublic entities.

Information technology

19. Some respondents noted that nonpublic entities may need new or improved systems and controls around those systems in order to comply with the proposals. They noted that many existing systems would not be able to perform certain tasks required by the proposals (eg combining and segmenting contracts, recording multiple performance obligations, presenting contract assets and liabilities separate from accounts receivable, and reducing the transaction price for collectability). In addition, most current software for construction contracts has been designed specifically to comply with existing guidance.

20. Many nonpublic entities currently manage their contracts through the use of manual accounting systems and think they would need to purchase software and other technology to implement the proposals.

Transition

21. Many respondents do not think that nonpublic entities should apply the proposed requirements retrospectively because most users of these entities generally have direct access to management and can request additional information if needed. Therefore, they think that the benefits of the financial information resulting from retrospective adoption may not outweigh the costs of producing it.

Tax implications

22. Some respondents are concerned about the potential tax implications on nonpublic entities arising from the proposed standard and the potential increase in costs.

    (a) Entities would be required to keep a separate set of books to comply with tax reporting (currently, many tax accounting requirements are similar to the requirements of SOP 81-1).

    (b) Preparation of income tax and deferred tax provisions could be more complex.