



February 25, 2021

David R. Bean, CPA  
Director of Research and Technical Activities  
GASB  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**Re: June 16, 2020 GASB Preliminary Views, *Revenue and Expense Recognition* [Project No. 4-6P]**

Dear Mr. Bean:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the Private Company Practice Section (PCPS) Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC appreciates the efforts of the Board to issue this Preliminary Views document (PV) in an attempt to improve the understandability, reliability, relevance, consistency, and comparability of information regarding revenues and expenses, thereby, enhancing the usefulness of that information for making decisions or assessing government's accountability.

In TIC's discussions with GASB, it became apparent there are many concepts assumed to be known to the readers that are not specifically included in the PV. For example, some items were referenced that appear in various other concept statements and standards. TIC would like to suggest that GASB consider giving the upcoming revenue and expense recognition standard its own concept statement which could encompass all of the background knowledge that went into developing the standard.

In addition, TIC believes an Implementation Guide will be necessary to properly vet some of the various questions/issues surrounding the standard when it is released.

TIC's additional detailed comments, organized by chapter of the PV, are below.

## ***Chapter 1- Objective and Scope***

TIC noted that GASB scoped out all purchase and sales of capital assets and investment income from this PV. There is reference in paragraph 9 of Chapter 6 to monetary and nonmonetary transactions and that, if both components are present, it is within the scope of the standard. This would be similar to presentation related to a purchase or sale of an asset, and TIC believes this is contradictory to the scope described in chapter 1. TIC believes it would be very beneficial for the GASB to include, within this document, reasoning for excluding such items.

TIC also posed the question as to whether items such as pollution remediation (a by-product of capital assets) would be scoped out.

Lastly, related to the scope of the PV, TIC had more questions regarding quasi external transactions between the primary government and discretely presented component units. TIC believes it would be very helpful to have more clarifying language in the ED to clearly direct the community on these types of transactions.

## ***Chapter 2- Foundational Principles for the Model***

TIC noted that assumption 5 seems to be moving away from “netting” revenues and expenses. However, TIC was curious as to whether there could be specific situations where netting would be permitted. It is TIC’s understanding that if you have what would be considered one transaction versus two separate transactions, netting would be permissible. However, TIC believes some clarification or examples should be provided as to what constitutes one transaction versus two.

## ***Chapter 3- Categorization***

With regard to the portfolio approach, TIC believes the concept of materiality can be added with some specific examples on how to apply this approach.

TIC also struggled with the concept of mutual assent and when this would apply. Sales tax could be an example of where application of mutual assent could be confusing. TIC discussed airline fees and whether or not those fees qualify as mutual assent. In those situations, an individual is making a choice to purchase an item and pay sales tax, or purchase an airline ticket and pay the fee. However, in discussions with GASB staff, they didn’t necessarily agree on treatment of the sales tax and airline fee. TIC believes more guidance related to mutual assent would be beneficial.

TIC also thought the term moral or constructive obligation was confusing and could result in diversity in practice. More examples in this area would be beneficial to the community.

## ***Chapter 4- Revenue Recognition***

TIC does have some concerns with the separation and distinction of purpose-driven versus expenditure-driven grants. TIC also was curious as to why the Board allowed an exception for pledges and endowments.

## ***Chapter 5- Expense Recognition***

TIC was curious, based on paragraph 5, as to when a nonrefundable fee becomes an expense. A very relevant and timely example would be deposits made to vendors by schools, during COVID, that are nonrefundable.

TIC noted that in paragraph 15, different repairs and maintenance are treated differently from monthly service, which results in a single performance obligation. TIC believes this could result in diversity in practice and clarification may be needed on “bundles/series of transactions.”

The concept of future compliance on expenditure- driven grants was discussed with the staff in November. The GASB staff mentioned loan covenants, and a couple of other concepts for future compensation. However, TIC would appreciate some additional examples and illustrations to further clarify this concept.

## ***Chapter 7 – Short-Term Financial Resources Measurement Focus and Accrual Basis of Accounting Application***

Chapter 7 seems to help clarify many issues in the Financial Reporting Model ED and in the previous chapters of the RER PV. TIC believes it may be beneficial to have this chapter as part of the concepts statement, or perhaps incorporated at the beginning of the RER PV and the FRM ED.

## ***Appendix C – Case Studies***

### ***Case 2 – Healthcare Providers***

There has been some discussion regarding what qualifies as a “bundle of services” in the healthcare industry. For example, do we need to look at it from the customer perspective, the hospital perspective, or the insurance company perspective? TIC believes it could involve several different aspects and some additional examples would be helpful either in a case study or an implementation guide.

### ***Case 3 – Loan/Grant***

TIC had some confusion surrounding the loan portion of this example. If it is purely a loan, would it be scoped out in Chapter 1, paragraph 3? TIC believes it would be more clear if this was presented as 2 separate transactions/examples.

### **Case 7 – College Tuition**

There are some that believe this could be an administrative burden to properly account for the potential refunds/earnings over time. Does this mean that you would not be able to recognize revenue until the refundable period passes? And what if the transaction crosses a year end? TIC believes that clarification and, perhaps, additional examples would be helpful.

#### **ADDITIONAL COMMENTS**

TIC believes that, in order for governments to have enough time to prepare for these major changes, there should be a delayed effective date of the standard on revenue and expense recognition. TIC would suggest a similar implementation as proposed in the Financial Reporting Model ED whereby smaller governments are granted additional time to adopt the standard.

TIC also would support the changes to the financial reporting model having the same effective date as this revenue and expense proposal since they are very closely related and having the same effective date will make the transition easier for governments rather than implementing the changes piecemeal.

TIC also believes that a future implementation guide would be helpful.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Danielle Supkis-Cheek", with a long, sweeping flourish extending to the right.

Danielle Supkis-Cheek, Chair  
On Behalf of the PCPS Technical Issues Committee