

Dear Mr. Bean,

Thank you for the opportunity to provide these comments regarding the Invitation to Comment (ITC) of the Governmental Accounting Standards Board (GASB) on major issues relating to Revenue and Expense Recognition. We appreciate this opportunity to respond and the comments reflect our views as graduate level students entering the accounting profession in the near future. We have based our comments on the efforts of the GASB to improve the comparability of how transactions are accounted for and reported by state and local governments, and to offer more useful information to people who use financial reports for making decisions and assessing accountability.

### **Questions for Respondents**

#### **2.1 Do you believe the exchange/nonexchange model would provide a suitable basis for classifying transactions and recognizing revenue and expense? Why or why not?**

It is our opinion that the exchange/nonexchange model would provide a suitable basis for classifying transactions and recognizing revenue and expense. This model offers familiar terminology to governmental accountants and financial statement users. The benefits include reduced learning curves and costs for implementation. Preparers and users of the financial statements should have a quicker response to learning the new model and applying it to their daily work.

One of the challenges of implementing this model pertains to the term equal value. Equal value can lead to subjectivity when applying the model to recognizing revenue and expense. Interpretations of equal value can differ from government to government leading to inconsistency of practice. Further clarification of this term may be needed in order to improve comparability of how transactions are accounted for and reported by state and local governments.

The examples outlined in the ITC for exchange/nonexchange transactions lay a foundation for examples commonly found in the daily transactions of a government. We believe providing further examples of transactions and expanding guidance for exchange transactions will help reduce the inconsistency of reporting across the board. This approach would prove to be the least expensive and time consuming for users to learn and understand. However, we believe there may be a better alternative to improving comparability of how transactions are accounted for and reported.

#### **3.1 Do you believe the performance obligation/no performance obligation model would provide a suitable basis for classifying transactions and recognizing revenue and expense? Why or why not?**

We believe the performance obligation/no performance obligation model would provide a suitable basis for classifying transactions and recognizing revenue and expense, though it would create an incredibly large burden on the government employees to understand and record these performance obligation transactions. In our opinion, the performance obligation model has the potential to improve comparability of how transactions are accounted for and reported since there is either a performance obligation or there is not. As defined by the ITC, performance obligation is a promise in a binding arrangement between a government and another party to

provide distinct goods or services to a specific beneficiary. With binding arrangement defined as a broad spectrum of formal and informal arrangements, the definition of performance obligation could include restricted contributions given by donors or nonexchange transactions, such as the grant transaction described in the ITC. However, we feel the language used by GASB in the ITC clarifies that contributions and nonexchange transactions are not performance obligations. First, the ITC makes it clear that the specific beneficiary of the goods or services provided by a government would need to be specific enough to be distinguished from the general public. This terminology, once taught to the employees who record the transactions, would eliminate the contribution or nonexchange transaction confusion where the government's citizenry, as a whole, benefits. Second, the ITC mentions that if a government is unable to identify a promise in a binding arrangement with rights and obligations that articulate in equivalent terms, a specific beneficiary, or distinct goods and services, the transaction would be classified as not containing a performance obligation. The specific guidance here eliminates the confusion between what could be a performance obligation and what is not a performance obligation transaction. Therefore, the performance obligation model has the potential to be a suitable basis for classifying transactions.

We believe the biggest advantage of the performance obligation model is the principle based approach to recognizing transactions. The recognition based on performance obligation would follow three steps: 1) determine consideration, 2) allocation consideration to performance obligation(s), and 3) recognize revenue or expense as each performance obligation is satisfied and the transaction is applicable to the reporting period. These three steps provide a guideline for employees who record transactions to follow without imposing too many exceptions or rules that must be followed. It allows for the professional judgment of the employees and the ability to solve rare cases where the rules may not be applicable. The ITC acknowledges that there are situations in which the goods or services are not separately identifiable or do not provide benefits on their own. Whereas a rules based approach would be hard to follow, the performance obligation model allows for the professional judgment and guidance to determine whether a revenue or expense should be classified or not. This professional judgment may limit consistency but not to the extent that we believe there would be a significant issue since consistency should only be an issue when there is a rare case.

With lack of working experience in the governmental field, we are unable to comment on whether the intent to simplify the manner of classifying transactions by focusing on the existence or absence of a performance obligation may simplify matters or impose new complications in reporting practices. We do find it important to note that identifying whether a performance obligation exists or has been satisfied could be challenging in certain transactions, especially in the the first few years of implementation as it will be a new concept for many employees recording these transactions. In addition, it is important to note that many governments are small and may need their auditors to help and almost take over in recording the transactions for the governments. The new concept of performance obligation may require costly training for employees to understand the new guidance as well as issuance of additional guidance before consistency and comparability are achieved. As the ITC noted, concepts such as binding arrangements, specific beneficiaries, and distinct goods or services may need to be redefined, adding to the burden of employees to understand and learn. In addition, recognition for a performance obligation can be over time or at a point in time. This will be new for employees to learn since previously revenue was recorded simply when earned, not in different time periods based on performance satisfaction. Though we believe the performance obligation model may be

a suitable basis for classifying transactions, the biggest disadvantage of introducing a complex matter to small governments may outweigh the potential benefits that this model would bring.

Even though there will be a burden on the employees recording these revenue and expense transactions, we believe the performance obligation method will have the potential to offer more useful information to people who use financial reports for making decisions and accessing accountability. Users of the financial statements involve citizens that are in the for-profit sector. The Financial Accounting Standards Board (FASB) has already adopted performance obligation, so the users of the GASB statements may already be familiar with the performance obligation model. We understand that the primary purpose of governments is different than the primary purpose of for-profit business enterprises so the fact in itself that FASB uses performance obligation is not a reason to switch to this new model. However, we feel that by implementing a model already familiar with FASB users, it can enhance comparability between governmental and for-profit accounting that allows users the ability of better decision making and accountability assessment. Since the performance obligation model has the potential benefit to improve comparability and offer more useful information to users of the financial reports, we believe it is a suitable basis for classifying transactions and recognizing revenue and expense.

**Questions 4.1. Do you believe that the alternative model considered as an example in this chapter could provide a suitable basis for classifying transactions and recognizing revenue and expense? If so, what are the potential benefits and challenges of that model?**

We believe the alternative model would not provide a suitable basis for classifying transactions and recognizing revenue and expense. In our opinion, the hybrid model of classifying transactions first as exchange or nonexchange then, second, recognizing a transaction as a performance or no performance obligation increases the complexity of reporting and confusion for the people who use financial reports for making decisions and assessing accountability.

Additionally, although the terminology would be familiar to preparers and government employees, the classification method of exchange/nonexchange has proven to be the least transparent and comparable reporting model in current practice. As stated in our answer to question 3.1, classifying according to a performance/non-performance obligation the ITC makes it clear that the specific beneficiary of the goods or services provided by a government would need to be specific enough to be distinguished from the general public and the ITC mentions that if a government is unable to identify a promise in a binding arrangement with rights and obligations that articulate in equivalent terms, a specific beneficiary, or distinct goods and services, the transaction would be classified as not containing a performance obligation. The performance/no performance model has the most potential of providing clear, consistent, and comparable information to report users while the exchange/nonexchange model allows current government accountants the least amount of training and confusion when classifying and recognizing revenues and expenses. Ideally, intertwining these two methods would allow the benefits of each to create a fair representation of the revenues and expenses of an organization. However, the complexity of understanding and presenting two different financial rules as one would be both cumbersome and confusing to those preparing statements and those relying on the statements to make decisions.

**4.2. The models distinguish transactions on the basis of (a) an exchange or a nonexchange or (b) a performance obligation or no performance obligation. Do you believe there is another alternative for distinguishing revenue and expense transactions? If so, please describe that alternative and explain why you believe it would be suitable.**

We do not believe there is another alternative for distinguishing revenue and expense transactions. The performance/no performance obligation or exchange/nonexchange model, as indicated in the above comments, are suitable options for classification and recognition.

If you have questions please contact us.

Sincerely,  
Farah Rajaei, Nat Jones, Jacquelyn Zelik