April 17, 2018

Mr. David R. Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, Connecticut 06856

Submitted via email to: director@gasb.org.

Dear Mr. Bean,

We are students at the University of Central Florida participating in a graduate level Accounting for Governmental and Not-For-Profit Organizations course. We have analyzed the information issued in the Invitation to Comment of the Governmental Accounting Standards Board on major issues related to Revenue and Expense Recognition, Project No. 4-6I (ITC). We offer comments, suggestions, and reasons for our views.

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?

   The graduate students at the University of Central Florida believe the exchange/nonexchange model would provide a suitable basis for classifying transactions and recognizing revenue and expense. According to the pre-agenda research provided in the invitation to comment (ITC) index specifically paragraph B9: “most government revenues come from nonexchange transactions. The 2012 U.S. Census of Governments—at the time of the research, the most recent data—indicated that 46 percent of government revenue was generated through taxes, whereas 19 percent was from intergovernmental sources. Although some intergovernmental revenues may be exchange or exchange-like, much of that category likely is nonexchange. Combining those two categories, approximately 65 percent of state and local government revenues were generated from nonexchange transactions. Utility charges and general charges likely came from exchange transactions; they constituted a combined 19 percent of total revenues. The remaining two categories of insurance trust and miscellaneous revenues may include both exchange and nonexchange transactions.” Therefore, this model provides a fairly straightforward approach applicable to a wide range of governmental transactions. The additional guidance is comprehensive in nature and uses terms and definitions familiar to stakeholders and users of financial statements, improving the learning curve of any proposed changes. The proposed model builds on the existing standards and decreases the likelihood of error or unintentional misinterpretation in classifying transactions or recognizing revenue and expense. In the classification aspect, the term “equal value” is up to the assessment and interpretation of the government depending on the situation due to substantial subjectivity of
“value”. As mentioned in the background information, additional guidance can be provided or expanded on regarding the timing of recording a “completed” transaction.

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 that the performance obligation/no performance obligation model would not provide a suitable basis for classifying transactions and recognizing revenue and expense. In regards to the Governmental Accounting Standards Board (GASB) goal of limiting inconsistencies in practice, we believe this model would be counterproductive. Unlike the exchange/nonexchange model, governments would be spending an increased amount of time and money allocating revenues and expenses based on their associated obligation. The more subjective nature of this classification will vary between governments. Considering that most small governments do not have large accounting budgets, this model would prove unnecessarily complicated and costly.

4.1. Do you believe that the alternative model presented as an example in Chapter 4 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 presented as an example in Chapter 4 could provide a suitable basis for classifying transactions and recognizing revenue and expenses because it allows for the continual use of existing guidance for nonexchange transactions and adds the performance obligation guidance to exchange transactions for refinement and clarity. For nonexchange transactions, the existing guidance provided in Statement 33 details specific examples for classifying different types of nonexchange transactions and is not necessarily the issue being addressed in the invitation to comment. The summary in the Invitation to Comment (ITC) indicates existing guidance for nonexchange transactions is “generally effective” but could be further clarified and improved and the existing guidance for exchange transactions is limited. One comprehensive model including current guidance for nonexchange transactions and implementing the performance obligation determinations for exchange transactions could, in our opinion, result in more robust guidance, which will improve comparability and provide more useful information.

The alternative model would allow for the refinement of the exchange transactions by adding the performance obligation steps. The benefit is revenue and expense would be recognized more clearly based on when the obligation is fulfilled. This would refine the implementation of the timing of recognition, which is a focal point mentioned by the ITC as a major area of inconsistencies in practice today. Instead of the requirement to determine when to recognize the transaction as revenue or expense according to the earnings recognition approach as detailed in the ITC, the preparer could identify and classify performance obligations within
each transaction to determine when to record the revenue or expense. This should improve consistency among state and local governments for the timing of recognition.

Further, this model would not require preparers and auditors to learn an entirely new model for revenue and expense recognition. If the GASB were to implement a performance obligation model, as detailed in Chapter 3, the “concepts necessary to determine whether a transaction contains a performance obligation would be new in the government environment”. The cost of replacing the entire model may greatly exceed the benefit received. However, as argued above, implementing the performance obligation steps may still be helpful in application for exchange transactions. The resources necessary to apply performance obligation steps only to exchange transactions may likely not be as much as implementing a brand new model, as exchange transactions account for only 20% of transactions among state and local governments, according to the 2012 U.S. Census of Governments.

However, this also constitutes a challenge with the alternative model: although the ITC indicates the main problem is the limited general guidance for exchange transactions, exchange transactions may not constitute enough transactions to be worth the attention. Another challenge is determining the definition of value and whether a transaction is an exchange. In determining whether the transaction is an exchange, the preparer must determine whether the value being received by both parties is considerably equal. The challenge lies with determining the value of certain items being received. Some may define value differently.

Overall, we believe the alternative model will serve the public with more consistent and useful information for decision making across state and local governments, despite the challenges posed.

4.2. The models distinguish transactions on the basis of (a) exchange or 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 have another model to propose that would be more suitable for distinguishing revenue and expense transactions than the models previously discussed.

Thank you for your consideration,

Matthew King
Savannah Pearson, CPA
Charles Schultz
Nelson Torres