From: Dustin Roderick  
To: GASB Director <director@gasb.org>  
Subject: Comments on Project No. 4-6I

Director of Research and Technical Activities, Project No. 4-6I:

Responses to ITC questions:

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?

I believe the exchange/nonexchange model provides a suitable basis for classification/recognision. It encompasses all types of revenue and expense transactions, and with appropriate guidance, can result in much greater consistency.

There are difficulties with consistent classification of “exchange-like” transactions, but these types of difficulties inevitably exist in nearly all applications of GAAP. My own approach for determining whether a transaction is exchange or nonexchange is to ask “would the obligated party make the payment(s) to another person or entity if the receiving party ceased to exist?” This typically indicates that there is a desired service or benefit that the obligated party is willing to pay for. Another approach is to ask “if the obligated party had never entered into the contract in question, would the obligated party’s operations eventually become jeopardized, or need to be restructured?” For example, while grantors may seek out other grantees if one grantee ceases to exist, their operations would likely not need to be restructured if they simply stopped providing the grant in question. To contrast, a water utility failing to pay another local government for its costs under a shared facility agreement would eventually result in serious operational repercussions for the entity.

In my opinion, the area that needs the greatest amount of authoritative guidance is recognition of exchange transactions. Currently, there is a wide array of applications, many of which violate the “interperiod equity” concept described in Concepts Statement No. 1, but still technically meet the requirements of current authoritative GAAP. One egregious example from my experience recognizes revenues in the year of receipt, but recognizes the expenses related to those revenues over the next 40 years.

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?

I believe that this model would be acceptable and result in substantially similar outcomes to the exchange/nonexchange model. However, this model would also cause some significant changes to certain transactions, particularly grants, which could worsen consistency in financial reporting. Substantial implementation guidance would be needed for classification regarding the elements of a performance obligation. This would also require revisions to current guidance in GASBS 33 for certain grants that specify beneficiaries.

The performance obligation model was adopted by the FASB in response to the wide range of industry-specific standards that were ultimately inconsistent with each other, even if different entities within each industry were more similar to one another. Since the GASB does not have
the same problem, adopting a completely new conceptual model may not be as necessary. The problem, as I understand it, is that entities reporting under current GASB standards are currently interpreting and applying those standards in very inconsistent ways, which could be resolved by fleshing out the current standards and offering more implementation guidance consistent with the concept statements.

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?

I believe this model would be suitable. At the least, it would provide a good starting point for defining the revenue recognition process. It also has the benefit of not completely undoing current GAAP, but would serve to better define recognition and measurement for exchange transactions.

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.

None noted. I feel that improving the consistency of application of current GAAP, which provides for the exchange/nonexchange dichotomy, is an appropriate approach for this topic. Doing this while avoiding unnecessary upheavals would be a great accomplishment.

Thank you,

Dustin Roderick, CPA
Senior Associate
Brown, Edwards & Company, L.L.P.
124 Newman Avenue, Harrisonburg, Virginia 22801
Office: (540) 437-3227 Fax: (540) 434-3097
www.becpas.com