February 17, 2021

Director of Research and Technical Activities
Project No. 4-6P
Governmental Accounting Standards Board
director@gasb.org

RE: GASB Preliminary Views: Revenue and Expense Recognition

Dear Board Members:

The Governmental Accounting and Auditing Committee (GAA Committee) of the California Society of Certified Public Accountants (CalCPA) is pleased to provide our comments. The GAA Committee is a senior technical committee of CalCPA comprised of over forty members from international to local public accounting firms and state and local governments.

We would like to acknowledge the importance of the proposed standard and that you have solicited thoughts early in the process to ensure a final statement that considers input from both users and practitioners.

While reviewing the Preliminary Views, we noted a number of areas that refer to concepts introduced in Project 3-25, Financial Reporting Model Improvements. We believe the Board should finalize both projects simultaneously due to the strong interrelationship between the projects.

We have provided our detailed comments on Project 4-6P in order of the chapters in the Preliminary Views with references to specific paragraphs as follows:

Chapter 1 – Objectives and Scope

- The GAA Committee supports the GASB’s development of a comprehensive principles-based revenue and expense recognition model.

- We appreciate that the Board decided to develop a new categorization methodology that retains the relevant characteristics from the two categorization methodologies proposed in the Invitation to Comment.

Chapter 2 – Foundational Principles for the Model

- The Committee appreciates the use of flow charts to visually explain the concepts.

- 36 – Please consider providing more information explaining the “unit of account” within the Statement instead of referencing to another Statement for clarification.

Chapter 3 - Categorization
• Overall Comments:
  
  o The Board should modify terminology of “revenue” and “expense”, where appropriate, for consistency with the Financial Reporting Model Exposure Draft.

  o We understand that the Board does not intend for governments to use the matching principle; however, the categorization methodology uses similar principles in recording both revenues and expenses, and that is further supported by paragraph 21 of Chapter 4.

  o We believe the categorization methodology will provide a clear framework to recognizing revenues and expenses.

• 5 - Under Step 1, the Board uses the term “Rebuttable Presumption of Enforceability”. The term “Rebuttable Presumption” is defined as the assumption made by a court that is taken to be true unless someone comes forward to contest it and provide otherwise. What documentation will governments need to obtain to support the enforceability? Will auditors need to perform certain tests under GAAP in order to determine the legality of the enforceability?

• 18 - Under Step 3, the Board should consider providing the definition of “Substantive” as it is difficult to understand the relevancy of whether the rights or obligations are substantive or not.

• 28 - Expenditure-Driven Grants vs. Purpose-Restricted Grants

  o We recommend the Board revisit the terminology in this section because expenditure-driven grants are also purpose-restricted, making it difficult to differentiate between the two.

  o Purpose-Restricted appears to apply to both grants and other funding. Is the word “grant” encompassing of all revenue anticipated in this categorization? Case 13 is referenced as an example of a Purpose-Restricted Grant, but Case 13 is a “donation”, not a grant.

  o We believe the categorization of grants may present some challenges under the new methodology due to variations in funding. We recommend the Board expand the criteria in this section and provide additional examples.

• 35 – We would like the Board to clarify the use of collectability considerations within the Statement as it is not clear how it should be applied.

Chapter 4 – Revenue Recognition

• 5 – We would like the Board to clarify whether the advances should be classified as unearned revenue or a different liability type or whether the classification is dependent on specific facts and circumstances.

• 48 – If the resource provider cancels the appropriation in a subsequent period and communicates the cancellation, the guidance should provide information for how that cancellation should be reported by the resource recipient. Is the cancellation of the receivable and revenue in a future period reported as an expenditure/outflow of resources, or as a negative inflow of resources?
Chapter 5 – Expense Recognition

• Overall, this Chapter appears to document the current practices. We believe this language will be used in the Significant Accounting Policies note to the financial statements.

Chapter 6 - Measurement

• Overall, this Chapter appears to document the current practices. We believe some of this language will be used in the Significant Accounting Policies note to the financial statements.

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

• We recommend the Board consider allowing for changes in categorization other than at the inception of the transaction.

Appendix C – Cases

• The Committee appreciates the inclusion of the Cases to help further demonstrate the application of the concepts described in the Statement.

• Case 13: This case appears to be reflective of a pledge/donation transaction although it is referenced as an example of a Purpose-Restricted Grant. Please consider including an example of a Purpose-Restricted Grant.

• We would appreciate a Case for Building Permit Fees (Category B Revenue Transactions) as this common type of revenue does not appear to be covered in the Cases and the application of the proposed Statement is not clear.

• We would appreciate a Case for Developer Fees (Category B Revenue Transactions) as this common type of revenue does not appear to be covered in the Cases and the application of the proposed Statement is not clear.

*****

We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,

[Signature]

Jennifer Farr, Chair
Governmental Accounting and Auditing Committee
California Society of Certified Public Accountants