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The exposure draft Revenue Recognition (Topic 605) creates uncertainty and potential manipulation between management, financial reporting, and auditors. The following are very real problem areas in the exposure draft:

- 1) Defining "Performance obligation" is subject to opinion by many people with different agendas. The example given for segmenting a contract is that of design vs. build. How will a multiple building contract look? How will a unit price contract look? How will a multi tenant shopping center contract look? How will a cost plus contract look where the client has the right to direct the work? This has the very real potential to be viewed differently be each contract and company where the real economic value has little or no significant variance.
- 2) IFRS and GAAP both acknowledge the percent complete method of cost/cost in both SOP81-1 and IFRIC 15. Creating a separate and distinct revenue recognition policy will confuse readers of financial statements including management, owners, bankers, bonding surety, and customers with regard to long term contracts. Speaking with my contacts they will continue to require percent complete calculations as part of the ongoing monitoring of the business. Therefore, making the new accounting standards even less relevant than the traditional method.
- 3) The cost and time to audit against these new standards will increase significantly, with little inherent value on the real economic value of an organization. The auditor and the management team are going to have different opinions on what a definition of performance obligation is and what continuous transfer is defined as. The effect on tax and deferred taxes will be significantly increased as revenue will be defined very differently for tax vs. book income.
- 4) Most contracts will likely develop a policy that looks like a complete contract accounting basis for long term contracts. For a contractor with significant long term contracts the balance sheet will reflect a large asset representing costs expended and a large liability representing customer billings. This will have a distortive and useless value to the reader of financial statements attempting to understand the lumpiness of a business that is inherently more volatile than most. Non-financial people assume revenue will have some relationship to customer billings and collections and expenses will have some relationship to expended resources and will not expect to see such items on a balance sheet.

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