

From: [John Wall](#)
To: [Director - FASB](#)
Cc: [Kenneth Bement](#)
Subject: Comments on Revenue Recognition
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Question 2

It is my understanding that the purpose of separating a contract into its component performance obligations is that there may be a difference in the profitability of the distinct performance obligations. The intent is that in such cases revenue should be recognized on each performance obligation individually rather than on the contract as whole.

While I have no objection to the principles in paragraph 23 for determining when a good or service is distinct, I feel that the concept itself is irrelevant for construction contracts, particularly if revenue is recognized based upon a continuous transfer of ownership which would often be appropriate.

Even in a situation where a construction company sells a similar good or service [23(a)], all of a contractor's prices are determined based upon the specific time, customer, location and other circumstances surrounding the work. The price, and more specifically the profit component of the price, for the similar good or service will often have no direct relationship to the price of the current good or service. Acceptable profit margins can vary dramatically over a short period of time. And the acceptable profit margin for each performance obligation may be enhanced by its inclusion together with other performance obligations in a contract versus as a stand alone product.

Moreover, estimated values for discrete performance obligations are by nature subjective and would not depict the way in which construction contracts are priced. Such pricing is at best hypothetical and serves no constructive purpose. It puts an unnecessary burden on project management.

The contractor may split the work to be contracted for into segments for purposes of estimating. He may have done work similar to a particular segment at another time for another customer. However, in agreeing to a particular contract he agrees to perform all the segments required under the contract, and his overall price is calculated to get him the most aggregate profit that the competition will allow. The contractor will not have the privilege of performing the "more profitable" performance obligations unless he is willing to take on the "less profitable" performance obligations as well. Unless the contract itself identifies the segments by price and offers the option for the contractor to perform only those segments of his choice I believe that the contract should be looked at in its entirety and revenue recognized at the overall percentage on the total contracted price using a continuous transfer of ownership.

In a unit price contract the contractor may in fact give discrete pricing to various units of production (i.e., performance obligations). However, his pricing will more probably be skewed not based upon what he might be able to get for the particular unit outside of the contract, but rather based upon when in the schedule the unit will be completed (front loading the first units) or on those units which he feels might more probably be expanded in quantity. In either of these cases, the pricing on individual units would not be an objective

value to use in revenue recognition. The individual pricing is assigned with the purpose of maximizing the overall contract price, not based on the stand alone value a particular performance obligation may have.

In cases where a dispute may arise prior to completion of the contract it is possible that the contractor will be compensated for only partial completion. However this would be in the form of a claim and the overall percentage of profit would have little to do with either the original contract as a whole or the individual “performance obligations” that might have been performed prior to the stoppage of work. It would more probably be a percentage arrived at as the result of arbitration or court litigation.

Question 5

I believe that in all cases credit risk should be accounted for as cost rather than revenue.

While credit risk is present on any project that it contractor undertakes, it would be foolish for a contractor to begin construction on a project where he assumes a particularly high possibility of default. Moreover, to reflect credit risk in revenue on some contracts and as part of cost on others muddies up the waters for anyone trying to make sense out of the resulting statement. Credit risk will be reported in two distinct sections of the statement. In cases where it is reported in revenue, it will skew the contractors overall gross profit percentage on work performed vs. cases where it is recorded as cost.

Question 7

For reasons explained in response to question 2 I do not agree. I feel that revenue should be recognized on a construction contract using the overall percentage profit for the entire contract.

Question 18

I believe that there should be no difference between reporting requirements under either FASB or IASB between public and private or not-for-profit organizations. There are situations where public companies go head to head against competitors in both private and not-for-profit organizations. If the various entities are using different principals or are subject to different reporting requirements this will make it all the more difficult for someone to compare financials when prequalifying companies for a contract. What’s good for the goose should be good for the gander.

I am not opposed to agencies such as the SEC requiring more detailed disclosures for use by potential investors. However, I feel that these should be handled as additional addendums and not as part of the financials themselves.

I don’t think that there should be any differences between the accounting principals applied in each company.

John Wall, CPA

Vice President, Finance

JMEG, LP

EAS Contracting, LP

Clean Energy Constructors, LLC

Phone 972-888-6116

Fax 972-590-5590

Cell 817-521-7288