

## Beatham, Bernier, Seekins & Colpritt Certified Public Accountants

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October 20, 2010

Technical Director
File Reference No. 1820-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Revenue Recognition (Topic 605): Revenue from Contracts with Customers

Dear Technical Director,

We are writing to beg you to consider excluding construction contractors from the FASB Revenue Recognition from Contracts with Customers project.

We are CPA's servicing approximately 50 small to medium sized construction companies in the Northeast. Revenues of our client base range from 1 million to 125 million annually, however the majority of our client base falls in the 5 million to 25 million dollar range. Only a handful of our clients have the financial ability to employ a controller who is capable of even beginning to understand the proposed FASB for revenue recognition. Most clients employ a bookkeeper who has an understanding of job cost accounting and percentage of completion reporting using the cost-to-cost method.

All of our clients that require bonding provide a schedule of contract values to the surety that reports revenue recognition on the cost-to-cost basis, or percentage of completion as prescribed by SOP 81-1. Those clients typically require reviewed financial statements, and certain larger construction companies require audited financial statements. We strive to ensure that those clients provide reliable, meaningful statements and schedules to the third party users. Typically the owner understands each contract to be a unique profit center and the cost-to-cost method of determining contract revenue recognition as the owner in these size companies is so hands on that they often act as project manager or foreman and are directly involved in determining the remaining cost of completion. Construction company owners and managers would not easily understand splitting a contract into performance obligations which have no bearing on billing practices, engineering specifications or customer delivery schedule requirements. Construction companies manage their businesses at the contract level. End users of financial statements (owners, management, CPAs, sureties and banks) evaluate construction companies at the contract level. Accounting software accounts for job costs and revenues at the contract level. To change to a method that none of the parties understand or use in practice convolutes the understanding of financial results reported, in fact having the exact opposite result of what FASB should be working toward. You simply must consider the construction industry separately from other industries.

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We would also add that the second you introduce any kind of "subjectivity" into determining bonuses or penalties in computing revenue recognition, when dealing with construction contracts, you will immediately introduce dramatic variability into revenue recognition. It's a special individual that runs a construction company and they are typically optimistic, risk-takers. The results will be unreliable and misleading.

We are seeing an increase in clients who do not want to comply with GAAP. Their desire to depart from GAAP is not to distort their financial results, but rather to provide 3<sup>rd</sup> party users with meaningful financial data so that the 3<sup>rd</sup> party users can properly interpret the results in an affordable manner. Unfortunately, income tax basis financial statements is not the answer for these contractors as income tax methods often bear no relation to actual financial performance. While a contractor may be entitled to report on the cash method or completed-contract method for income tax purposes, sureties and banks do not want financial statements on either of these methods. Sureties and banks want to see individual contracts, reported on the percentage-of-completion method as computed on the cost-to-cost method. Why? Because it is consistent from company to company, attempts to match economic performance with costs, and can be understood by all parties. The FASB draft revenue recognition using the performance objective approach and differing output methods will actually create a 3<sup>rd</sup> accounting method for contractors wishing to produce GAAP financial statements, and even still reporting will have a large degree of variability due to subjectivity. This is costly and burdensome on an industry that is already against the ropes in the economic downturn. Make no mistake, construction companies will continue to evaluate internal performance on the contract by contract basis, with no consideration to performance objectives, using a schedule of values (i.e. cost-to-cost) because it is meaningful to them, sureties, and their financial partners.

Sometimes you can't meet all needs with one sweeping action. We strongly urge you to consider that in this situation more harm than good will be done if you attempt to pull the construction industry into uniformity with industries that are entirely different. The relationship between the construction industry and the surety industries is entirely unique and deserves separate, appropriate guidance.

Please don't throw the baby (the basic tenants of SOP 81-1) out with the bathwater as it relates to the construction industry.

Respectfully,

Jasha a. Gardner, PA, CCIFP

Gemma E. Colpiett