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July 13, 2010

Mr. Russell Golden Technical Director Financial Accounting Standards Board 401 Merritt 7 Corporate Park Norwalk, Connecticut 06856-5116 Mr. Alan Teixeira Director of Technical Activities International Accounting Standards Board 30 Cannon Street London, EC4M 6XH

Mssrs. Golden and Teixeira:

I am writing regarding the FASB/IASB exposure draft <u>Revenue Recognition from Contracts with Customers</u> (FASB file No. 1820-100, IASB ED/2010/6, the "proposed standard").

Current U.S. and international accounting standards provide for various allowable methods of recognizing revenue and cost of revenue from contracts under which services are transferred to a customer as a continuous process. However, all allowable methods require the service provider to recognize the same percentage of total revenue and cost of revenue as of the reporting date¹.

As it applies to an agreement under which a service provider transfers services as a continuous process to a customer who controls the related project, the proposed standard provides that revenue would be recognized as the services are rendered², based on the service provider's estimated progress on each performance obligation³ in the contract. Cost of revenue would be recognized as incurred⁴. Although service providers who prefer to maintain the current (equal) relationship between the recognized percentage of total revenue and cost may do so by using the cost-to-cost method to estimate the percentage of completion for each performance obligation⁵, the proposed standard does not include a requirement that the recognized percentage of total revenue equal the recognized percentage of total cost of revenue⁶.

Recognizing different percentages of total revenue and cost of revenue distorts the recognition of gross margin. For example, assume a performance obligation with an allocated transaction price of 100 and an estimated cost of 90 (an estimated 10% gross margin). If the cumulative cost as of the reporting date is 45, the only revenue recognition consistent with the overall 10% estimated gross margin is 50. Any other revenue recognition would distort the gross margin. Recognizing

¹ ASC 605.35, Revenue Recognition - Construction-Type and Production-Type Contracts, §25.52-.53, .70-.84; IAS 11, Construction Contracts, ¶22, 25-26, 30-31

² FASB/IASB Exposure Draft Revenue Recognition from Contracts with Customers, ¶25-31, BC60-66

³ ibid ¶32-34, IG/B63-68, BC73-75

⁴ ibid ¶59, BC149-155

⁵ ibid ¶33

⁶ ibid BC150

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55 of revenue would recognize all of the gross margin when only 50% of the cost has been incurred; recognizing 45 of revenue would recognize no gross margin, etc. This is an acute problem for performance obligations with thin gross margins, but would be an issue for all performance obligations under which services are transferred to customers as continuous processes.

I suggest the FASB and IASB modify the proposed standard to require the recognition of the same percentage of total revenue and cost of revenue for performance obligations under which services are transferred to customers as continuous processes.

I hope these comments are useful to you. I would be pleased to respond to any questions or comments you may have regarding this matter.

Sincerely,

David P. Bohne

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Partner