1820-100 Comment Letter No. 106

# THE LAW COMPANY INC. CONTRACTORS | CONSTRUCTION MANAGERS Building Excellence Since -1959



October 15, 2010

Technical Director Financial Accounting Standards Board director@fasb.org

Re: File Reference No. 1820-100

Regarding the Proposed Accounting Standards Update on Revenue Recognition (Topic 605), my comments with respect to construction contracts are set forth below.

A contractor's contractual promise to its customer is to perform construction work and/or construction management services for a project (building, road, bridge, plant) in accordance with the customer's specifications. The customer's contractual promise is to pay the contractor, generally in monthly installments as work progresses, for construction of the specified asset. Although a contractor continuously procures, performs, manages and transfers a multitude of interrelated goods and services over a period of time, the contractor's single performance obligation is the timely completion of a properly constructed asset. Correspondingly, contractors should account for the continuous transfer of a project as a single performance obligation. Existing U.S. GAAP for construction-type contracts (paragraph 605-35-25-4) appropriately provides:

The basic presumption should be that each contract is the profit center for revenue recognition, cost accumulation, and income measurement. That presumption may be overcome only if a contract or a series of contracts meets the conditions described for combining or segmenting contracts.

In contrast, Paragraph 22 of the Exposure Draft requires an entity to account for each transferred good or service as a separate performance obligation if it is distinct. Paragraph 23 of the Exposure Draft states that a good or service is distinct if "the entity, or another entity, sells an identical or similar good or service separately". In the context of a construction project, every material (lumber, concrete, windows), equipment (pumps, transformers, appliances) and service (excavation, steel erection, plumbing) activity would qualify as a distinct performance obligation because another entity (supplier or subcontractor) sells a similar good or service separately. For purposes of illustrating the number of goods and services involved in a complex construction project, attached is the Construction Specifications Institute's listing of construction products and activities. Applying the proposed guidance to each construction good and service would be incredibly burdensome for both preparers and auditors. Furthermore, such separate accounting could facilitate premature





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(or delayed) recognition of revenues and/or earnings (e.g., overweighting front-end standalone selling price estimates or assigning higher distinct profit margins to early activities).

The Exposure Draft Glossary defines a performance obligation as "an enforceable promise (whether explicit or implicit) in a contract with a customer to transfer a good or service to the customer". Applying that definition to construction, a contractor's enforceable promise is simply to construct a project for the customer. A contractor's customer does not order one foundation, four walls, one roof and ten trees. Components of a good or service should not be separate performance obligations and the Update should be revised to state so. This concern is not limited to construction contracts; each component part (also sold as a replacement part) of a manufactured good would qualify as a separate performance obligation.

Respectfully,

Marc Porter
Marc Porter, CPA
Senior Vice President & CFO

Attachment

# **CSI Codes- Construction Products & Activities**

#### 00000 Contracting Requiremts

00500 Agreement

00600 Bonds & Certificates

00700 General Conditions

00800 Supplementary Conditions

00900 Modifications

# 01000- Division 1 —

# **General Requiremts**

01100 Summary

01200 Price & Payment Procedures

01300 Administrative Requiremts

01400 Quality Requiremts.

01500 Temporary Facilities & Controls

01600 Product Requiremts

01700 Execution Requiremts

01800 Facility Operation

01900 Facility Decommissioning

#### 02000 Division 2 — Site Construction

02050 Basic Site Materials & Methods

02100 Site Remediation

02200 Site Preparation

02300 Earthwork

02400 Tunneling, Boring, & Jacking

02450 Foundation & Load-bearing

Elements

02500 Utility Services

02600 Drainage & Containment

02700 Bases, Ballasts, Pavemts, &

Appurtenances

02800 Site Improvements & Amenities

02900 Planting

02950 Site Restoration & Rehabilitation

#### 03000- Division 3 — Concrete

03050 Basic Materials & Methods

03100 Concrete Forms & Accessories

03200 Concrete Reinforcement

03300 Cast-in-Place Concrete

03400 Precast Concrete

03500 Cementitious Decks &

Underlayment

03600 Grouts

03700 Mass Concrete

03900 Concrete Restoration & Cleaning

# 04000 Division 4 — Masonry

04050 Basic Materials & Methods

04200 Masonry Units

04400 Stone

04500 Refractories

04600 Corrosion-Resistant Masonry

04700 Simulated Masonry

04800 Masonry Assemblies

04900 Masonry Restoration & Cleaning

#### 05000- Division 5 — Metals

05050 Basic Metal Materials & Methods

05100 Structural Metal Framing

05200 Metal Joists

05300 Metal Deck

05400 Cold-Formed Metal Framing

05500 Metal Fabrications

05600 Hydraulic Fabrications

05650 Railroad Track & Accessories

05700 Ornamental Metal

05800 Expansion Control

05900 Metal Restoration & Cleaning

#### 06000- Division 6 — Wood & Plastics

06050 Basic Materials & Methods

06100 Rough Carpentry

06200 Finish Carpentry

06400 Architectural Woodwork

06500 Structural Plastics

06600 Plastic Fabrications

06900 Wood & Plastic Restoration & Cleaning

#### 07000- Division 7 —

#### Thermal & Moisture Protection-

07050 Basic Thermal & Moisture

Protection Materials & Methods

07100 Dampproofing & Waterproofing

07200 Thermal Protection

07300 Shingles, Roof Tiles, & Roof

Coverings

07400 Roofing & Siding Panels

07500 Membrane Roofing

07600 Flashing & Sheet Metal

07700 Roof Specialties &

Accessories

07800 Fire & Smoke Protection

07900 Joint Sealers

#### 08000- Division 8 — Doors & Windows

08050 Basic Door & Window

Materials & Methods

08100 Metal Doors & Frames

08200 Wood & Plastic Doors

08300 Specialty Doors

08400 Entrances & Storefronts

08500 Windows

08600 Skylights

08700 Hardware

08800 Glazing

08900 Glazed Curtain Wall

#### 09000- Division 9 — Finishes

09050 Basic Finish Materials & Methods

09100 Metal Support Assemblies

09200 Plaster Gypsum Board

09300 Tile

09400 Terrazzo

09500 Ceilings

09600 Flooring

09700 Wall Finishes

09800 Acoustical Treatment

09900 Paints & Coatings

#### 10000- Division 10-— Specialties-

10100 Visual Display Boards

10150 Compartments & Cubicles

10200 Louvers & Vents

10240 Grilles & Screens

10250 Service Walls

10260 Wall & Corner Guards

10270 Access Flooring

10290 Pest Control

10300 Fireplaces & Stoves

10340 Manufactured Exterior Specialties

10350 Flagpoles

10400 Identification Devices

10450 Pedestrian Control Devices

10500 Lockers

10520 Fire Protection Specialties

10530 Protective Covers

10550 Postal Specialties

10600 Partitions

10670 Storage Shelving

10700 Exterior Protection

10750 Telephone Specialties

10800 Toilet, Bath, &

Laundry Accessories

10880 Scales

10900 Wardrobe & Closet Specialties

#### 11000- Division 11 — Equipment

11010 Maintenance Equipmt

11020 Security & Vault Equipmt

11030 Teller & Service Equipmt

11040 Ecclesiastical Equipmt

11050 Library Equipmt

11060 Theater & Stage Equipmt

11070 Instrumental Equipmt

11080 Registration Equipmt
11090 Checkroom Equipmt
11100 Mercantile Equipmt
11110 Commercial Laundry
& Dry Cleaning Equipmt
11120 Vending Equipmt
11130 Audio-Visual Equipmt
11140 Vehicle Service Equipmt
11150 Parking Control Equipmt
11160 Loading Dock Equipmt
11170 Solid Waste Handling Equipmt

11190 Detention Equipmt

11200 Water Supply & Treatment Equipmt

11280 Hydraulic Gates & Valves

11300 Fluid Waste Treatment & Disposal

11400 Food Service Equipmt 11450 Residential Equipmt

11460 Unit Kitchens

11470 Darkroom Equipmt

11480 Athletic, Recreational,

& Therapeutic Equipmt

11500 Industrial & Process Equipmt

11600 Laboratory Equipmt

11650 Planetarium Equipmt

11660 Observatory Equipmt

11680 Office Equipmt

11700 Medical Equipmt

11780 Mortuary Equipmt

11850 Navigation Equipmt

11870 Agricultural Equipmt

11900 Exhibit Equipmt

# 12000- Division 12 — Furnishings

12050 Fabrics 12100 Art

12300 Manufactured Casework

12400 Furnishings & Accessories

12500 Furniture

12600 Multiple Seating

12700 Systems Furniture

12800 Interior Plants & Planters

12900 Furnishings Repair

& Restoration

# 13000- Division 13 — Special Construction

13010 Air-Supported Structures

13020 Building Modules

13030 Special Purpose Rooms

13080 Sound, Vibration, &

Seismic Control

13090 Radiation Protection

13100 Lightning Protection

13110 Cathodic Protection

13120 Pre-Engineered Structures

13150 Swimming Pools

13160 Aquariums

13165 Aquatic Park Facilities

13170 Tubs & Pools

13175 Ice Rinks

13185 Kennels & Animal Shelters

13190 Site-Constructed Incinerators

13200 Storage Tanks

13220 Filter Underdrains & Media

13230 Digester Covers & Appurtenances

13240 Oxygenation Systems

13260 Sludge Conditioning Systems

13280 Hazardous Material Remediation

13400 Measurement & Control

Instrumentation

13500 Recording Instrumentation

13550 Transportation Control

Instrumentation

13600 Solar & Wind Energy Equipmt

13700 Security Access & Surveillance

13800 Building Automation & Control

13850 Detection & Alarm

13900 Fire Suppression

# 14000- Division 14 —

## **Conveying Systems**

14100 Dumbwaiters

14200 Elevators

14300 Escalators & Moving Walks

14400 Lifts

14500 Material Handling

14600 Hoists & Cranes

14700 Turntables

14800 Scaffolding

14900 Transportation

#### 15000- Division 15 — Mechanical

15050 Basic Mechanical

Materials & Methods

15100 Building Services Piping

15200 Process Piping

15300 Fire Protection Piping

15400 Plumbing Fixtures & Equipmt

15500 Heat-Generation Equipmt

15600 Refrigeration Equipmt

15700 Heating, Ventilating,

& Air Conditioning Equipmt

15800 Air Distribution

15900 HVAC Instrumentation & Controls

15950 Testing, Adjusting, & Balancing

#### 16000- Division 16 — Electrical

16050 Basic Electrical Materials & Methods

16100 Wiring Methods

16200 Electrical Power

16300 Transmission & Distribution

16400 Low-Voltage Distribution

16500 Lighting

16700 Communications

16800 Sound & Video