1820-100 Comment Letter No. 110

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Financial Accounting Standard Board 401 Merritt 7 P. O. Box 5116 Norwalk, CT 06856-5116

Attention: Technical Director – File Reference No. 1820-100

Regarding: Comment on FASB & IASB's Exposure Draft on Revenue

Recognition from Contracts with Customers

Dear Sir or Madam:

I am a CPA for over 27 years and have been in public accounting for 24 of those years. I provide various services nearly exclusively to the construction industry. As such, I am very interested in the Board's project on revenue recognition and its desire to ensure that high quality accounting and financial statements are maintained by the construction industry.

I have a significant concern over how the proposed standards apply to my construction clients. The current exposure draft for recognizing revenue at the "performance obligation" level presents significant challenges for both external auditors and their clients, and may have a very real risk of an adverse economic effect on the construction industry. Construction contractors (other than homebuilders) have historically used the percentage of completion method to report their income on construction contracts. As such, revenue is recognized as the job progresses, normally based on the cost to cost method.

The percentage of completion method most clearly reflects the economic reality of the contract. Contractors normally enter into construction contracts for a fixed amount to build a project for an owner. While certain portions of the project may technically be more profitable than others, there is no way reasonably separate a more profitable part of the project because the project must be done in its entirety. The contractor cannot "pick and choose" to only do the profitable portion of the contract; they must complete the whole project. Everything is interrelated to one another, and it would not be appropriate to separate them.

Bonding companies insure these projects in its entirety – not just parts of it. If the contractor cannot complete the project, the bonding company must step in and complete the whole project. Once again, the bonding company cannot "pick and choose" which parts of the contract to insure and which parts to

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complete. Delay penalties and early completion bonuses should be recognized only when their realization is reasonably certain (as is done presently).

Additionally, contractors keep track of costs by job. This provides useful information for management to monitor the progress of the job. While posting costs to a specific job is standard, posting costs to a specific phase or cost code of the job can be cost prohibitive. For example, a worker may work on various parts of the contract during the week, however, he or she would not know the specific cost code. Likewise, a subcontractor may do work on numerous different areas of the contract, yet their progress bill would not identify specific cost codes. Additionally, in smaller construction clients, accounting personal would have significant difficulty to post invoices to specific cost codes without substantial additional time and cost.

In summary, the contractor must cover the entire contract. As such, it seems only appropriate that revenue match this concept, and be recognized based on the entire contract. Allowing recognition on any other basis allows for manipulation of the profit, and hence less meaningful financial statements and inferior accounting information for the users of the financial statements.

Finally, I would like to request that private compaies be given at least one year or more to comply with the proposed standards once it becomes effective for public companies. An even better alternative is to exempt all private compaies, or at least construction contractors, from this new rule.

Sincerely,

Margaret C. Wagner, CPA

Manager