



# **The Master's Dredging Company, Inc.**

**Dredging Contractors  
P.O. Box 9, Lawrence, KS 66044  
(913) 583-3335**

**October 15, 2010**

**Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk CT 06856-5116  
Attn: Technical Director – File Reference No. 1820-100**

**Re: Comments on the FASB and IASB's Exposure Draft on Revenue Recognition from Contracts with Customers**

**As a dredging and aquatic contractor and manufacturer of specialized marine equipment, we have performed very difficult contract work with all levels of public and private entities. Both for our clients and our own financial analyses we have worked over the years to develop our contracts and accounting systems in order (1) to optimize our job performance, (2) to maximize our profitability, (3) to facilitate our multiple filings with federal, state, and local governments, and (4) to minimize our outside accounting firm's work in tax preparation and auditing.**

**For transparency and for profitability, we understand the Boards project on revenue recognition and we share its desire to ensure that high-quality accounting for the construction industry is maintained. However, we have some deep concerns in trying to mandate one standard to fit all. It will either be inadequate or immensely complex and generally very expensive for compliance with few beneficial results for the expense. Our present tax law is a perfect example of complex and often ambiguous standards with expensive tax preparation. In fact, we have built our contracting and accounting systems around the tax codes. Imposing another accounting standard can create a double accounting system since the continuously changing tax laws are not built with external accounting standards as their primary mandate.**

**We have significant concerns over how the new standard may be applied to our dredging industry. Since we are a small company with very specialized equipment and work conditions, the current guidance in the Exposure Draft for recognizing revenue at the "performance obligation" level presents significant challenges for us. It appears to carry the very real risk of adverse economic effects on our industry stemming from an inferior method of revenue recognition.**

**The inherent subjectivity of the prescribed process for identifying and allocating revenue to performance obligations will lead to less consistency and transparency in the**



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financial reporting process in the industry. The inherent subjectivity also opens to the door to financial engineering and outright manipulation. This subjectivity in financial reporting places a burden on honest contractors and at the same time opens the door for less scrupulous contractors.

In working with bonding companies and insurance companies, we are sure that with increased subjectivity, there will be unclear areas which open them, as well as ourselves, to financial liabilities. The surety community always has significant concerns about any approach that diminishes consistency and increases subjectivity. As a result, surety credit will become marginally more difficult to secure in the future, especially in specialized work like dredging, in order to offset the risks associated with inferior accounting rules.

We believe the reason that the Boards are hearing negative feedback from the construction and dredging industry is the fact that the proposed revenue recognition rules are often divorced from economic reality. It is probably possible to make minor refinements to the present standard in order to align the revenue recognition rules with economic reality.

Specifically, we request that the Boards recognize that in most cases, ALL construction activities for a given project are highly interrelated and have overall risks which are inseparable. We have in the past tried to segregate out jobs and projects totally into individual components but it is nearly impossible both from operations, budget, and bidding perspective. Several MBAs in our employment have attempted to do this but without success in real world operations.

Because of the integration of operations, a dredging or construction company lacks a systematic, repetitive methodology for determining the price at which it would sell the components and their distinct profit margins in a contract. Some items can be factored out but it is impossible consistently to factor a construction project into individual profit centers. In fact, many contracts are globally estimated, based on historical profit/loss/conditions/volumes parameters of similar past jobs. Accounting of profits/losses is nearly perfect 20/20 as hind sight but nearly impossible as foresight. Most contractors go bankrupt or eat glass trying to look into crystal balls.

We concur with the guidance in the Exposure Draft regarding continuous transfer and we believe it is appropriately reasoned. In determining a contract price, we believe that variable considerations (i.e. bonuses or penalties) should be excluded from the calculation of contract revenue until such time as their realization is reasonably assured. Since bonuses and penalties are determined on the job performance, it is impossible to determine those costs ahead of time without an accurate. Until that time, the inclusion is



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**highly subjective and as a matter of course, we believe that most users of financial statements will not want to see such amounts included in revenue until their realization is reasonably assured.**

**While we appreciate the Boards efforts to create a single standard to apply to virtually all industries and transactions, we maintain a belief that the key principals of the proposed standard need to be interpreted in such a way to preserve the key tenets of SOP 81-1. The Boards run the very real risk of creating inferior accounting rules when applied to the construction industry.**

**We also ask that private companies be given at least one additional year to comply with the proposed standard once it becomes effective for public companies.**

**Sincerely,**

**David Penny  
President**