

October 22, 2010

Financial Accounting Standards Board

401 Merritt 7

PO Box 5116

Norwalk CT 06856-5116 Attn: Technical Director – File Reference No. 1820-100

(Via Electronic Mail To director@fasb.org)

Dear Sir/Madam:

I would like to say thank you for considering my comments regarding the Revenue Recognition (Topic 605): Revenue from Contracts with Customers. As a current student at Woodbury University and a former worker in the construction industry, I would like to focus on the problem of revenue recognition in the construction industry.

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

Question 4 — The boards propose that if the amount of consideration is variable, an entity should recognize revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

Do you agree that an entity should recognize revenue on the basis of an estimated transaction price? If so, do you agree with the criteria in paragraph 38? If not, what approach do you suggest for recognizing revenue when the transaction price is variable and why?

I do not completely agree that an entity should recognize revenue on the basis of an estimated transaction price. There are considerable drawbacks to estimating a transaction price. For example, in the construction industry an installment billing payment system is often used, but the contract states only the full amount. If we recognize the full amount, then the construction company will be hit with high expenditure outlay in initial period of the contract. This is why the construction industry needs a more equitable method of matching revenue and expenditure. Similarly, often construction companies finish contracted work before or after the contracted completion date. If a construction company completes work before the contract period expires, that company earns an incentive. How are we going to recognize these incentives? In the construction business, contracts often change numerous times. Deadlines will be delayed and the agreed upon price will change too. The variable price will always have that x variable that cannot readily be predicted. For example, if the price of materials or labor rises, the contractors will definitely implement price escalation clauses in their contract.

My solution is to continue to implement the existing revenue system, since the construction industry is already aware of the issues as problems in the current system. Introducing the new system will create more difficulties in the application and understanding of revenue recognition methods that exist currently. To avoid confusion in this set of industry revenue recognition practices, it is better to recognize the revenue from variables when that variable becomes fixed.

The best way to avoid distortions in revenue, as well as to avoid multiple adjustments in revenue recognition is to recognize revenue when it is received from the customers. But in the construction industry, we use the system where we record every expenditure at the time the

expenditure is made and add a percentage for a profit; we then record this additional percentage as profit. The method is known as a progress payment calculation. It is the common practice in the construction industry; this method now ensures that customers remit payment when a certain percentage of a project is completed.

Compliance with this proposed change will create the need for additional expenditures for construction businesses. The accounting department in the medium and small sized companies will need specialized training. I also think they will not be able to adopt the changes immediately. It is highly likely that businesses will need at least one year to get familiar with the change. That is why I would like the technical directors and members of the board to reconsider the change and improve to the exposure draft by taking into consideration the current practices of revenue recognition in the construction industry.

Sincerely,

Darwin Lie
626-240-9329
Darwin.lie@hotmail.com
Woodbury University
Burbank, CA
Class of 2011