October 22, 2010

Financial Accounting Standards Board

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Attn: Technical Director - File Reference No. 1820-100

FASB and IASB's Exposure Draft on Revenue Recognition from Contracts with Customers

I appreciate the efforts that the FASB and the IASB are putting toward this very critical area of convergence. As will potentially occur with all projects of this type, there are areas that may not "fit" the mold of the potential revenue recognition model as well as others. As an auditor serving the construction industry for more than 20 years, I believe that one of these areas in particular is the accounting for long-term construction contracts. My firm has provided attest services to clients in the construction industry for more than 80 years.

We have significant concerns over how the new standards constraint for recognizing revenue at the "performance obligation" and how this may be applied to construction clients. The current guidance in the Exposure Draft presents significant challenges for my audit firm and carries the very real risk of adverse economic effects on the construction industry stemming from what we see as an inferior method of revenue recognition (inferior to the tenets of SOP 81-1). The inherent subjectivity, potential for prejudice if you will, of the prescribed process for identifying and allocating revenue to performance obligations will lead to less consistency and transparency in the financial reporting process in the industry. This inherent prejudice also opens to the door to "financial engineering" and outright manipulation. There are significant concerns in the accounting community, the surety community as well as the banking community about any approach that diminishes consistency and increases subjectivity. As a result, surety credit will become marginally more difficult to obtain in the future in order to offset the risks associated with inferior accounting rules that are not in step with the reality of the long-term construction contract/project. Financial assistance from banks could also become tighter as comparability becomes more difficult. Auditing as well as other attest services will be significantly more expensive to the construction company as well since the estimate of construction revenue will become increasingly more difficult to audit.

We believe that it is possible to refine the guidance under the proposed standard 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. Therefore, construction companies lack a basis for determining the price at which it would sell the various

components of a contract separately; therefore, such characteristics of distinct profit margin will not be met (in most cases) and hence there are typically no more than a single performance obligation for most construction contracts.

We concur with the guidance in the Exposure Draft regarding continuous transfer and we believe it is appropriately reasoned.

With respect to determining the contract price, we believe that variable consideration (i.e. bonuses or penalties) should be excluded from the calculation of contract revenue until such time as their realization is reasonably assured. Until that time, the inclusion is 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.

We appreciate the Boards efforts to create a single standard to apply to virtually all industries and transaction; however, 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. Otherwise, the Boards run the very real risk of creating inferior accounting rules when applied to the construction industry.

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

Kindest regards,

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