

Mountjoy Chilton Medley

October 20, 2010

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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

To whom it may concern;

As a business advisor and auditor serving the construction industry, I am significantly interested in the Board's recent Exposure Draft (ED) on revenue recognition. It is my desire to ensure that high-quality accounting for both my client-base and the construction industry as a whole is maintained.

We have significant concerns regarding the impact the changes will have on our clients, the majority of whom are closely-held, small to mid size companies. On behalf of our clients, we are responding to the ED and ask you, the Board, to consider that the majority of these clients do not have the accounting staff or the technology available to implement the proposed changes.

The current guidance in the ED for recognizing revenue at the "performance obligation" level presents significant challenges for our clients and carries the very real risk of adverse economic effects on them 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 financial reporting process in the industry. The inherent subjectivity also presents the opportunity for financial engineering and potential manipulation of revenue. This creates significant concerns in the surety community about any approach that diminishes consistency and increases subjectivity. As a result, surety credit can become significantly more difficult to obtain in the future in order to offset the risks associated with inferior accounting rules.

We believe the reason the Board is hearing negative feedback from the construction industry has to do with the fact the proposed revenue recognition rules are inconsistent with economic reality. But we also believe it is possible to incorporate relatively modest refinements to the guidance under the proposed standard in order to align the revenue recognition rules with economic reality.

Specifically, we request the Board recognize that in most cases, all construction activities for a given project are highly interrelated and have overall risks which are not readily separable. Therefore, construction companies lack a basis for determining the price at which it would sell the components of a contract separately and such characteristics of distinct profit margin will not be met (in most cases). Hence there is typically no more than one performance obligation for most construction contracts.

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With respect to determining the ultimate 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 realization is reasonably assured. Until that time, the inclusion is highly subjective and, as a matter of course, we strongly 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 applaud your efforts to create a single standard to apply to virtually all industries and transactions, our belief is that the key principles of the proposed standard need to be interpreted in such a way as to preserve the key tenets of SOP 81-1. Otherwise, we believe you will 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.

Thank you in advance for your time and assistance with this very significant issue.

Sincerely,

Gary L. Beavin, CPA

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