

March 8, 2012

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Ladies and Gentlemen:

The Construction Industry CPAs/Consultants Association (CICPAC) is a national association of CPA firms recognized in their respective markets for providing high-quality financial and consulting services to over 6,000 construction industry entities. CICPAC appreciates the opportunity to comment on the Revision of Exposure Draft, *Revenue Recognition (Topic 605)*.

The majority of the CICPAC members' clients are small to mid-size, closely-held entities. We are responding to this document based on input and requests from these clients.

Onerous Performance Obligations

Paragraph 86 requires an entity to recognize a liability and corresponding expense if the performance obligation is onerous for obligations that are satisfied over a period of time greater than one year. We believe the new provision is not good accounting. For the construction industry, performance obligations vary in time-period and it would be difficult for the users of financial statements to determine if the standard was being applied consistently and appropriately. We believe that it is in the best interest of the users of the financial statements that a loss on a performance obligation be recognized as soon as it is known for all performance obligations, not just contracts with a satisfaction period of time greater than one year. A material loss on a short-term contract is just as significant as a material loss on a longer term contract.

The draft requires accrual of a loss on a performance obligation. However, a contract could have more than one performance obligation. In that case, we believe a loss should only be required to be accrued if the total contract is at a loss.

Precontract Costs

The draft states that incremental costs of obtaining a contract are an asset if the entity expects to recover those costs. This asset is either expensed immediately, if the contract/amortization period is less than one year, or amortized with transfer of goods and services. As stated earlier, performance obligations vary in time periods. We believe that tracking and accounting for these costs over a time period versus expensing when the contract is awarded is burdensome for our clients and does not provide additional useful information for the user of the financial statements.

Unproductive Costs

The draft states that if a contractor uses an input method to recognize revenue, the contractor shall exclude costs of wasted materials, labor or other resources to fulfill the contract that were not included in the original price of the contract. These unproductive costs would be expensed as incurred.

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Currently, those expenses are included in the cost to date and the estimated total cost that are used to calculate percentage of completion on a contract. Isolating unproductive costs directly to expense (unallocated) as period costs would appear to either be pooled as job costs shown separately on the closed job schedule unallocated to jobs or eventually be allocated to jobs. Either way, the percentage of completion result would be similar and this exercise would simply require additional, unnecessary work. Quantifying and isolating the unproductive costs will be very difficult for the vast majority of our clients. We believe that this provision will cause inconsistent reporting and will not improve the users understanding of the financial statements. We also believe it will be extremely difficult for auditors to determine if a cost not separately identified in the original budget was part of a contingency, a change order, a change in estimate or unproductive costs.

Disclosure Requirements

The draft requires disclosure of revenue earned by

1. Transferred over time, and
2. Point in time.

This would require additional accounting hours by our small contractors and we are not sure of the benefit that it would provide to the users of the financial statements. We believe that nonpublic companies should be excluded from this disclosure requirement.

Recognition of Change Orders and Claims

Paragraphs 81 and 82 provide for a “reasonably assured” threshold for recognition of change order and claim revenue. Paragraph 18 requires both parties to a contract to approve a change in scope or price. The wording seems inconsistent and could result in differing interpretations and inconsistencies in financial statement reporting for change orders and claims.

Additionally, current guidance allows a reporting entity to elect to recognize revenue for change orders and claims when actually received versus accruing at an earlier date. We believe that contractors should be provided with this more conservative option for revenue recognition rather than being required to make predictive judgments about receiving future uncertain consideration.

Thank you for the opportunity to respond.

Sincerely,



John J. Corcoran
Executive Director
CICPAC