October 21, 2010

Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Attn: Technical Director – File Reference No. 1820-100
(Via U.S. Mail and Electronic Mail)

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

Harbison-Mahony-Higgins Builders, Inc. (“HMH”) supports efforts to improve accounting standards and financial reporting, and is pleased to provide its response to the FASB and IASB’s Preliminary Views on Revenue Recognition in Contracts with Customers (“Exposure Draft”).

Founded in 1957, HMH is a commercial general contractor headquartered in Sacramento, California. We prepare annual financial statements which are audited by a CPA firm and delivered to our bankers, sureties, and other construction industry partners. As a construction company, we manage our business at the contract level as do our business partners.

We believe that the proposed guidance for recognizing revenue at the “performance obligation” level represents a significant challenge for us, the construction industry as a whole and the industries’ business partners. It carries a very real risk of adverse economic effects for our industry. The guidance is overly complex, would lead to inconsistent revenue recognition, and create confusion among financial statement preparers, users, and auditors. The prescribed process for identifying and allocating revenue to performance obligations is inherently subjective and could open the door to financial statement manipulation and does not represent an improvement over ASC 605-35 (SOP 81.1).

For almost 30 years the current cost-to-cost revenue recognition method per ASC 605-35 has provided guidance to the industry which is based primarily on objective, verifiable, and measurable input factors which has led to relative consistency in financial reporting. The model in ASC 605-35 is clearly understood by contractors and their business partners such as sureties and banks. It allows the users of financial statement to consistently evaluate the financial capacity of a contractor over a period of time as well as compare their financial capacity to other contractors.
Contractors operate in a complex and ever-changing environment, the Exposure Draft, however, addresses relatively simple customer transactions. We believe that substantial interpretive guidance will be needed to define and price performance obligations unique to the construction industry. The only construction example (Example 11) needs further clarification. Reasonably informed construction professionals could read an owner contract and offer different interpretations of the identification, measurement and satisfaction of performance obligations.

The Exposure Draft proposes revenue recognition based on the satisfaction of performance obligations. For most construction contracts the risks are inseparable and all elements of the project must function together and therefore should not be subdivided into multiple profit centers or performance obligations. We believe that risks can be continually satisfied but still recognize the reality that project activities are highly interrelated and that the key tenets of ASC 605-35 need to be preserved.

Change orders occur routinely in the construction industry. The Exposure Draft proposes allocating changes in prices to performance obligations using estimation methods. That introduces subjectivity and may lead to complex calculations that are difficult to audit. The current guidance per ASC 605-35 requires the fairly straight-forward cumulative catch-up method for re-measuring contract revenues and profits. The proposed guidance would penalize entities for losses on discrete onerous performance obligations, even if the entire contract is profitable. We believe accounting for the contract holistically makes more sense to financial statement preparer and users.

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

HMH appreciates the opportunity to share its views on this important revenue recognition project and welcomes further dialogue with the FASB and IASB.

Sincerely,

Gordon R. Spector, CCIFP, CPA (inactive)
Controller
Harbison-Mahony-Higgins Builders, Inc.