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 Electronic Mail

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

Thank you for the opportunity to review and comment on the Exposure Draft Revenue Recognition topic 605. Bay Ltd is a heavy industrial construction and fabrication company and the changes this proposed ruling has to the industry is of great importance to us.

We write today to express concern for the potential impact that a single standard for revenue recognition across all industries might create. We believe the proposed performance obligation approach to revenue recognition does not represent an improvement over existing accounting for the construction industry and would lead to more subjectivity within the financial statements. This inherent subjectivity for the prescribed process of identifying and allocating revenue to performance obligations will lead to less consistency and transparency in the financial reporting process in the industry. The loss of consistency and enhanced opportunities for manipulation will lead to a constriction of credit.

As a construction company, we manage business at the contract level. Long-term contracts are generally negotiated between the contractor and customer as a single transaction with a single profit objective. 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 components of a contract separately. As such, characteristics of distinct profit margin will not be met. Furthermore, when determining contract price, we believe that variable consideration, such as bonuses and penalties should be excluded from the calculation of contract revenue until such time that realization is reasonably assured.

If contractors are required, under the proposed standard to recognize revenue under the performance obligation approach, there will be an increased cost to the contractor. External financial reporting costs will increase dramatically due to the risks associated
with significant subjective estimates. Internal costs will rise as there will be multiple sets of books as management will still require that internal books be kept using the traditional means of revenue recognition as under SOP 81-1. The current percentage of completion method of revenue recognition is the most accurate method for management to be able to track the progress of a contract.

In addition to management, the predominant users of our financial statements are potential clients, Banks, and Sureties. The Banks and Surety companies have established key benchmarking and performance metrics from the financials as presented using SOP 81-1. Our customers are able to assess our ability to financially perform under the contract based on current standards. Since SOP 81-1 has a consistent method of application, management reporting, external reporting, and tax reporting are all virtually synonymous.

While we appreciate the Boards efforts to create a single standard to apply to all industries; the Boards should consider what the construction industry has achieved with an almost universal acceptance and application with its revenue recognition model. We maintain the 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.

Sincerely,

Bay Ltd.

Johnna L. Jones, CPA
Vice President / CFO