October 22, 2010

(via electronic mail to director@fasb.org  Subject Line: File Reference No. 1820-100)

To the FASB and the IASB
c/o Technical Director
File Reference No. 1820-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Director,

Thank you for the opportunity to comment on the Exposure Draft (ED), Revenue Recognition. We are a long-established, 25-member firm in the metropolitan Atlanta area serving closely-held small and mid-size businesses throughout the Southeast primarily in the construction contractor industry.

As currently written, the proposed standard misses the mark of delivering any enhancements in financial accounting and reporting. Furthermore, the costs associated with the revenue recognition procedures being proposed greatly exceed any benefits for preparers, users, external accountants, and other parties.

Our concerns fall into three major categories:

- Theory of good, appropriate accounting (over 75 years of unchallenged methodology),
- Practice of good, appropriate accounting (satisfied user needs in credit and bonding markets),
- Dangers associated with universal adoption ignoring preparer and user needs (one size does not fit all).

Theoretical Basis. Construction contractors have been operating well for over half a century under the authoritative guidance found in the Accounting Research Bulletin on preference for percentage of completion accounting, and the more detailed procedures and guidance found in the Statement of Position and related Accounting and Audit Guide for contractors. Under those standards, management provides information in the financial statements which addresses all the key issues of financial reporting, including the concepts of timing of revenue realization, as well as cost or expense matching. It is not clear that changes described in the ED would in any way improve the conceptual underpinnings, or lead to information any more useful for the informed decision-makers in the industry group.
The User Market. Banks and sureties rely on information generated from the percentage-of-completion financial statements. Job schedules are frequently key to making informed decisions by bonding agents who subscribe to benefits derived from percentage-of-completion accounting. Those schedules are based on competitive overhead and include the best estimates of costs and tracking methods that are reasonably feasible. Over and under billed amounts would be distorted if components of jobs were arbitrarily decomposed. Financial institutions demand clear-cut information for compliance on working capital metrics.

Need for a Structured, yet Flexible Focus. While some recently issued standards have addressed general needs and have been packaged in such a way as to not impede economic progress and yet improve financial reporting (for example, the “Subsequent Events” standard), one size, or one methodology, does not fit all prepares and users. Small and mid-size construction contractors in the United States of America operate in an environment far different from both large contractors in this country, as well as firms of various sizes internationally. We applaud the FASB for partnering with other standard setters and advisory groups, and in forming the Blue Ribbon Panel to evaluate critical issues for private company reporting.

The current guidance under percentage-of-completion accounting works well in the overall management of the process—from bidding on jobs through completion and reporting. This has been a time-tested method that delivers results of truly satisfying the needs of fulfillment on “performance obligations.” We believe that any perceived broken pieces to a revenue recognition puzzle should be properly assessed and evaluated, prior to setting a global standard which fails to deliver meaningful results.

In addition, the realities of commerce and the association of various parties in the delivery of relevant information should be considered. The work of external CPAs and their accounting and auditing practices rendering assurance services on the financial statements would likely be accompanied by fee increases. Compliance with statutory requirements, such as Internal Revenue Service, will bring forth additional costs in reconciling book to tax temporary differences. Benchmarking as a whole and materiality measurements will be skewed as new, complicated accounting methodology is applied. Performance obligations are not the measurements sought or needed by any of these parties.

Accordingly, we respectfully request the Boards not rush to cloture on setting binding financial accounting rules in those areas that do not need fixing. The current financial reporting model for construction contractors may not be perfect, but the Boards have not provided a proposed standard that improves satisfying user needs, but only one that increases costs to the various parties.

Sincerely,

[Signature]

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