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Technical Director
Financial Accounting Standards Board
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Proposed Accounting Standards update (Revised)
Issued: November 14, 2011 and January 4, 2012
Comments on Revenue Recognition (Topic 605) Revenue from Contracts with Customers

Dear Director,

Thank you for the opportunity to provide comments on this Exposure draft. I am the Executive Vice President/CFO of a 57 year old mid-size ($24-$35 million), privately owned construction company. I participated in one of your December 2009 workshops in Connecticut, worked with the AICPA on their response letter to your discussion paper and previously submitted separate comment letters to the FASB on the original Discussion Paper and on the June 2010 Exposure Draft. Hopefully my 30+ years of experience in the construction industry can be of some use to you.

Due to the FASB’s limited amount of time allotment to address the complex issues contained in this exposure draft, I will devote this response to the most problematic issues that I see remaining that are unclear in this exposure draft.

- **Re-measurement**: When is re-measurement of expected costs required? Does an entity only use the expected costs at contract inception? A cost-to-cost method of measure assumes that the entity has re-measured the expected costs at the end of each reporting period for all remaining performance obligations and adjusted the cost to complete to reflect conditions then in existence (as opposed to only those known at contract inception). This re-measurement will result in a different amount of revenue recognized than using the original expected costs figures. Therefore, how often does an entity re-measure its expected costs of a performance obligation? Is there a requirement to re-measure? If not, then how does one account for differences between actual costs incurred and original estimated expected costs? If an entity is tracking actual costs against estimates (even though re-measurement isn’t required by GAAP), can auditors that notice the actual costs are exceeding the estimated costs require some form of re-measurement anyway? Contractors typically perform cost to complete analyses on their long term contracts every month on every contract.

- **The onerous test** is only performed on performance obligations at contract inception that are expected to be satisfied over a period greater than one year. When does the year begin? At contract inception or when the entity first begins to satisfy the performance obligation? Please clarify with an example how onerous performance obligations expected to last less than one year at contract inception are to be accounted for.

- **In Example 3 (page 61)**, expected costs at inception were $800,000, actual costs incurred at end of first year was $400,000. The example used costs incurred relative to total expected costs as the method to recognize revenues on the performance obligation, in this example 50%. Should the $800,000 expected costs at inception be re-measured at the end of year one? What if the entity anticipates the expected costs will actually be $600,000 instead of $800,000 or conversely, $1,100,000 instead of $800,000 at the end of year one? All the scenarios will impact the amount of revenue that would be recognized at the end of year one. Please clarify with examples.
In Example 5 – Construction, “Revenue for the performance obligation would be recognized over
time by selecting an appropriate measure of progress toward complete satisfaction of the
performance obligation (assuming the criteria in paragraph 35 are met for satisfaction of a
performance obligation over time).” All the examples given in the exposure draft that address a
continuous transfer of goods and services seem to show some method (input or output) that arrives at a
percentage of completion multiplied by the transaction price to arrive at the revenue to be recognized at a
point in time. I believe the transfer of goods and services would include the transfer of the entity’s costs
related to the goods and services transferred plus the percentage of completion applied against the
difference between the transaction price and the expected costs (commonly referred to as margin). It is not
clear to me whether or not this method of revenue recognition rises to an input or an output method as
allowed in the exposure draft. Please clarify this in the final standard. “a profit-oriented entity typically
does not promise to transfer a good or service to a customer without a margin” BC215

“an entity shall include in the measure of progress any goods or services for which the entity does
transfer control to the customer.” Paragraph 39 This implies to me that the entity should expense costs
of the good or service related to the transfer of control of those goods or services at the time of transfer. Is
this a correct interpretation of the requirements of the standard? Please clarify in the final standard and with
an example.

“93(b) Costs of wasted materials, labor, or other resources to fulfill the contract that were not
reflected in the price of the Contract. “How does one know which of these costs were reflected in the
price of the contract and which were not? All construction contracts are based on estimates at contract
inception. Waste factors are usually figured into the material costs, labor productions and rates used in the
bid estimate. However, there will always be variances of actual versus estimates in almost every cost code
in the estimate. It would be impractical to try to determine which of these costs overruns were not included in
the price of the contract. Please strike 93(b) from the standard. These costs should be treated just as all
other direct contract costs are accounted for.

“A performance obligation is onerous if the lowest cost of settling the performance obligation
exceeds the amount of the transaction price allocated to that performance obligation. The proposed
guidance specifies how an entity would determine the lowest cost of settling the performance
obligation.” I would add the word “estimated” between the word “lowest” and the word “cost” for clarification
purposes.

103. An entity shall not recognize a reversal of an impairment loss previously recognized. Then how
does one account for the change in the impairment loss if circumstances change and it is no longer
determined to be an impairment loss?

The time value of money (paragraphs 59–62) I find it illogical to record more revenue than the customer
will pay and to record a contra interest expense for the over-recorded contract revenue. The exposure draft
seems to ignore the fact that on many construction contracts, a customer will advance a contractor funds to
pay for up front material costs required to be paid to the contractors suppliers in order to procure the owner’s
specified material. A case in point, we have foreign granite suppliers who require advance payments up front
to finance large material orders as specified by our customers. We believe since the material is specified by
the owner, it is his responsibility to provide the supplier funding for the advance payment required by the
supplier, not us. We are just a conduit and we pay our suppliers when the owner of the construction project
pays us. As such, I recommend deleting the time value of money paragraphs 58-62 from the exposure draft.

Answers to exposure draft questions:

Question 1: Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time
and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you
agree with that proposal? If not, what alternative do you recommend for determining when a good or service
is transferred over time and why? I agree with the proposal.
Question 2: Paragraphs 68 and 69 state that an entity would apply Topic 310 (or IFRS 9, if applicable) to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer’s credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer’s credit risk and why? No, I would rather see all assessments of uncollectibility included with the bad debt expense and not as a separate line item alongside the revenue line. Why confuse the user of the financial statements when there is virtually no difference between bad debt expense and uncollectible amounts created by a customer’s credit risk assessment?

Question 3: Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognizes to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity’s experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognize for satisfied performance obligations? If not, what alternative constraint do you recommend and why? I agree with the proposal.

Question 4: For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognize a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why? No, I do not agree with the proposal. I do not believe a time distinction should be made for proper accounting of onerous performance obligations. All onerous performance obligations should be treated the same. However, I do agree with limiting disclosure of outstanding onerous performance obligations. I think that disclosures should be required only on onerous performance obligations that are expected to be satisfied more than one year from the report date. (as opposed to one year from inception date). It would be intuitive that all other outstanding onerous performance obligations would be satisfied within the next year.

Question 5: No comment. We are a privately held entity and do not provide interim disclosures.

Question 6: No comment. We are a privately held entity and this is not applicable to us at this time.

Question A1: Do you agree that the proposed amendments that codify the guidance in the proposed Update on revenue recognition have been codified correctly? If not, what alternative amendment(s) do you recommend and why? I haven’t the time to go through the codification to determine the quality of FASB’s staff’s codification attempts of the exposure draft.

Question A2: Do you agree that the proposed consequential amendments that would result from the proposals in the proposed Update on revenue recognition have been appropriately reflected? If not, what alternative amendment(s) do you recommend and why? I have no comment due to time constraints allotted for my response to this exposure draft.

Thanks for re-exposing this issue. I applaud your considerable efforts in trying to address all the inherent problems that will surface from such a comprehensive change to existing accounting standards.

Respectfully submitted,

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