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To: [Director - FASB](#)
Subject: Comment Letter - File Reference No. 1820-100
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I am a CPA as well as a CCIFP. For the past 11 years, I have served as Controller for a general contractor in Southwest Missouri. Prior to that, I was in public practice for 8 years with BKD, LLP, where I worked extensively with construction clients. I am extremely concerned about the proposed changes that the FASB is considering with regards to Revenue Recognition for long term contracts. While there is no argument that the current method of revenue recognition that is used by practically any company of size in this industry is subject to manipulation and human error, there appears to be similar opportunity with this proposal.

One of the concepts that I can understand in theory is that of cost capitalization. I agree that certain "up front" costs could provide a misleading amount of revenue recognition for certain contractors. For example, a contractor that has mobilation and set up of a tower crane. However, in the case of our company, we believe that those type of costs are immaterial in most cases to the overall cost of a job. Requiring the capitalization and amortization of these costs will result in more administrative procedures and, in our opinion, do little to the ultimate goal of providing the most accurate revenue recognition.

My biggest objection and area of concern is the concept of having different gross profit recognition on multiple phases of a single contract. This part of the proposal seems to be the most ripe for manipulation and, in our opinion, does not lend itself to our business model. When we bid a project, it is bid with a projected gross profit on the job as a whole. As a general contractor, so many phases of a job are intertwined to the point that segregation of the gross profit within the job would require additional and unnecessary procedures. More importantly, we do not believe that this would truly reflect to the user of the financial statement the result of operations.

I agree that one of the biggest risk areas in a contractors financial statement is the estimated costs to complete a project, which in turn impacts the balance sheet and income statement. While it is true that this is an area that can be readily manipulated by owners and project managers, it is also true that current audit procedures are in place to challenge and test the estimating process. In other words, this process does not go unchecked. Furthermore, it is my experience that most reputable contractors tend to be conservative in their estimates. This is due in large part to a surety industry that oversees the financials and looks unfavorably at profit fade.

I highly encourage the FASB to reconsider this project. The feedback that I'm hearing from most of my peers, coworkers, and business partners is that this would be a bad standard for the industry and one that could result in contractors being forced to prepare three sets of financials: A GAAP based financial, a percentage of completion based financial for the surety and potentially the bank, and a tax basis financial. What could happen is contractors choosing to just abandon the GAAP based financial altogether, and simply reporting on the percentage of completion method as an OCBOA Financial Statement. If the surety companies are going to allow, or even demand, the percentage of completion as the form of revenue recognition, then there would be no reason for many contractors to bother with a GAAP based statement.

Thank you for your consideration of this letter.

Sincerely,

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