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October 14, 2010

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Attention: Technical Director – File Reference No. 1820-100

Regarding: Comment on the FASB & IASB's Exposure Draft on Revenue
Recognition from Contracts with Customers

Dear Sir or Madam:

As a practicing CPA, my firm serves approximately 15 to 20 different construction companies annually, providing various services to many construction companies including audits, reviews and some compilations. I personally have over 28 years of experience dealing with the construction industry. During that time I have been both a comptroller for several construction companies for about 3 years and the other 25 years I have been in public accounting spending a substantial portion of that time serving the construction contractor community. Our firm is interested in the Board's project on revenue recognition and its desire to ensure that high-quality accounting and financial statements are maintained by the construction industry.

We have significant concerns over how the new proposed standard may be applied to our clients. The current guidance in the exposure draft for recognizing revenue at the "performance obligation" level presents significant challenges for both us and our clients and carries the very real risk of adverse economic effects on the construction industry stemming from what we believe would be an inferior method of revenue recognition. Construction contractors (other than homebuilders) have historically used the percentage of completion method in general to report their income on a construction contracts, whereby the revenue from that contract is recognized as the project progresses (based usually on the cost to cost method).

Contractors routinely enter into construction contracts for a fixed amount to build whatever it is that the owner wants. They have obligated themselves to perform the work described in the contract in total, not just part of it, but all of it. These contracts should not be subdivided into multiple profit centers or performance obligations because the risk are inseparable within the contract, which means that the customer entered into a contractual agreement with the contractor to construct a project which adheres to specific criteria as detailed in the contract which means that all elements or parts of the contract must be followed and function together. Any attempt to try to subdivide the contract into

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various smaller pieces (or performance obligations) totally ignores the overriding risk which the contractor bears of making sure that all of the pieces of the project fit together and work as a whole project, not just this piece or that piece. All of construction contracts and the performance of all of the parts of those contracts are highly interrelated. On most projects it is our belief that all of the activities are highly interrelated to one another and that it would not be appropriate to separate them.

Commercial contractors manage their business on a contract by contract basis. Their surety (bonding) company also provides surety credit on a contract by contract basis (not just for part of the job). The contractor and the bonding company both have contractual obligations and risk for the total sum of the contract, not just the pieces of the contract. I have never seen a bonding company that wanted to see the financial statements prepared on any method other than the percentage of completion method on a contract by contract basis. Likewise most bankers that do much in the way of lending to commercial contractors also want the same thing as the bonding company. To me it would be total inappropriate to try to determine revenue on any basis other than the contract level and I doubt very seriously that the bonding companies, banks or owners of construction companies would feel any different on this subject.

Most construction contractors keep job cost records for each job at present that provide timely information to management and others in regards to cost to date. They however regularly have costs miscoded various cost codes for the job (they are charged to the correct job but not the correct job cost code) and this is just a fact of life on your typical construction contractor. The costs are correctly coded to the correct job but often times to the wrong cost code. Contractors lack any meaningful basis for determining the price at which it would sell the components of a contract separately and as such distinct profits margins for each item will not be determinable as there is so much overlap of the various steps on a construction contract performance. Once again the contractor is obligated to perform the entire project not just some of it.

Regarding the guidance related to determining the contract price, we believe that variable consideration items such as delay penalties or early completion bonuses, should be excluded from the calculation of contract revenue until at such time as their realization is reasonably assured (as is done presently). Until that time the inclusion of such is so highly subjective and judgmental because of their uncertainty, that most users of financial statements would want these items excluded from the revenue recognition until at such time that they are no longer subjective.

In conclusion while we appreciate the efforts of the Board's to try and create a single standard to apply to virtually all industries and transactions, we don't see how that would be possible in this case. We believe that the key principals of the proposed standard need to be interpreted in such a way as to preserve the key tenants of SOP 81-1. Otherwise the Boards run the very real risk of creating rules that cause inferior accounting rules when

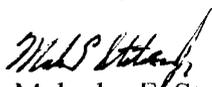
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applied to the construction industry. It is our sincere belief that if the proposed rules are implemented the financial statements of construction contractors will become less accurate and less meaningful to the users of financial statements and we certainly don't believe that this is the Board's goal or outs.

Finally, we ask that private companies be given at least one year or more to comply with the proposed standards once it becomes effective for public companies, and even better idea to exempt all private companies, or at least construction contractors from this new rule.

Sincerely,



Malcolm E. Stratemann Jr., CPA
Owner

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