SDB
CONTRACTING SERVICES

October 14, 2010

Attention: Technical Director, File Reference 1820-100
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Exposure Draft
Revenue Recognition (Topic 602)
Revenue from Contracts with Customers

As accounting professionals in the construction industry, we are writing to express our concerns and objections regarding certain provisions in the above referenced Exposure Draft. Having viewed and participated in several presentations and webinars, we have heard arguments both in support of the Proposed Accounting Standard and against it. We expect that our concerns have been expressed adequately to you in other letters you have received, so we will focus on just two points, although we have numerous concerns. In general, we oppose passage of the Standard for the following reasons:

1. The proposal opens the door for a dramatic increase in subjectivity in the preparation of financial statements

2. Additional work and delays associated with preparing work-in-process schedules on a performance obligation basis

Subjectivity In Interpretation

The inevitable lack of consistency in interpreting "performance obligations" from one contractor to another will result in less comparable statements. This concern was (seemingly) inadvertently reinforced by a gentleman whom we believe represented the FASB[1]. When asked how he would separate a contract to construct three schools into separate performance obligations, the gentleman indicated that it would be reasonable to treat each school as a separate performance obligation.

However, the exposure draft indicates that a separate performance obligation is created when "the entity could sell the good or service separately because the good or service has a distinct function and a distinct profit margin."[2] Prior discussions we have

[1] CFMA Webinar/conference call, October 13, 2010. Comments believed to be made by Mr. Ken Bement, a representative of the FASB.
[2] FASB Exposure Draft, Proposed Accounting Standards Update, Revenue Recognition (Topic 605), Page 3, paragraph IN14 (b).

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participated in have led to a conclusion that the construction of a single school, for example, would certainly consist of numerous performance obligations.

This example of differing interpretations is found at a high level. We believe greater risk exists in indentifying performance obligations in a manner that suits the contractor by "Gerrymandering" the costs at the trade level (electrical, mechanical, etc.), or even at the cost code level.

Furthermore, whichever approach the contractor elects in segregating performance obligations, it is unlikely (at least in the construction industry) that a standalone selling price would be observable. Hence, additional subjectivity is injected into the financial statements via the contractor's estimation of the standalone selling price for each performance obligation.[3] Thereby the concept of comparability of financial statements is eroded.

And the resultant potential for 'income management' and, therefore, misleading financial statements is enormous.

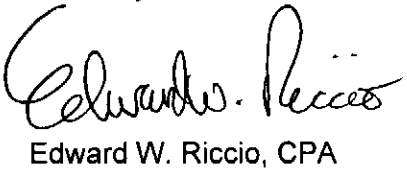
Additional Work And Delays Impacting Sureties and Banks

The burden imposed upon contractors to estimate revenue on a performance obligation basis will result in significant additional cost to contractors and significant delays in the finalization of financial statements. Such delays will put sureties and lending institutions at greater risk. Due to competitive pressures, these organizations may be reluctant to deny credit pending financial statement issuance. Therefore, this proposed standard will have the effect of placing statement users in a position of having to make credit decisions "in the dark" without the benefit of comparable statements as we know them today.

Sureties do not bond performance obligations: they bond projects. If, as we believe, the purpose of financial statements is to provide a level of assurance to users, this proposed standard will undoubtedly be counter-productive.

Please refrain from adopting the proposal and allow Accounting Standards Codification Standard 605-35 to continue to guide accounting for revenue under construction contracts.

Sincerely,



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[3] Ibid, Page 4, Paragraph IN18.

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