1820-100 Comment Letter No. 628

Hammond Group, P.C.

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Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116
Attn: Technical Director – File Reference No. 1820-100

Re: Comments on the FASB and IASB's Exposure Draft on Revenue Recognition from Contracts with Customers

To Whom It May Concern:

I am a practicing certified public accountant in Georgia that specializes in the construction industry. I have been practicing in the construction industry for 38 years. I also was a member of the staff of the Construction Contractor Guide Committee that worked on and published SOP and Audit Guide 81-1 (now known as ASC 605-35). I am extremely interested in ensuring that high-quality accounting for the construction industry is maintained.

I am concerned over how the new standard may be applied to the construction industry and how it will subject the industry to lower quality reporting and inconsistent application of the new standard. My primary concern is in "performance obligation" level presents significant problem for the industry and goes against the primary focus of revenue recognition in the construction industry "the contract." All of the parts of a construction contract are highly interrelated and dependent on other parts. Its not like selling widgets out of a warehouse. Grading the site has to be completed before you can pore the slab, etc.

The subjective nature of identifying and allocating revenue to performance obligations will lead to less consistency and less accuracy in the financial reporting process in the industry. Also, the subjective nature of the process will lead to outright manipulation of financial statements in the industry without any checks and balances to challenge the financial manipulation. There are also significant concerns in the surety industry (primary users of contractors' financial statements) about any approach that reduces these checks and balances and increases the possibility of manipulation.

Construction companies manage their businesses at the contract level. Surities provide credit on a contract-by-contract basis. It is inappropriate to try to determine revenues on any basis other than at the contract level.

While the construction industry is not opposed to complying with a new revenue recognition standard, as many of the principles of SOP 81-1 should be retained in this process as possible. With appropriate reconsideration of certain initial conclusions reached by the Boards in the Exposure Draft, I believe that most of the principles of SOP 81-1 can be appropriately carried over. Otherwise, the Boards run the risk of creating inferior accounting principles when applied to the construction industry.

Sincerely,

Denton R. Hammond Hammond Group, P.C.

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