

April 20, 2016

Technical Director
Financial Accounting Standards Board
401 Merritt 7
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To Whom It May Concern:

I appreciate this opportunity to comment on the issue of acceptable long-term construction contracts under U.S. GAAP; specifically, my proposed elimination of the completed contract method. By definition, the completed contract method recognizes income only on completion (or substantial completion) of the contract. Over the years contractors have justified the use of the completed contract method of accounting on the basis that, due to inherent uncertainties in their trade, the profitability of individual projects is uncertain before completion.

Additionally, if there are numerous contracts completed each year then an unequal recognition of income may not truly result. The completed contract method may also apply if the projects are of short duration and collections are not assured. Under International Financial Reporting Standards (IFRS) the completed contract method is not permitted. I believe that the Financial Accounting Standards Board (FASB) should eliminate the completed contract method in an effort to assimilate with IFRS and simultaneously promote a more fair and accurate representation of income.

The American Institute of Certified Public Accountants (AICPA) prefers that contractors use the percentage-of-completion method for financial reporting when they can make reasonably dependable cost estimates. With the worldwide technological advance that has occurred just within the past decade, I believe that companies currently possess the competence to consistently make reasonably dependable cost estimates based on past data, ratios, and future trends.

Furthermore, if the final outcome of a project cannot be reliably estimated, I believe that U.S. GAAP should adhere to IFRS and require the use of the cost recovery method in lieu of the percentage-of-completion method. Traditionally, this implies a more conservative method wherein revenue can only be recognized to the extent that cash exceeds the costs incurred. Subsequently, this provides a much more accurate representation of income according to the matching principle. When a contract extends over more than one accounting period, income should be matched with the proper period. A major issue with the completed contract method is the fact that the matching principle is inaccurate and in some cases nonexistent.

Internal Revenue Service (IRS) officials' have commented that the percentage-of-completion method is the better method for recognizing annual income. I agree with their stance as eliminating the use of the completed contract method would allow for a more timely and accurate representation of income and might simplify IRS administrative functions in the process as well.

I appreciate this opportunity to provide feedback on acceptable long-term construction contracts currently acceptable under U.S. GAAP. I would be pleased to respond to any questions the Board or its staff may have concerning my comments. Please direct any questions to Nathan Schneider at nts38@medaille.edu.

Sincerely,

Nathan Schneider

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