

Solution:

(1)

(a) Under the current U.S. GAAP, the revenue could not be estimated reliably using the percentage completion method and must be considered under the complete contract method if possible.

Thus, each year Reid Construction Company would measure no revenue and hence no expenditures (according to matching principle) since the outcome of the payment is uncertain.

(b) Under the new proposed U.S. GAAP, the revenue would be based on the percentage completion method whenever the outcome is estimated reliably.

This means that each year, Reid Construction Company would recognize \$4 million in revenue.

(2)

If the outcome is reliably estimated, then both U.S. GAAP's systems converge and you apply percentage of completion method to record \$4 million in revenue per year.