

Solution:

(1)

If Kowalski uses the percentage of completion method, then each year they monitor the progress and divide the revenue amongst the years.

Thus, if they use percentage of completion method, then for the year 2010,

$$\text{Revenue (2010)} = \$2 \text{ million}$$

Since the expenses occurred are \$1.5 million, for the year 2010, we have

$$\text{Profit (2010)} = \$0.5 \text{ million}$$

(2)

If Kowalski uses the complete contract method, then they will recognize the revenue at the end of completion of contract as well as the expenses that are incurred during the stages.

Thus, if they use complete contract method, then for the year 2010, we have

$$\text{Revenue (2010)} = \$0$$

$$\text{Profit (2010)} = \$0$$

(3)

If the payment is certain, then according to U.S. GAAP, the Kowalski corporation can use percentage completion method. This is a great method as it helps to keep track of the revenue and monitor progress of the project.

Thus, Kowalski should use percentage completion method.

(4)

If the payment is highly uncertain, then U.S. GAAP requires that Kowalski corporation mandatorily use the complete contract method.

(5)

Under IFRS, since Kowalski believes that they will receive the payment, they are allowed to use percentage completion method for estimating revenue.