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The Financial Accounting Standards Board (FASB) issued a proposal, or “exposure draft,” that would significantly alter contractor financial statements and would eliminate the percentage-of-completion method of accounting as currently used by construction contractors. The proposal will reduce the standardization of methodologies, increase complexity, add costs, and result in a financial statement that does not meet the needs of users.

Under the new proposal, contracts themselves would no longer be the basis for computations, but instead they would be broken down into performance obligations, which are contractual obligations to deliver goods or provide services. This could present a problem for contractors when trying to determine how to divide each contract into performance obligations. In addition, rather than using incurred costs to compute revenue, contractors would only be able to report revenue once a performance obligation was satisfied, which is when control of a good or service is transferred to the customer.

This will present a hardship on the construction industry and increase surety costs.

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