Dannible & McKee, LLP

Certified Public Accountants and Consultants

Delivering **Confidence**

The New Revenue Recognition Standard is Finally(!) Here

A "How To" Guide

Kenneth C. Gardiner, CPA, CCIFP, CDA
Benjamin A. Sumner, CPA, CGMA

Dannible & McKee, LLP

Annual Construction Conference
December 4, 2019

Revenue Recognition

ASU 2014-09 - Revenue From Contracts with Customers

- Final standard issued in May of 2014.
- Effective: for annual reporting periods (and interim for public companies) beginning after Dec 15, 2017, (**2018**) and interim reporting periods for nonpublic companies in years beginning after Dec 15, 2018 (**2019**).
- Early adoption: permitted. Although no one is early adopting.
- Why has FASB instituted the change?
  - Convergence of U.S. and International Standards.
  - Create consistency between different industries for similar economic transactions.

Revenue Recognition

Core Principle

- An entity shall recognize revenue to depict the **transfer** of goods or services to the customer in an amount that reflects the consideration the entity receives, or expects to receive, in exchange for those goods or services provided.

- No longer applicable in accounting principles
  - Earnings process, matching, or transfer of risks and rewards or title.

Revenue Recognition

Five steps to apply the core principle:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the entity satisfied a performance obligation.

Revenue Recognition – Step 1

<u>Step 1: Identify the Contract</u> –

- May be written, oral or implied.
- Contract must have commercial substance.
- Parties to the contract have approved the contract and are committed to satisfying their respective obligations.
- Each party must have **<u>enforceable</u>** rights regarding the goods or services being transferred. If both parties can cancel, then it is not a contract.
- The entity can identify the terms and manner of payment for those goods or services.
- **Collectability must be probable, or no revenue recognition.**

Combining Contracts

- Current guidance provides for combining and segmenting contract if certain criteria are met.
  - Allows for combination with two or more contracts when certain criteria are met.
- New guidance **requires** two or more contracts to be combined if the contracts are entered into ***at or near the same time with the same customer*** and one or more of the following conditions are met -
  - The contracts are negotiated with a single commercial objective.
  - The amount of consideration in one contract depends on the other contract.
  - The goods or service are a single performance obligation.

Combining Contracts

- Negotiating contract at the same time does not necessarily demonstrate a single arrangement.
- Combining will occur when the price of a second contract is based on the advantages existing in the first contract.
- **Contracts with different customers may no longer be combined**.
- There is no bright line in determination of "at or near the same time"
  - The longer the period between entering into contract may indicate the economics have changed.

Revenue Recognition – Step 2

Step 2: Identify the Performance Obligations in the Contract

- A promise in a contract with a customer to transfer a good or service to a customer – ***Explicit or Implied.***
- Contract will have multiple performance obligations if each is considered ***distinct.***
- Performance obligations are identified at contract inception and determined based on –
  - Contractual terms.
  - Customary business practice.
- Identifying performance obligations and how they are satisfied will directly affect when revenue is recognized.

Performance Obligations

- Capable of Being Distinct –
  - If the customer can benefit from the good or service on its own or together with other resources readily available to the customer; (OR)
  - Customer can use good or service with other readily available resources.
- AND Distinct within the Contract –
  - The promise to transfer a good or service from the other good or service is stated in the contract.

– ***One performance obligation is preferable.***

Performance Obligations

- *Indicators that two or more promises to transfer goods or services are <u>not</u> Distinct –*
  - The good or service is ***<u>highly dependent on, highly interrelated</u>*** with other promised goods or services (OR)
  - The good or service does ***<u>significantly modify other promised</u>*** goods or services in the contract (OR)
  - The contractors provides a ***<u>significant service of integrating</u>*** goods or services to provide a combined output contract by the Customer.

Performance Obligations

- Goods or services that are ***not distinct should be combined*** with other promised goods or services.
- Is the customer receiving a ***stand-alone benefit*** which is distinct in the context of the contract.
- Not distinct = provide an ***integration service to manage and coordinate*** the various tasks AND to ***assume the risk associated*** with the integration of the task.

Performance Obligations

- Contracts for engineering, procurement and construction or design build projects have multiple services that must be evaluated to determine if the goods or services represent multiple performance obligations.
- Operation and maintenance is most often a separate performance obligation from design/construction.
- Various factors may provide evidence that the customer can benefit from the good or service either on its own or in conjunction with other readily available resources. For example, the fact that an entity regularly sells a good or service separately would indicate that a customer can benefit from the good or service on its own or with other readily available resources.

Performance Obligations

- Series of Performance Obligations –
  - A series of distinct goods or services that are ***substantially the same*** AND have the ***same pattern of transfer to the customer.***
- A series of distinct goods or services has the same pattern of transfer to the customer if both of the following criteria are met:
  - Each distinct good or service in the series that the entity promises to transfer to the customer would meet the criteria in ASC 606-10-25-27 to be a ***performance obligation satisfied over time.***
  - In accordance with paragraphs 31-32 of ASC 606-10-25, ***the same method would be used to measure the entity's progress toward*** complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer.

Performance Obligations

Example #1

A company enters into a contract to design and build an airport terminal. The company is responsible for the design and management of the project, including engineering, site clearance, foundation, procurement, construction of terminal space, airline office space and installation of equipment and finishing. As all of these goods are ***interdependent and interrelated*** (the customer cannot benefit from each good on its own), the contract would be considered one performance obligation.

Performance Obligations

Example #2

A contractor enters into a contract to manufacture and install windows. The contract also includes a provision to provide maintenance on the windows for a period of time. Questions to consider regarding multiple performance obligations:

- Does the contractor regularly manufacture windows for sale without installation?
- Can the customer utilize the windows without the installation?
- Does the contractor provide maintenance services without the installation? Is the maintenance required for the installation?

Revenue Recognition – Step 3

Step 3: Determine the Transaction Price

- Definition: Amount that vendor ***expects*** to be entitled to for transferring goods or services.
- Probability-weighted amount of consideration that an entity expects to receive from the customer in exchange for the goods or services, or "the most likely amount".
- **If the transaction price cannot be reasonably estimated, an entity shall not recognize revenue from satisfying a performance obligation.**

Variable Consideration

- Transaction price is the amount of consideration a contractor <u>expects</u> to be entitled to in exchange for its performance obligation.
- Typically the stated contract price in the contract .
- Items to consider –
  - Contract price.
  - Customary business practice.
  - Variable consideration.
- **Amounts are only included in the contract price if it is *probable* that a significant reversal in the amount of revenue recognized will not occur in the future.**

Variable Consideration

- Evaluate whether to "constrain" amounts of variable consideration included in the transaction price.
  - Objective of constraint – include all variable considerations in the transaction price only to the extent it is probable that a significant revenue reversal will not occur when uncertainty is subjectively resolved.
- Amount of variable consideration to include in the transaction price should consider both the likelihood and magnitude of a revenue reversal.
  - **Penalties, refunds, discounts.**
  - **Claims, change orders, bonus and incentives.**
  - Could be explicit or implicit.
  - Contract price being cut at the end of a project.
- Contractor needs to determine (even at the start) all information (historical, current and forecast) to determine contract price.

Variable Consideration

Variable consideration is accounted for using either:

- Expected Value Approach –
  - Expected amount in a range of values.
  - Contractor will evaluate based on prior experience and judgment.
  - Only include amounts that have a probable chance of collection.
- Most Likely Amount Approach - "*All or Nothing*"
  - If performance obligation met - receive incentive.
  - If not met - receive nothing .
  - Can include up to maximum amount expected to be collected based on prior experience and judgment.

Contract Modifications

- Think Claims and Change Orders.
- If modification adds more “distinct” goods or services at a reasonable fee, treat as separate contract.
- If more significant changes, consider remaining performance obligations in modified contract.
  - If what remains is distinct, treat as new contract.
  - If not distinct (price change), redo allocation taking into account modified contract and recognize “**cumulative catch-up**” in current year.

Contract Modifications

- Accounting for change orders and claims will significantly require more judgement.
- Contractor ***cannot have a policy*** to state they will not record change orders or claims until they are approved. Each needs to be assessed.
- The new standard will require the contactor to determine the ***probability*** that the amount of the variable consideration will not reverse.
- Change the approach from “how much of the change should be included” to “how much of the change should be reduced” from the contract price.

Revenue Recognition – Step 4

Step 4: Allocate the Transaction Price to the Performance Obligations in the Contract.

- Allocation is based on relative standalone selling price.
- **Defined term**: The price at which an entity would sell a promised good or service separately to a customer.
- Use observable transactions if they exist; otherwise, whatever is best:
  - Expected cost plus margin; market assessment; valuation.
  - Residual approach ok (if highly variable or uncertain).
- Applies to all industries, including software.

Revenue Recognition – Step 4

Variable Consideration Allocation

- Generally, allocate proportionally to all performance obligations.
- **Allocate to one performance obligation (or one distinct portion of a series) if:**
  - Terms of variable payment relate specifically to it, and
  - Results in reasonable allocation to other performance obligations.
- Allocate changes in transaction price (including completed) on same basis as initial allocation.
  - Cumulative catch-up adjustment.

Revenue Recognition – Step 5

Step 5: Recognize Revenue as (or when) Performance Obligations are Satisfied.

- An entity recognizes revenue when a performance obligation is satisfied.
  - Satisfied - transferred a promised good or service to a customer
  - An asset is transferred when the customer obtains ***control of that asset.***
- ***Satisfaction of control*** occurs when –
  - The customer has the ability to direct the transferred good or service; **AND**
  - The customer receives the benefit of the transferred good or service.

Principal vs. Agent

- To determine the nature of its promise to the customer, the entity should:
  - Identify the specified goods or services to be provided to the customer; and
  - **Assess whether it controls each specified good or service before that good or service is transferred to the customer.**
- An entity is a **principal** if it controls the specified good or service before that good or service is transferred to a customer. If an entity does not control the good or service before it is transferred to the customer, the entity is an **agent** in the transaction.

Transfer of Control

Control is defined within Step 5 of ASC 606.

- Control of an asset refers to the ability to direct the issue of, and obtain substantially all the remaining benefits from, the asset.
- Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.
- The benefits of an asset are the potential cash flows (inflows or savings from outflows) that can be obtained directly or indirectly from using, selling, pledging, or holding the asset.

Transfer of Control

ASU 2016-08 provided the following three indicators of **control** that can be useful in making this determination:

- The entity is primarily responsible for fulfilling the promise to provide the specified good or service.
- The entity has inventory risk before the specified good or service has been transferred to a customer, or after transfer of control to the customer (for example, if the customer has a right of return).
- The entity has discretion in establishing the prices for the specified goods or service.

Recognize Revenue

- Recognize revenue when the entity satisfies ***each*** performance obligation.
  - Amount recognized = transaction price allocated.
  - Satisfied obligation = transferred or customer takes control .
  - Can be ***at a point in time*** or ***over time***.
    - ***At a point in time*** – *typically for transferred goods.*
    - ***Over time –*** *typically for transferred service (which may include installation/fabrication of materials!).*
    - *Can another contractor take over the work if you stopped?*
    - *Will you be paid for the work you've done to date?*

Recognize Revenue

- Control is transferred ***over time when at least one*** of the following criteria is met:
  1. Customer simultaneously ***receives and consumes*** the benefits of the contractor's performance ***as the contract progresses.***
  2. Contractor's performance of a contract ***creates or improves*** the asset ***controlled by the customer.***
  3. An asset with an ***alternative use to the customer*** is not created but the contractor has a right to payment for the performance completed to date.
- A performance obligation is <u>satisfied at a point in time if it does not meet the criteria noted above</u>.

Recognize Revenue - Over Time

If transfer of control occurs *over time*, revenue recognition based on a *single* measure of progress:

- Can't use multiple measures for multiple payment streams.
  - Eliminates the "milestone method" and certain other commonly used methods.
- Input methods (costs, labor hours, time).
  - Ignore costs that don't relate to performance. (upfront costs).
  - Adjust "cost" if pattern does not reflect performance.
- Output methods (hourly billings, milestones).
- "Passage of time" ok if performance is even.
- If progress cannot be measured, no revenue.

Recognize Revenue - Point in Time

Transfer of control occurs *at point in time*:

- Transfer of control of goods –
  - **Non-custom goods:** Generally at delivery.
  - **Custom goods:** Perhaps during production (may meet the "no alternative use" criterion).
- Indicators that control has transferred –
  - Customer has legal title.
  - Vendor has right to non-refundable payment.
  - Customer has physical possession.
  - Customer has significant risks/rewards of ownership.
- Likely to be more recognition before delivery for goods than there is today.

Recognize Revenue - Presentation

Presentation –

- If vendor performs (i.e., recognizes revenue) ahead of payment, recognize a **“contract asset”** (underbillings).
- If customer pays ahead of performance.
  - **“Contract liability”** (overbillings) for amounts probable of being kept.
  - “Refund liability” for other amounts.
- Recognize receivable if right to payment conditional only upon passage of time
  - If receivable is recognized without revenue, adjust contract asset/liability.
  - We have seen various treatment of retentions.

Recognize Revenue - Presentation

Presentation –

Balance sheet – See **Page 1** of handout

Accounting Policy Disclosures –

Contract assets/liabilities - See **Page 6** of Handout

Revenue recognition – See **Page 8** of Handout

Breakdown of balance disclosure – See **Page 20** of Handout

Retainage Receivable

- Common current practice includes retainage in Accounts Receivable in balance sheet.

- New standards define a receivable as an **<u>unconditional</u>** right to receive payment, only constrained by the passage of time (i.e. Net 30 payments terms, etc…).

- <u>Retentions</u> are conditioned upon completion of performance of the contract, therefore do not fall under the FASB's definition.

- No concrete consensus on whether contract retentions are still a **<u>receivable</u>** <u>OR</u> if they will now be in **<u>contract assets</u>** (underbillings) <u>Or</u> if they will be separately shown on **<u>balance sheet</u>.**

Receivables - Presentation

Presentation –

- Balance Sheet (Optional) – See **Page 1** in Handout
- Accounting Policy Disclosures – See **Page 5** in Handout
- Breakdown of balance disclosure – See **Page 22** of Handout

Fulfillment Costs

Contract fulfillment costs:

- Cost that relate to progress to completion.
- If not capitalized under other GAAP (inventory), fulfillment costs should only be capitalized if the following criteria exist:
  - Costs are ***directly related to a specific contract***, (relates to future performance).
  - Costs ***generate or enhance a resource that is used to fulfill performance obligation***; **AND**
  - Costs are ***recoverable***.
- Contract fulfillment costs will need to be considered for impairment.

Fulfillment Costs

Capitalized Contract Fulfillment Costs – Pre-Contract Costs

- Costs to fulfill a contract that are incurred ***prior to the transfer of control*** to the customer are subject to review for **capitalization**.
- Amortization will most likely be evenly spread over the estimated contract duration.
- Contract fulfillment cost to consider:
  - *Insurance/bonding.*
  - *Mobilization costs of equipment and labor to and from the job sites.*
  - *Engineering and Design on the basis of commitments.*
  - *Costs for production equipment and material relating to specific anticipated contracts (Costs for purchase of equipment, material or supplies).*

Incremental Costs to Obtain a Contract

- The new standard identifies certain types of costs that may need to be ***capitalized***.
- Incremental costs –
  - These are costs of obtaining a contract that a contractor ***would not have incurred*** if the contract had not been obtained.
  - These costs are recognized as assets if they are ***expected to be recovered*** and are amortized as control of goods or services to which the asset relates is transferred to the customer.
  - If the amortization period is less than one year, these costs may be expensed as incurred (included in job costs).
  - Costs to obtain a contract that would have been ***incurred regardless of whether the contract was obtained*** (e.g. certain bid costs) would be expensed as incurred unless the contract explicitly states they are chargeable to the customer.

Capitalized Costs – Practical Application

<u>Capitalized cost considerations:</u>

- When do you start accumulating these costs? When do you stop?
  - Capture all costs until transfer of control begins to occur.
- How should you account for it?
  - Annual adjustment? Quarterly? Monthly?
- What period to amortize over?
  - Straight line over time or based on % completion?
- What is materiality?

Capitalized Costs - Presentation

Presentation –

- Balance Sheet (Optional) – See **Page 1** in Handout
- Accounting Policy Disclosures – See **Page 7** in Handout
- Breakdown of balance disclosure – See **Page 22** of Handout

Fulfillment Costs

Example

	Contract Price	Estimated Gross Profit	Contract Revenue	Costs incurred to date	Gross Profit	Percent Complete
Existing GAAP	1,000,000	50,000	210,526	200,000	10,526	21.05%
Unamortized Bond				(80,000)		
New Standards	1,000,000	50,000	126,316	120,000	6,316	12.63%

Incremental Costs to Obtain a Contract

Example:

A contractor incurs the following costs in order to obtain a construction project. The contractor expects to recover all the costs incurred in order to obtain the contract.

- Travel costs to hand deliver bid proposal $ 5,000
- Commissions paid to the salesperson $10,000
- Total $15,000

The contractor should only capitalize the $10,000 of commission paid to the salesperson. The costs related to the delivery of the proposal should be expensed immediately as those costs would have been incurred even if the company is not awarded the contract. The commission costs is amortized over the life of the contract.

Uninstalled Materials

- Project often requires a wide range of goods to be assembled to produce a combined unit of output (single performance obligation).
- Material may arrive on the job site or at the shop in advance of the contractor's ability to install.
- Using cost-to-cost method, costs incurred may <u>not be proportionate to the progress to satisfy performance obligation</u> – obtain goods before integrated into the project.
- Contractor should consider whether the inclusion of these uninstalled materials would <u>result in recording revenue prematurely</u>.

Uninstalled Materials

- The following criteria if met may indicate a cost incurred is <u>not proportionate to the entity satisfying progress</u> in satisfying the performance obligation:
  - The good is not distinct;
  - The customer is <u>expected to obtain control of the good significantly before receiving services</u> related to the good;
  - The cost of the transferred good is significant relative to the total expected costs to completely satisfy the performance obligation; and
  - The entity procures the good from a third party and is not significantly involved in designing and manufacturing the good.

Uninstalled Materials

- The contractor should recognize revenue from uninstalled materials only to the extent of the costs incurred (zero profit). The costs would be excluded from the cost to cost calculation.
- Need to evaluate at inception and throughout the duration of the contract.

Uninstalled Materials

- Item procured to complete a performance obligation may not immediately transfer into the control of the customer -
  - Certain of the costs may qualify as inventory – no control.
  - If the customer obtains control of the goods before installed, they would not be considered inventory.
  - However, if the customer does obtain control but the material is not integrated into the overall project, these costs should be excluded from the measure of progress.
  - Record the uninstalled materials at zero profit (revenue = costs incurred).

Uninstalled Materials

Example

	Contract Price	Estimated Gross Profit	Contract Revenue	Costs incurred to date	Gross Profit	Percent Complete
Existing GAAP	2,000,000	200,000	333,333	300,000	33,333	16.67%
New Standards	1,800,000	200,000	112,500	100,000	12,500	6.25%
New Standards	200,000	-	200,000	200,000	-	100.00%
	2,000,000	200,000	312,500	300,000	12,500	16.67%

Waste and Inefficiencies

- When a cost incurred does not contribute to progress in satisfying the performance obligation:
  - Costs incurred related to rework or wasted materials would be excluded from input measurement, as these costs do not represent the transfer of goods or services to the customer.
  - Significant inefficiencies in the contractor's performance that were not reflected in the contract price.

Waste and Inefficiencies

Example

	Contract Price	Estimated Gross Profit	Contract Revenue	Costs incurred to date	Gross Profit	Percent Complete
Existing GAAP	1,000,000	100,000	222,222	200,000	22,222	22.22%
New Standards	1,000,000	110,000	213,483	190,000	23,483	21.35%
Additional exp	-	(10,000)	-	10,000	(10,000)	
	1,000,000	100,000	213,483	200,000	13,483	22.22%

Uninstalled Materials and Waste and Inefficiencies-Presentation

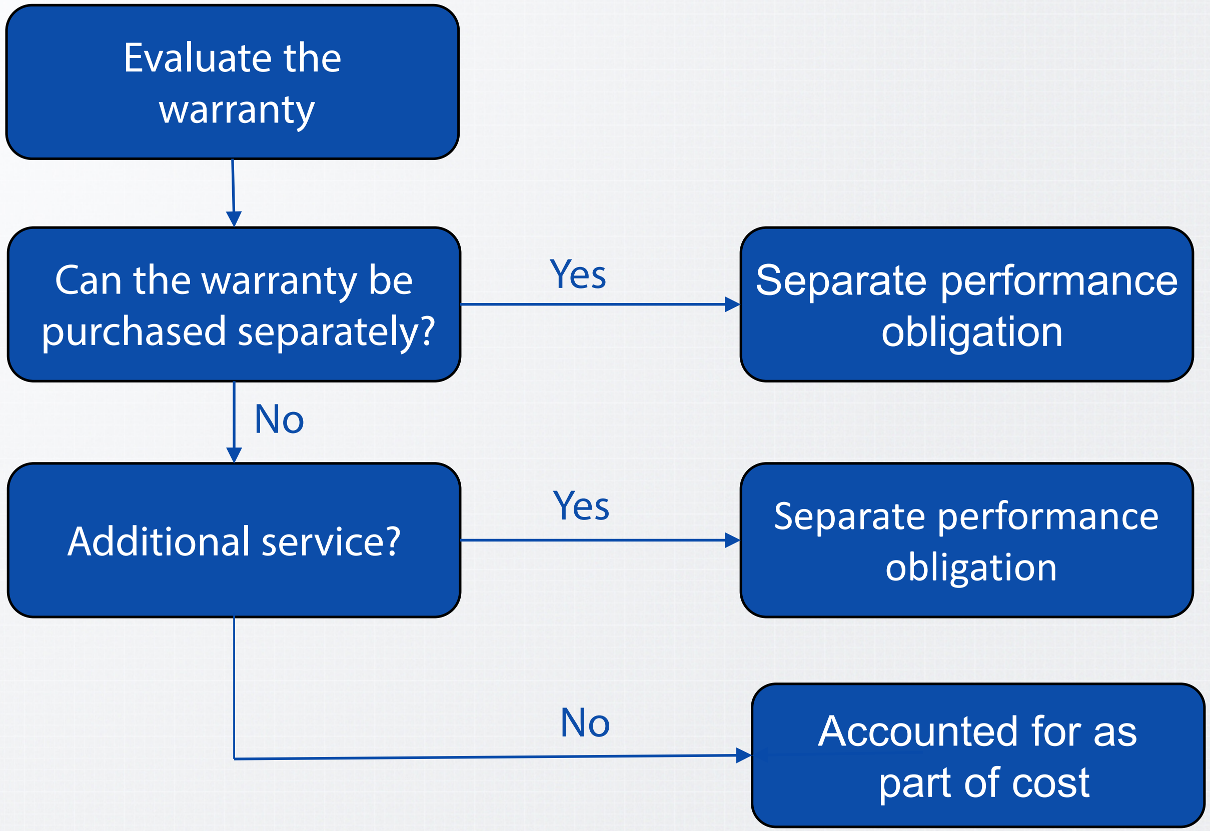
Presentation –

- Balance Sheet (Optional) – See **Page 1** in Handout
- Accounting Policy Disclosures – See **Pages 12-14** in Handout

Warranties

- A warranty is a separate performance obligation if the warranty can be purchased separately (qualifies as distinct).
- Warranties that cannot be purchased separately and only provide assurance that the deliverable is in compliance with the contract are not separate performance obligations:
  - Costs associated with this type of warranty should be included in the cost to cost calculation when calculating percent complete.
- Cash payments made to the customer or contract owner (liquidated damages enforced on a contract) should be accounted for as variable consideration and not as a warranty.

Warranties


Evaluate the warranty
Can the warranty be purchased separately?
Yes
Separate performance obligation
No
Additional service?
Yes
Separate performance obligation
No
Accounted for as part of cost

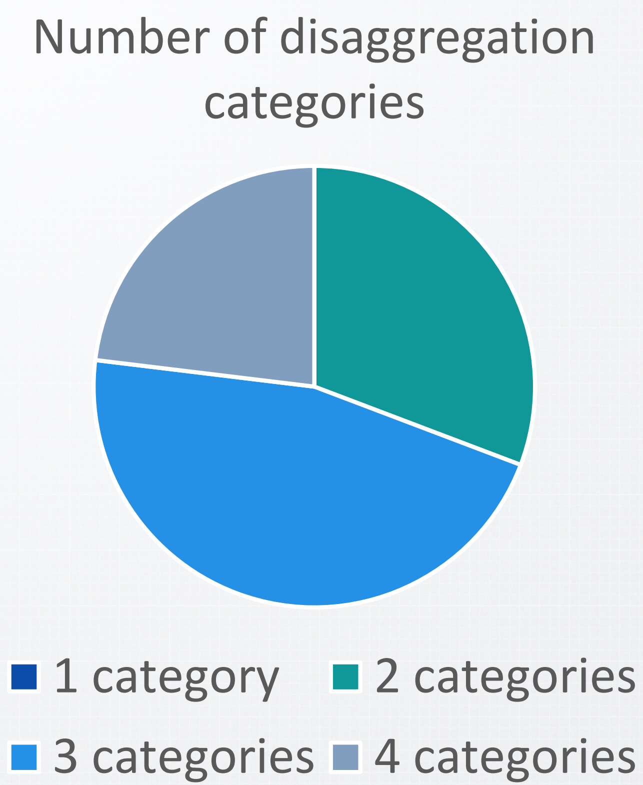
What have we learned from Public Company Implementation?

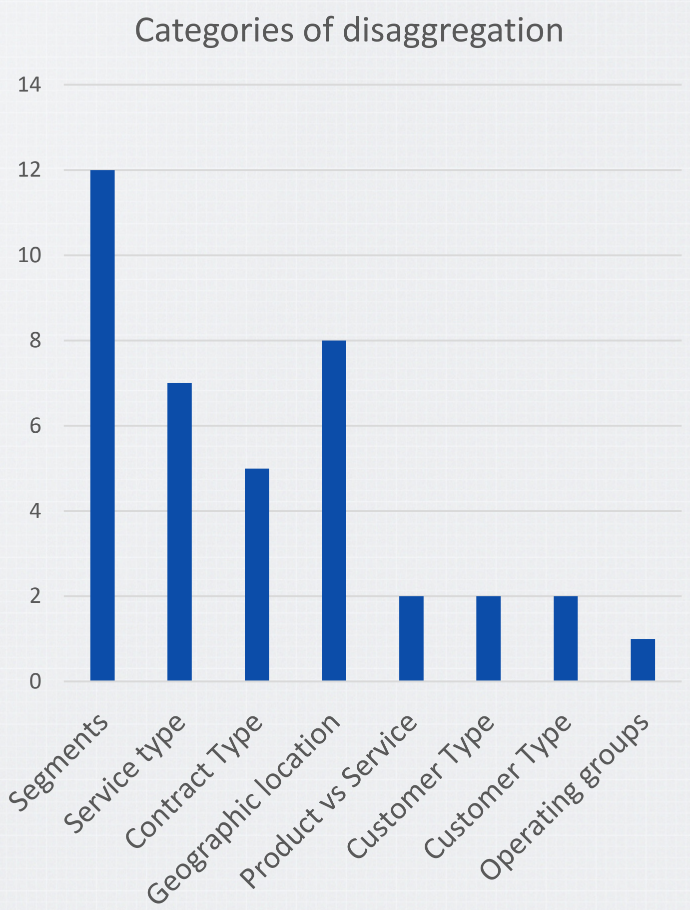
- There is no consistency!
  - Terminology varies.
  - Application of GAAP varies.
  - Disclosures vary.
- Auditor/independent accountant needs to support the adoption.
- Public company observations:
  - More effort required than expected.
  - Auditor coordination is paramount.

What have we learned from Public Company Implementation?

- 13 Public Companies Reviewed
  - 7 of them disclosed clearly immaterial cumulative effects at adoption.
  - Of the remaining 6, the cumulative effect fell into 3 broad categories:
    - Combination of contracts or separating performance obligations.
    - Changing the measures of progress to full cost to cost.
    - Deferral of costs (capitalized contract costs, were generally immaterial).
  - 6 classified **retention** as a component of contract assets. The others classified as accounts receivable.

What have we learned from Public Company Implementation?





Transition

Timeline for transition –

- Public companies:
  - Annual reporting periods beginning after December 15, 2017, including interim periods.
- Nonpublic companies:
  - Annual reporting periods beginning after **December 15, 2018**, and interim periods within annual periods beginning after December 15, 2019.
  - Early adoption is permitted.

Transition

The new guidance allows companies to select between two transition methods –

- ✓ Full retrospective method.
- ✓ Cumulative effect adjustment (simplified approach).

Transition

- **<u>Full retrospective</u>** method:
  - A company would restate all periods presented as if they had been accounted for under ASC Topic 606 originally. Comparative periods would be restated.
- **<u>Simplified approach</u>** with a cumulative effect adjustment:
  - A company can elect to apply ASC Topic 606 only to contracts that are in progress at the date of initial application and new contracts going forward. The cumulative adjustment to the opening balance sheet will be reflected in retained earnings. Disclosures in the financial statements will be required to explain the differences. Comparative periods would not need to be restated.
- <u>Accounting Policy Disclosure</u> - See **Pages 3 and 4** in Handout
- <u>Impact of Transition Disclosure</u> - See **Page 16** in Handout

Transition – How do we do it?

Presentation –

- Contract WIP Schedule – See **Page 23** in Handout
- Illustrative Conversion to 606 Worksheet – See **Page 24** in Handout

Disclosures

Disclosure requirements –

- New ***comprehensive disclosure requirements*** that are expected to provide users of the financial statement with detailed information regarding revenue recognition:
  - Revenue <u>disaggregated</u> according to the timing and ***qualitative information about how economic factors*** will affect the nature, amount, timing and uncertainty of revenue and cash flows (such as significant judgments and changes in judgments and assets recognized from costs to obtain or fulfill a contract).
  - See **Page 18** of Handout

Disclosures

Disclosure requirements, continued:

- The opening and closing balance of receivables, contract assets, contract liabilities from contract with customers, if it is not separately presented or disclosed.
- An entity shall disclose ***information about its performance obligations*** in contracts with customers:
  - When the entity normally fulfills its performance obligations.
  - Any significant payment terms.
  - Nature of the promised goods or services.
- See **Page 8** of Handout

Internal Controls

- Develop fact patters for certain types of typical contracts:
  - Enable determination of performance obligation.
- Determine ability to identify and modify throughout the contract life.
- Procedures to identify information as soon as the contract begins:
  - Think costs that need to be capitalized.
- Develop checklist or decision tree for contracts.

What Should You Do NOW?

- Assign internal company staff or create a task force to assess the impact in key areas:
  - Accounting
  - Tax
  - IT
- Evaluate the impact on contract accounting.
- Evaluate changes to IT system.
- Determine the impact on your financial statements and different adoption methods.
- Discuss with key stakeholders:
  - Banks
  - Sureties
  - Accountants
  - Shareholders
- Document the project plan and timeline for implementation.

Any Other Reporting Options??

- FASB – No Private Company Alternative available!
- GAAP Exception to remain on Percentage of Completion?
  - FASB – Financial Statements are <u>NOT GAAP</u> if Topic 606 not followed!
- Tax Basis of Accounting for Financial Statements?
  - Many smaller contractors may convert to Completed Contract method due to tax law changes!
  - Not GAAP! Will need to discuss with users of financial information!
  - Can't pick and choose which tax methods to use!! (Tax depreciation)
- Financial Reporting Framework for Small and Medium Sized Entities (FRF for SME's)?
  - Not GAAP! Will need to discuss with users of financial information!
  - Users (Banks, Sureties, GC's, etc…) may not be comfortable with the change.

Resources

Tools and Resources:

- CICPAC Contract Abstract Analysis Tool
- CICPAC Rev. Rec. Overview – Terminology and Concepts
- CICPAC Revenue Recognition Implementation Guide
- CFMA Revenue Recognition Implementation Guide
- Dannible & McKee Articles

Available at:

www.dmcpas.com/revenue-recognition-resource-center

Questions

Kenneth C. Gardiner, CPA, CCIFP, CDA
Audit Partner

Email: Kgardiner@dmcpas.com

Web: www.dmcpas.com

Address:
DM Financial Plaza
221 South Warren Street
Syracuse, NY 13202

Phone: (315) 472-9127, ext. 123

Benjamin Sumner, CPA
Audit Partner

Email: bsumner@dmcpas.com

Web: www.dmcpas.com

Address:

DM Financial Plaza
221 S. Warren St.
Syracuse, New York 13202-1628

Phone: (315) 472-9127, ext. 221

Copyright / Disclaimer