

XYZ CONSTRUCTION CORP.

SAMPLE FINANCIAL STATEMENTS AND

EXAMPLE DISCLOSURES UNDER

FASB ASC 606

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DECEMBER 31, 2019 AND 2018

Additional tools, guides and articles to help your company with revenue recognition are available for download on our website. Please visit: [**https://www.dmcipas.com/resources/revenue-recognition**](https://www.dmcipas.com/resources/revenue-recognition)

If you have any questions regarding the new revenue recognition standard or any other questions, contact Kenneth Gardiner, kgardiner@dmcpas.com, Benjamin Sumner, bsumner@dmcpas.com, or Joseph Chemotti, jchemotti@dmcpas.com

The content of this document is intended to be informational and illustrative in nature and provides examples of application of FASB ASC 606 *Revenue from Contracts with Customers* obtained through our review of AICPA guidance, public company SEC filings and through Dannible & McKee's collaboration with a nationally recognized Construction Industry CPA group (CICPAC). The examples and illustrations herein should not be considered authoritative.

XYZ CONSTRUCTION CORP.
(An S Corporation)
BALANCE SHEETS

	<u>December 31,</u>	
<u>Assets</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 383,058	\$ 307,633
Contract receivables, less allowance for doubtful accounts of \$50,000 in 2018	942,664	1,684,665
Retainage receivable ^(a)	75,000	-
Costs and estimated earnings in excess of billings on uncompleted contracts	-	55,682
Contract assets ^(b)	10,000	-
Contract fulfillment costs ^{(c) (d)}	20,000	-
Uninstalled materials ^(c)	50,000	-
Prepaid expenses and other current assets	1,222	3,538
Total current assets	1,481,944	2,051,518
Property and equipment, net	1,124,711	1,062,606
	<u>\$ 2,606,655</u>	<u>\$ 3,114,124</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Current portion of long-term debt	\$ 201,170	\$ 164,933
Accounts payable	116,086	670,891
Accrued liabilities	53,973	20,441
Billings in excess of costs and estimated earnings on uncompleted contracts	-	354,890
Contract liabilities ^(b)	233,841	-
Total current liabilities	605,070	1,211,155
Long-term debt	342,247	325,837
Stockholders' equity:		
Common stock, no par value; 200 shares authorized; 100 shares issued and outstanding	1,000	1,000
Additional paid-in capital	164,590	164,590
Retained earnings	1,493,748	1,411,542
	1,659,338	1,577,132
	<u>\$ 2,606,655</u>	<u>\$ 3,114,124</u>

- (a) Retainage can be presented separately or included as a component of contract assets or accounts receivable, depending on circumstances. If presented separately, it is presumed that retainage receivable meets the criteria of a receivable (passage of time).
- (b) OPTIONAL - Entity may use terms other than "Contract assets" and "Contract liabilities." Must disclose components separately in notes.
- (c) OPTIONAL - Uninstalled materials and unamortized contract fulfillment costs can be presented separately or included as a component of contract assets if directly related to a specific contract.
- (d) When this balance also includes other capitalized costs, such as incremental costs to obtain contracts, it may be captioned as "Contract cost assets." Must disclose components separately in notes.

XYZ CONSTRUCTION CORP.

(An S Corporation)

STATEMENTS OF INCOME AND RETAINED EARNINGS

	<u>Year ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Contract revenues	\$ 2,466,159	\$ 3,500,000
Costs of contracts	<u>2,230,000</u>	<u>3,250,000</u>
Gross profit	236,159	250,000
General and administrative expenses	<u>100,000</u>	<u>100,000</u>
Income before other income (expense)	<u>136,159</u>	<u>150,000</u>
Other income (expense):		
Interest expense	(10,000)	(10,000)
Gain (loss) on disposal of property and equipment	<u>1,250</u>	<u>(2,500)</u>
	<u>(8,750)</u>	<u>(12,500)</u>
Net income	<u>127,409</u>	<u>137,500</u>
Retained earnings, beginning of year, as previously reported	1,411,542	1,324,042
Cumulative effect of accounting change	<u>(15,000)</u>	<u>-</u>
Retained earnings, beginning of year, as restated	<u>1,396,542</u>	<u>1,324,042</u>
Distributions to stockholders	<u>(30,203)</u>	<u>(50,000)</u>
Retained earnings, end of year	<u>\$ 1,493,748</u>	<u>\$ 1,411,542</u>

ASC 606 Footnote Disclosures

Summary of Significant Accounting Policies

Warranties (Example 1)

For construction contracts, the Company provides a two-year warranty covering defects in workmanship and a two-year warranty covering installed materials when the latter are not covered by manufacturer warranties. The Company provides a one-year warranty on labor and materials on repair and maintenance contracts, excluding leak repairs, for which no warranty is provided. Due to owner, general contractor and manufacturer inspections of work prior to final acceptance, the Company has not experienced material warranty costs for these warranties and has therefore determined that no accrual for estimated future warranty costs is necessary.

Warranties (Example 2)

The Company typically warrants labor for the first year after installation on new HVAC systems. We generally warrant labor for thirty days after servicing of existing HVAC systems. A reserve for warranty costs is estimated and recorded based upon the historical level of warranty claims and management's estimate of future costs.

Warranties (Example 3)

Many construction contracts contain warranty provisions covering defects in equipment, materials, design or workmanship that generally run from six months to one year after the customer accepts the contract. Because of the nature of our projects, including contract owner inspections of the work both during construction and prior to acceptance, the Company has not experienced material warranty costs for these short-term warranties and, therefore, do not believe an accrual for these costs is necessary. Certain construction contracts carry longer warranty periods, ranging from two to ten years, for which we have accrued an estimate of warranty costs. The warranty liability is estimated based on our experience with the type of work and any known risks relative to the project which was not material as of December 31, 20XX.

Recent Accounting Standards (Full Retrospective Method)

ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as modified by ASU 2015-14, *Revenue from Contracts with Customers (Topic 606); Deferral of the Effective Date*

ASU 2014-09 is a comprehensive new revenue recognition standard that will supersede most existing revenue recognition guidance under GAAP. The standard's core principle is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*

ASU 2016-08 amends the principal versus agent guidance in ASU 2014-09. ASU 2016-08 requires an entity to determine whether it is a principal or an agent in a transaction in which another party is involved in providing goods or services to a customer by evaluating the nature of its promise to the customer. An entity is a principal, and therefore records revenue on a gross basis, if it controls the promised good or service before transferring it to the customer. An entity

is an agent, and records as revenue the net amount it retains for its agency services, if its role is to arrange for another entity to provide the goods or services.

ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing

ASU 2016-10 amends the guidance in ASU 2014-09 to provide more detailed guidance, including additional implementation guidance and examples for the identification of performance of obligations and licenses of intellectual property.

The Company adopted these standards in January 2019, effective January 2019 using the full retrospective application. The Company elected not to adopt any of the practical expedients allowed by the standard. Application of these standards had a material effect on our reported consolidated financial position and results of operations. The effects of adopting these standards are discussed in Note XX.

Recent Accounting Standards (Modified Retrospective Method)

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” Topic 606 supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605)” and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted Topic 606 as of January 1, 2019.

In accordance with Topic 606, we applied the modified retrospective method to those contracts which were not completed as of January 1, 2019. Under the modified retrospective method, the cumulative effect of applying the standard is recognized at the date of initial application. Results for reporting periods beginning after January 1, 2019 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

In implementing Topic 606, we were required to recalculate the revenue earned on any work in process at the implementation date and to restate the revenue and cost of services as if Topic 606 had been followed from the inception of the contract. In recalculating costs and revenue under Topic 606 guidelines, we identified no material difference in the account balances. Since a material difference was not found, no retrospective analysis of account balance changes was required.

Practical Expedients and Exemptions

Upon the adoption of ASC 606, the Company utilized certain practical expedients and exemption as follows:

- Applied the modified-retrospective method upon adoption of ASC Topic 606 which allowed the new accounting standard to be applied only to contracts that were not considered substantially complete as of January 1, 2019.
- In cases where we have an unconditional right to consideration from a customer in an amount that corresponds directly with the value of our performance completed to date, we recognize revenue in the amount to which we have a right to invoice for services performed.
- The contract price is not adjusted for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company

transfers a service to a customer and when the customer pays for that service will be one year or less.

Accounts Receivable

Accounts receivable are initially recognized at the fair value of consideration receivable, which equates to minimal value, and are subsequently measured at amortized costs, less an allowance for uncollectible amounts, which equate to net realizable value.

Accounts receivable comprise trade accounts receivable and certain other receivables and amounts due from related parties. Trade accounts receivable represent our unconditional right, subject only to the passage of time, to receive consideration arising from our performance under contracts with customers. Trade accounts receivable include amounts billed and billable on construction contracts, service and maintenance contracts and contracts for the sale of goods. Billed contract receivables have been invoiced to customers based on contracted amounts.

Unbilled receivables comprise amounts due to the Company for completed contracts that have not yet been invoiced at the reporting date. Unbilled receivables also include amounts billable on uncompleted time-and-material contracts that have not yet been invoiced at the reporting date. The Company typically invoices unbilled receivables within one to three months of the reporting date.

A majority of the Company's construction contracts and a small minority of service and maintenance contracts include retainage provisions. Retainage represents amounts withheld from billings by customers until work is substantially complete (or until certain milestones are reached, or both) to ensure that obligations are satisfied under the contract. Because payment of retainage is not subject only to the passage of time (i.e., it is conditioned on satisfactory performance), the Company does not include unbilled retainage in accounts receivable during performance on contracts. The Company invoices retainage and includes it in accounts receivable as billing retainage receivable, when obligations have been satisfied and the right to receipt is subject only to the passage of time.

Most construction contracts where the Company performs as a subcontractor contain "pay when paid" or "pay if paid" provisions that allow the general contractor to hold payment until they have received payment from the owner related to the work performed. Because these provisions do not impose any additional obligations on the Company (i.e., there are no conditions remaining to fulfill to receive payment), the Company considers receivables billed under these provisions to be subject only to the passage of time.

As a practical expedient, the Company has not elected to adjust the promised amount of consideration in our contracts when we expect, at contract inception, that the period between (1) our transfer of a promised product or service to a customer and (2) when the customer pays for that product or service will be one year or less. The Company typically does not include extended payment terms in our contracts with customers.

Contract Receivables

Contract receivables are carried at the outstanding amount due less an allowance for doubtful accounts, if an allowance is deemed necessary. Allowances for doubtful accounts are established when there is a basis to doubt the full collectability of the contract receivable. On a periodic basis, the Company evaluates its contracts receivable and determines the requirement for an allowance,

based on its history of past write-offs, collections and current conditions. When a contract receivable is ultimately determined to be uncollectible, the contract receivable is written off.

A majority of the Company's construction contracts include retainage provisions. Retainage represents amounts withheld from billings by customers until work is substantially complete (or until certain milestones are reached, or both) to ensure that obligations are satisfied under the contract. Because payment of retainage is not subject only to the passage of time (i.e., it is conditioned on satisfactory performance), the Company does not include unbilled retainage in accounts receivable during performance on contracts. The Company invoices retainage and includes it in accounts receivable as billing retainage receivable, when obligations have been satisfied and the right to receipt is subject only to the passage of time.

Most construction contracts where the Company performs as a subcontractor contain "pay when paid" or "pay if paid" provisions that allow the general contractor to hold payment until they have received payment from the owner related to the work performed. Because these provisions do not impose any additional obligations on the Company (i.e., there are no conditions remaining to fulfill to receive payment), the Company considers receivables billed under these provisions to be subject only to the passage of time.

As a practical expedient, the Company has not elected to adjust the promised amount of consideration in our contracts when we expect, at contract inception, that the period between (1) our transfer of a promised product or service to a customer and (2) when the customer pays for that product or service will be one year or less. The Company typically does not include extended payment terms in our contracts with customers.

Contract Assets and Liabilities (Example 1)

Contract assets comprise revenues earned in excess of billings on uncompleted contracts, representing revenues in excess of amounts billed on incomplete construction and service and maintenance contracts. Revenues in excess of billings are considered contract assets only when the right to payment is not unconditional. (*OPTIONAL- Uninstalled materials are also included as a component of contract assets as it relates directly to a specific contract*). Once the Company has an unconditional right to consideration under a contract, the amount of consideration unconditionally due is reclassified to accounts receivable, net as either a billed or unbilled contract receivable. Contract assets are periodically tested for impairment. When contract assets are not considered recoverable, we record an impairment charge to earnings for the nonrecoverable amount.

Contract liabilities are comprised of the following:

Billings in excess of revenues earned on uncompleted contracts - This represent billings in excess of revenues recognized on incomplete construction and service and maintenance contracts.

Deferred contract revenues – This represents consideration received, or which is unconditionally due, from a customer prior to our transferring goods or performing services under a contract.

As a practical expedient, the Company does not adjust the value of a down payment for the effects of a significant financing component when we expect, at contract inception, that the period between the down payment and our transfer of a promised good or service to the customer will be one year or less.

Contract Assets and Liabilities (Example 2)

Billing practices are governed by the contract terms of each project based upon costs incurred, achievement of milestones or predetermined schedules. Billings do not necessarily correlate with revenue recognized over time using the percentage-of-completion method. Contract assets include unbilled amounts typically resulting from revenue under long-term contracts when the percentage-of-completion method of revenue recognition is utilized and revenue recognition exceeds the amount billed to the customer. Contract liabilities consist of advance payments and billings in excess of revenue recognized as well as deferred revenue.

Retainage, included in contract assets, represent the amounts withheld from billings by our customers pursuant to provision in the contracts and may not be paid to us until the completion of specific tasks or the completion of the project and, in some instances, for even longer periods. Retainage may also be subject to restrictive conditions such as performance guarantees.

(OPTIONAL- Uninstalled materials are also included as a component of contract assets as it relates directly to a specific contract).

The Company's contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. The Company classifies contract assets and liabilities as current or noncurrent to the extent the revenue is expected to be recognized in excess of one year from the balance sheet date.

Contract Cost Assets

Contract cost assets comprise costs to obtain contracts and costs to fulfill contracts.

Costs to obtain a contract are capitalized if they are incremental to obtaining the contract and if they are expected to be recovered. Capitalized costs to obtain contracts are amortized over the period we expect to benefit (typically life of the contract plus any renewals). Costs to obtain contracts comprise revenue-based sales commissions, all of which have amortization periods of less than one year. The Company has elected, as a practical expedient, to expense, as incurred, capitalizable costs to obtain contracts when the amortization period is less than one year. Due to the practical expedient, we capitalized no costs to obtain contracts during 2019.

Costs that relate to past performance, or for which there is uncertainty whether they relate to past or future performance, are not eligible for capitalization. Therefore, on contracts where revenue is recognized over time, costs incurred once work commences is not eligible for capitalization.

Capitalized fulfillment costs are comprised of project mobilization costs and certain other startup costs that were incurred prior to commencing work on the contract. The Company does not believe that mobilization costs, which primarily comprise direct labor costs, and other startup costs transfer value to the customer and therefore the Company does not believe that they constitute performance of the contract obligations. Based on this understanding, the Company believes that these costs qualify for capitalization as fulfillment costs.

Capitalized fulfillment costs are amortized to contract costs over the life of the contract. The Company amortizes these costs to the associated contract on a systematic basis consistent with the pattern of transfer of the good or service to which it relates. In most cases, the Company uses straight line over the period of performance of the contract. The Company periodically tests capitalized fulfillment costs for impairment. Capitalized costs are considered impaired when the net contract cost asset plus future costs to complete the contract are less than the remaining revenue

to be recognized under the contract. When capitalized contract costs are impaired, the Company records a charge to earnings in the amount of the impairment.

Both amortization and impairment of capitalized contract fulfillment costs are included in costs of revenues earned. The Company recorded amortization expense related to its contract cost assets of \$xxx and \$xxx for the years ended December 31, 2019 and 2018, respectively. The Company recognized impairment on its contract cost assets of \$xxx and \$xxx for the years ended December 31, 2019 and 2018, respectively.

Contract Cost Liabilities

Contract cost liabilities are comprised of the following:

Accrued contract costs – This represents costs incurred on contracts for which the Company has not yet received a vendor invoice at the reporting date.

Accrued estimated losses on uncompleted contracts – This represents the accrued provision for estimated losses on contracts at the reporting date.

Revenue Recognition

Contract Combination

To determine proper revenue recognition, the Company evaluates whether two or more contracts should be combined and accounted for as a single contract and whether a combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment, and the decision to combine contracts or separate a combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period.

Performance Obligations (Example 1)

Contracts are considered to contain a single performance obligation if the promise to transfer individual goods or services is not separately identifiable from other promises in the contracts primarily because we provide a significant service of integrating a complex set of tasks and components into a single project or capability. Contracts that cover multiple performance phases of the product lifecycle (development, construction, maintenance and support) are typically considered to have multiple performance obligations even when they are part of a single contract.

For contracts with multiple performance obligations, the Company allocates the transaction price to each performance obligation using the best estimate of the standalone selling price of each distinct good or service in the contract. In cases where we do not provide the distinct good or service on a standalone basis, the primary method used to estimate standalone selling price is the expected cost plus a margin approach, which forecasts the expected costs of satisfying a performance obligation plus an appropriate margin for that distinct good or service.

As mentioned in Note XX on warranties, the Company provides product warranties, as well as limited workmanship warranties, to our customers. These warranties are either included in the sale or sold separately, and do not provide customers with a service in addition to assurance of compliance with agreed upon specifications. The Company does not consider these assurance-type warranties to be separate performance obligations. OR

(The Company provides limited warranties to customers for work performed under our contracts that typically extend for a limited duration following substantial completion of our work on a project. Such warranties are not sold separately and do not provide customers with a service in addition to assurance of compliance with agreed-upon specifications. Accordingly, these types of warranties are not considered to be separate performance obligations. Historically, warranty claims have not resulted in material costs incurred.)

Performance Obligations (Example 2)

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC Topic 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied.

For most of our contracts, the customer contracts with us to provide a significant service of integrating a complex set of tasks and components into a single project or capability (even if that single project results in the delivery of multiple units). Hence, the entire contract is accounted for as one performance obligation. Less commonly, however, we may promise to provide distinct goods or services within a contract, in which case we separate the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, we allocate the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. The primary method used to estimate standalone selling price is the expected cost plus a margin approach to estimate the standalone selling price of each performance obligation.

Transaction Price (Example 1)

The transaction price of a contract comprise the following: (1) fixed cash consideration due from the customer; plus (2) estimated cash variable consideration due from the customer; plus (3) noncash consideration due from the customer; minus (4) estimated cash or noncash consideration payable to the customer; minus (5) contingent amounts, unless no revenue reversal is probable (i.e., constraint); plus or minus (6) any financing component. The Company bases the expected consideration from the customer on the existing contract and assumes goods and services will be transferred as promised.

Our contracts do not typically include any consideration payable to the customer or any significant financing components.

The Company has not made an accounting policy election to exclude from the measurement of the transaction price all taxes assessed by governmental authorities that is collected from our customers (e.g., sales tax).

Transaction Price (Example 2)

The nature of the Company's contracts gives rise to several types of variable consideration, including claims and award and incentive fees. The Company includes in the contract estimates additional revenue for submitted contract modifications or claims against the customer when the Company believes it has an enforceable right to the modification or claim, the amount can be estimated reliably, and its realization is probable. In evaluating these criteria, the Company considers the contractual/legal basis for the claim, the cause of any additional costs incurred, the

reasonableness of those costs, and the objective evidence available to support the claim. The Company includes awards or incentive fees in the estimated transaction price when there is a basis to reasonably estimate the amount of the fee. These estimates are based on historical award experience, anticipated performance and management's best judgment at the time. Because of certainty in estimating these amounts, they are included in the transaction price of the contracts and the associated remaining performance obligations.

Noncash Consideration

The Company includes customer-furnished materials in revenues as noncash consideration if control is obtained over the materials to facilitate satisfaction of our contract performance obligation. Customer-furnished materials recognized as revenues are valued at their estimated fair value, with an equal amount recognized in costs of revenues earned.

Contract Estimates

Due to the nature of our performance obligations, the estimation of total revenue and cost at completion is subject to many variables and requires significant judgment. Management must make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the cost and availability of materials, the performance of subcontractors, and the availability and timing of funding from the customer, among other variables. As a significant change in one or more of these estimates could affect the profitability of contracts, the Company reviews and updates contract-related estimates regularly through a review process in which management reviews the progress and execution of performance obligations and the estimated cost at completion. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress toward completion and the related program schedule and the related changes in estimates of revenues and costs.

The Company recognizes adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance is recognized using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, a provision for the entire loss is recognized in the period it is identified. OR

(The Company recognizes changes in contract estimates on a cumulative catch-up basis in the period in which the changes are identified. Such changes in contract estimates can result in the recognition of revenue in a current period for performance obligations which were satisfied or partially satisfied in a prior period. Changes in contract estimates may also result in the reversal of previously recognized revenue if the current estimate differs from the previous estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, we recognize the total loss in the period it is identified.)

Contract Modifications (Example 1)

Contracts are often modified due to changes in contract specifications and requirements. The Company considers contract modifications to exist when the modification either creates new or changes the existing enforceable rights and obligations. Most contract modifications are for goods or services that are not distinct from existing contracts due to the significant integration provided in the context of the contract; thus, these are accounted for as if they were part of the original contract. The effect of a contract modification on the transaction price, and our measure of progress for the

performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase or a reduction) on a cumulative catch-up basis.

The Company accounts for contract modifications as a separate contract when the modification results in the promise to deliver additional goods or services that are distinct and the increase in price of the contract is for the same amount as the stand-alone selling price of the additional goods or services included in the modification.

Contract Modifications (Example 2)

Contract modifications are routine in the performance of the Company's contracts. Contracts are often modified to account for changes in the contract specifications or requirements. In most instances, contract modifications are for goods or services that are not distinct, and, therefore, are accounted for as part of the existing contract.

Contract Modifications (Example 3)

Contracts are often modified to account for changes in contract specifications and requirements. We consider contract modifications to exist when the modification either creates new or changes the existing enforceable rights and obligations. Most of our contract modifications are for goods or services that are not distinct from the existing performance obligation(s). The effect of a contract modification on the transaction price, and our measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase or decrease) on a cumulative catchup basis.

Variable Consideration (Example 1)

The nature of our contracts gives rise to several types of variable consideration, including claims and unpriced change orders; awards and incentive fees; and liquidated damages and penalties. The Company recognizes revenue for variable consideration when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Company estimates the amount of revenue to be recognized on variable consideration using the expected value (i.e., the sum of a probability-weighted amount) or the most likely amount method, whichever is expected to better predict the amount.

Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on assessment of legal enforceability, our performance, and all information (historical, current, and forecasted) that is reasonable available to the Company.

Variable Consideration (Example 2)

It is common for contracts to contain variable consideration in the form of incentive fees, performance bonuses, award fees, liquidated damages or penalties. Other contract provision also give rise to variable consideration such as claims and unpriced change orders that may either increase or decrease the transaction price. The Company estimates the amount of variable consideration at the most likely amount we expect to be entitled. Variable consideration is included in the transaction price when it is probable that a significant reversal of cumulative revenue recognized will not occur or when the uncertainty associated with the variable consideration is resolved. The Company's estimates of variable consideration and determination of whether to include such amounts in the transaction price are based largely on our assessment of legal enforceability, anticipated performance, and any other information (historical, current, or forecasted) that is reasonably available to us.

Variable consideration associated with claims and unapproved change orders is included in the transaction price only to the extent of costs incurred. The Company recognizes claims against vendors, subcontractors and others as a reduction in recognized costs when enforceability is established by the contract and the amounts are reasonably estimable and probable of recovery. Reductions in costs are recognized to the extent of the lesser of the amounts management expect to recover or actual costs incurred.

Construction Contracts (Example 1)

The Company recognizes revenue on construction contracts over time; as performance obligations are satisfied, due to the continuous transfer of control to the customer. The customer typically controls the work in process, as evidenced either by contractual termination clauses or by our rights to payment for work performed to date plus a reasonable profit to deliver products or services that do not have an alternative use to the Company. The Company's construction contracts are generally accounted for as a single performance obligation, since we are providing a significant service of integrating components into a single project. The Company recognizes revenue using a cost-based input method, by which we use actual costs incurred relative to total estimated contract costs to determine, as a percentage, progress toward contract completion. This percentage is applied to the transaction price to determine the amount of revenue to recognize. Costs incurred that do not contribute to satisfying performance obligations are excluded from the cost input calculation as these amounts are not reflective of transferring control to the customer. The Company believes the cost-based input method is the most faithful depiction of performance, because it directly measures the value of the services transferred to the customer.

If, based on a lack of reliable information, progress cannot be reasonably measured, recognition of revenues (but not costs) is deferred until progress can be reliably measured. If, however, we expect that total costs will be recovered, we recognize revenues equal to costs incurred until we can reliably measure progress.

Revenues on uninstalled materials are recognized when control is transferred to the customer, which for us does not necessarily equate to when the cost is incurred. Under limited circumstances (e.g., transfer of control occurs significantly before we provide services, the cost of the materials is significant), we recognize revenue, but no profit, on certain uninstalled third-party materials when the cost is incurred.

Revenues recognized from construction contracts, net of contract discounts and allowances (including cash discounts), are included in construction revenues earned, net.

Because the Company almost always act as a principal in our contracts, we recognize revenues gross. The Company is considered the principal because we control the contractually specified goods and services before they are transferred to the customer.

The payment terms of our construction contracts from time to time require the customer to make advance payments as well as interim payments as work progresses. The advance payment generally is not considered a significant financing component as we expect to recognize those amounts in revenue within a year of receipt as work progresses on the related performance obligation.

Engineering and Construction Contracts (Example 2)

We recognize revenue over time, as performance obligations are satisfied, for substantially all of our engineering and construction contracts due to the continuous transfer of control to the customer.

For most engineering and construction contracts, the customer contracts with the Company to provide a significant service of integrating a complex set of tasks and components into a single project or capability and are therefore accounted for as a single performance obligation. The Company recognizes revenue using the cost-to-cost input method, based primarily on contract costs incurred to date compared to total estimated contract costs. This method is the most accurate measure of contract performance because it directly measures the value of the goods and services transferred to the customer.

Contract costs include all direct material, labor and subcontractor costs and indirect costs related to contract performance. Customer-furnished materials are included in both contract revenue and cost of revenue when management concludes that the Company is acting as a principal rather than as an agent. The Company recognizes revenue, but not profit, on certain uninstalled materials that are not specifically produced or fabricated for a project. Revenue for uninstalled materials is recognized when the cost is incurred and control is transferred to the customer. Project mobilization costs are generally charged to the project as incurred when they are an integrated part of the performance obligation being transferred to the client. Pre-contract costs are expensed as incurred unless they are expected to be recovered from the customer.

The payment terms of our engineering and construction contracts from time to time require the customer to make advance payments as well as interim payments as work progresses. The advance payment generally is not considered a significant financing component as we expect to recognize those amounts in revenue within a year of receipt as work progresses on the related performance obligation.

Service and Maintenance Contracts (Example 1)

For service revenue and maintenance contracts for which we have the right to consideration from the customer in an amount that corresponds directly with the value to the customer of our performance completed to date, the Company recognizes revenue when services are performed. For these contracts, we typically bill the customer a fixed amount for each hour of labor provided, as well as a fixed markup on materials used. Revenue recognized on these contracts is calculated in the amount to which we have a right to invoice for services performed.

For service and maintenance contracts that do not meet the preceding criteria, the Company recognizes revenue over time using the same methodology used for construction contracts. The Company believes utilizing the cost-based input method on service contracts is the most faithful depiction of our performance because it directly measures the value of the services transferred to the customer.

Revenues from rendering of services, net of contract discounts and allowances (including cash discounts), are included in service revenues earned, net.

Service Contracts (Example 2)

The Company also performs service contracts and recognizes the revenue on those contracts at a point in time as the work is performed and the customer is charged for the service.

Service Contracts (Example 3)

For service contracts (including maintenance contracts) where the Company has the right to consideration from the customer in an amount that corresponds directly with the value received by the customer based on performance to date, revenue is recognized when services are performed and contractually billable. For all other types of service contracts, revenue is recognized over time

generally using the cost-to-cost method (e.g., costs incurred to date relative to total estimated costs at completion) to measure progress because it best depicts the transfer of value to the customer. Contract costs include all direct materials, labor, and subcontractor costs and allocation of indirect costs related to contract performance.

Under the typical payment terms of our service contracts, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., weekly, biweekly or monthly) or upon achievement of contractual milestones.

Contracts for Sale of Goods

The Company recognizes revenues for the sale of goods at a point in time, following the transfer of control of the goods to the customer, which typically occurs upon delivery of the goods to the customer.

Revenues from sale of goods, net of cash discounts, are included in other revenues earned.

Cost and Expense Recognition

Contract costs include all direct labor, materials, subcontractor, and equipment costs, and those indirect costs related to contract performance, such as indirect labor, tools and supplies, repairs, interest and depreciation costs. Indirect costs are allocated to contracts based on direct labor and subcontractor costs.

For construction and service and maintenance contracts, costs are generally recognized as incurred. Under certain circumstances, costs incurred in the period related to future activity on contracts may be capitalized. Certain uninstalled materials, for which control has not passed to the customer are included in inventories. Uninstalled materials are recognized as costs of revenues when they are installed. Certain costs to obtain contracts may be capitalized. In addition, certain contract fulfillment costs may be capitalized if they meet the appropriate criteria.

Cost incurred that do not contribute to satisfying performance obligations are excluded from the cost input calculation for revenue recognition. Excluded costs include both uninstalled materials and abnormal costs. Abnormal costs comprise wasted materials, wasted or rework labor and other resources to fulfill a contract that were not reflected in the price of the contract. A limited allowance for material overages and labor inefficiencies is typically included in our contract costs estimates (and by extension in the contract price).

For both construction contracts and service and maintenance contracts, when it is probable that the total contract costs will exceed total contract revenues, a provision for the estimated expected loss is recorded.

The Company recognizes the cost of goods sold at the time control is transferred to the customer.

Remaining Performance Obligations/Contract Backlog (Example 1) (Optional Disclosure, Not Required for Private Entities)

Backlog represents the amount of the transaction price, including variable consideration not constrained, allocated to remaining (i.e., unsatisfied or partially unsatisfied) performance obligations at the end of each reporting period. Backlog includes revenues we expect to realize both from uncompleted contracts and from signed contracts on which work has not yet begun. Our backlog balance as of December 31st, and changes during the year, are comprised of the following:

	<u>2019</u>	<u>2018</u>
Backlog as of January 1	\$ -	\$ -
Contract Adjustments	-	-
New Contracts During the Year	<u>-</u>	<u>-</u>
Subtotal	<u>-</u>	<u>-</u>
Less: Contract Revenues Earned During the Year	<u>-</u>	<u>-</u>
Backlog on Contracts in Progress	-	-
Contracts Signed but Not Started	<u>-</u>	<u>-</u>
Total Backlog as of December 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

As of December 31, 2019, we expect to recognize substantially all of our backlog balance within 12 months of the reporting date.

Remaining Performance Obligations (Backlog Example 2- No Table Presented) (Optional Disclosure, Not Required for Private Entities)

Remaining construction performance obligations represent the remaining transaction price, including variable consideration not constrained, for which work has not been performed. As of December 31 2019, the aggregate amount of the transaction price allocated to remaining performance obligations was \$XXX. The Company expects to recognize revenue on approximately XX% of the remaining performance obligations over the next 12 months, with the remaining recognized thereafter. Our service maintenance agreements are generally one-year renewable agreements. We have adopted the practical expedient that allows us to not include service maintenance contracts less than one year, therefore we do not report unfulfilled performance obligations for service maintenance agreements.

Impact of ASC 606 Adoption (Example 1)

The Company recognized the cumulative effect of initially applying ASC 606 as an adjustment to retained earnings in the balance sheet as of January 1, 2019 as follows:

	Balance at December 31, 2018	Adjustments Due to ASC 606	Balance at January 1, 2019
Assets			
Receivables, net	\$ -	\$ -	\$ -
Contract assets	-	-	-
Costs and estimated earnings in excess of billings	-	-	-
Other noncurrent assets	-	-	-
Liabilities and Equity			
Contract liabilities	\$ -	\$ -	\$ -
Billings in excess of costs and estimated earnings	-	-	-
Accrued expenses and other current liabilities	-	-	-
Retained earnings	-	-	-

The impact of adoption on the balance sheet, statement of operations, and cash flows for the year ended December 31, 2019 was as follows:

	As of December 31, 2019		
		Balances Without Adoption of Topic 606	Effect of Change Higher (Lower)
Balance Sheet	As Reported		
Assets			
Receivables, net	\$ -	\$ -	\$ -
Contract assets	-	-	-
Costs and estimated earnings in excess of billings	-	-	-
Other noncurrent assets	-	-	-
Liabilities and Equity			
Contract liabilities	\$ -	\$ -	\$ -
Billings in excess of costs and estimated earnings	-	-	-
Accrued expenses and other current liabilities	-	-	-
Retained earnings	-	-	-

	Year Ended December 31, 2019		
		Balances Without Adoption of Topic 606	Effect of Change Higher (Lower)
<u>Statement of Operations</u>	<u>As Reported</u>		
Revenue			
Contract	\$ -	\$ -	\$ -
Service	-	-	-
Other	-	-	-
Total Revenues	-	-	-
Cost of Revenue			
Contract	-	-	-
Service	-	-	-
Other	-	-	-
Total Cost of Revenues	-	-	-
Gross Profit	-	-	-
Operating Income	-	-	-
Provision for Income Taxes	-	-	-
Net Income	\$ -	\$ -	\$ -

**Note: If significant, include impacts on statement of cash flows.
If not significant, note in footnote.**

The impacts of adoption were primarily related to: (1) conforming our contracts recorded over time from previously acceptable methods to the cost-to-cost percentage of completion methodology, (2) combining certain deliverables that were previously considered separate deliverables into a single performance obligation, and (3) separating certain contracts that were previously considered one deliverable into multiple performance obligations.

The impacts of adoption on our opening balance sheet were primarily related to reclassification of amounts between “accounts receivable, net of allowance for doubtful accounts” and “contract assets” based on whether an unconditional right to consideration has been established or not, and the deferral of costs incurred and payments received to fulfill a contract which were previously recorded in income in the period incurred or received but under the new standard will generally be capitalized and amortized over the period of contract performance.

Impact of Adopting Topic 606 (Example 2)

Effective on January 1, 2019, the Company adopted Topic 606 using a modified retrospective transition approach. We elected to apply Topic 606 to contracts with customers that are not substantially complete (i.e. less than 90% complete), as of December 31, 2018. The core principle of Topic 606 is revenue will be recognized when promised goods or services are transferred to customers in an amount that reflects consideration for which entitlement is expected in exchange for those goods or services.

While the adoption of Topic 606 did not have an impact on revenue for our Materials segment, it did impact revenue in our Transportation segment specifically in the areas of: (1) multiple performance obligations, (2) multiple contracts, (3) revenue recognition, and (4) provisions for losses.

The impact to retained earnings as of January 1, 2019 from the adoption of Topic 606 related to the items noted above was a net cumulative decrease of \$XX.

In addition, as of January 1, 2019, we began to separately present contract assets and liabilities on the balance sheets. Contract assets include amounts due under contractual retainage provision that were previously included in accounts receivable as well as costs and estimated earnings in excess of billings that were previously separately presented. Contract liabilities include billings in excess of costs and estimated earnings that were previously separately presented as well as provisions for losses that were previously included in accrued expenses and other current liabilities.

The amounts by which each balance sheet line item as of December 31, 2019 and statement of operations line item for the year ended December 31, 2019 was affected by the adoption of Topic 606 relative to the previous revenue guidance are represented in the tables below. The changes are primarily related to reclassifications on the balance sheet and the impact on the statement of operations from the new requirements under Topic 606. The change in retained earnings is net of the cumulative effect of initially applying Topic 606.

	Balance at December 31, 2018	Adjustments Due to ASC 606	Balance at January 1, 2019
Assets			
Receivables, net	\$ -	\$ -	\$ -
Contract assets	-	-	-
Costs and estimated earnings in excess of billings	-	-	-
Other noncurrent assets	-	-	-
Liabilities and Equity			
Contract liabilities	\$ -	\$ -	\$ -
Billings in excess of costs and estimated earnings	-	-	-
Accrued expenses and other current liabilities	-	-	-
Retained earnings	-	-	-

Disaggregation of Revenue

Contract revenues for 2019 and 2018 are comprised of the following (Note: There is no required feature by which to disaggregate. Private companies are only required to disaggregate by timing of revenue recognition, where applicable. The following tables are examples):

	2019	2018
Revenue by Major Product Lines/Services Lines		
Sale of Goods	\$ -	\$ -
Rendering of Services, Net	-	-
Construction Contracts, Net	-	-
Total Contract Revenues Earned	<u>\$ -</u>	<u>\$ -</u>

	2019	2018
Revenue by Timing of Revenue Recognition		
Products Transferred at Point in Time	\$ -	\$ -
Products and Services Transferred Over Time	-	-
Total Contact Revenues Earned	<u>\$ -</u>	<u>\$ -</u>
	2019	2018
Revenue by Types of Customers		
Commerical	\$ -	\$ -
Industrial	-	-
Public/Institution - educational	-	-
Public/Institution - government	-	-
Residential	-	-
Other	-	-
Total Contact Revenues Earned	<u>\$ -</u>	<u>\$ -</u>
	2019	2018
Revenue by Primary Geographic Markets		
Texas	\$ -	\$ -
Louisiana	-	-
North Carolina	-	-
Georgia	-	-
Total Contact Revenues Earned	<u>\$ -</u>	<u>\$ -</u>

(Without inclusion of a Table for Timing of Revenue Recognition)

Revenues from construction contracts and from the rendering of services (i.e., from service and maintenance contracts) comprise revenues from goods and services transferred over time. Revenue from the sale of goods comprise revenues from goods transferred to customers at a point in time. Substantially all construction contracts, and a small percentage of service and maintenance contracts, are fixed-price contracts. A majority of service and maintenance contracts are time-and-materials contracts.

Contract Assets and Liabilities

The components of contract assets are as follows:

	December 31, 2019	January 1, 2019
	<u> </u>	<u> </u>
Cost in Excess of Billings and Estimated Earnings	\$ -	\$ -
Contract Fulfillment Costs (*)	-	-
Uninstalled Materials (*)	-	-
Contract Retention (**)	<u>-</u>	<u>-</u>
Total Contract Assets	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

** OPTIONAL - Uninstalled materials and unamortized contract fulfillment costs can be captioned separately in the balance sheet or included as a component of contract assets if directly related to a specific contract.*

*** OPTIONAL - Represents retention amounts withheld from billings by customers conditioned on satisfactory performance. Otherwise, may be included as a component of Accounts Receivable or separately captioned in the balance sheet.*

The following table summarizes changes in the contract asset balance for the year ended December 31, 2019. (Optional Disclosure, Not Required for Private Entities)

Balance at January 1, 2019	\$ -
Change in the measure of progress on projects, net	-
Acquired contract assets	-
Revisions in estimates, net	-
Billings	-
Receipts related to contract retention	<u>-</u>
Balance at December 31, 2019	<u><u>\$ -</u></u>

The components of contract liabilities are as follows:

	December 31, 2019	January 1, 2019
Billings in Excess of Costs and Estimated Earnings, net of retention	\$ -	\$ -
Deferred Revenues on Construction Contracts	-	-
Total Contract Liabilities	<u>\$ -</u>	<u>\$ -</u>

The following table summarizes changes in the contract liability balance for the year ended December 31, 2019. (Optional Disclosure, Not Required for Private Entities)

Balance at January 1, 2019	\$ -
Change in the measure of progress on projects, net	-
Acquired contract liabilities	-
Revisions in estimates, net	-
Billings	-
Change for provision for loss, net	-
Balance at December 31, 2019	<u>\$ -</u>

The components of costs and estimated earnings at December 31, are as follows:

	2019	2018
Costs incurred on uncompleted contracts	\$ -	\$ -
Estimated earnings	-	-
Less: billings to date	-	-
Total	<u>\$ -</u>	<u>\$ -</u>

The information is included in the balance sheets under the following captions:

	2019	2018
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ -	\$ -
Billings in excess of costs and estimated earnings on uncompleted contracts	-	-
Total	<u>\$ -</u>	<u>\$ -</u>

Contract Cost Assets and Liabilities

Contract cost assets are comprised of the following:

	<u>2019</u>	<u>2018</u>
Capitalized contract fulfillment costs	\$ -	\$ -
Capitalized incremental costs to obtain a contract	-	-
Less: accumulated amortization and impairment	<u>-</u>	<u>-</u>
Total contract cost assets	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Contract cost liabilities are comprised of the following:

	<u>2019</u>	<u>2018</u>
Accrued contract costs (*)	\$ -	\$ -
Accrued estimated losses on uncompleted contracts	<u>-</u>	<u>-</u>
Total contract cost liabilities	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

** Can include warranty liabilities if the service or extended warranty is considered a separate performance obligation under ASC 606.*

Contract (Accounts) Receivables, Net

The components of receivables, net are as follows:

	<u>2019</u>	<u>2018</u>
Contracts completed and in progress:		
Billed	\$ -	\$ -
Unbilled	-	-
Retentions (*)	<u>-</u>	<u>-</u>
Total Contracts Completed and in Progress	-	-
Material Sales	-	-
Other	<u>-</u>	<u>-</u>
Total Gross Receivables	-	-
Less: Allowance for Doubtfull Accounts	<u>-</u>	<u>-</u>
Total Net Receivables	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

** Represents obligations that have been satisfied and receipt is subject only to passage of time.*

XYZ CONSTRUCTION CORP. (An S Corporation)																				
SCHEDULES OF CONTRACTS IN PROCESS AND COMPLETED CONTRACTS																				
Estimated Contract Amounts								Contracts to Date as of December 31, 2019								For the Year Ended December 31, 2019				
		Current Contract Total	Costs to Date	Estimated Costs to Complete	Total Estimated Costs	Estimated Final Gross Profit (Loss)	Estimated Gross Profit (Loss) %	Percent Complete	Revenues Earned	Costs to Date	Gross Profit (Loss)	Progress Billings to Date	Contract Assets	Contract Liabilities	Uninstalled Materials	Unamortized Contract Fulfillment Costs	Gross Revenues Earned	Cost of Revenue	Profit (Loss)	Gross Profit (Loss) %
Contracts in Process																				
Percentage of Completion																				
0100	Job 1	\$ 1,000,000	\$ 200,000	\$ 700,000	\$ 900,000	\$ 100,000	10.00%	22.22%	\$ 222,222	\$ 200,000	\$ 22,222	\$ 250,000	\$ -	\$ 27,778	\$ -	\$ -	\$ 222,222	\$ 200,000	\$ 22,222	10.00%
Multiple Performance Obligations																				
0100	Job 1																			
	Job1 - Performance obligation A	750,000	190,000	500,000	690,000	60,000	8.00%	27.54%	206,522	190,000	16,522				-	-	206,522	190,000	16,522	8.00%
	Job1 - Performance obligation B	250,000	10,000	200,000	210,000	40,000	16.00%	4.76%	11,905	10,000	1,905				-	-	11,905	10,000	1,905	16.00%
	Job 1 Total	1,000,000	200,000	700,000	900,000	100,000	10.00%		218,427	200,000	18,427	250,000	-	31,573	-	-	218,427	200,000	18,427	8.44%
Uninstalled Materials in Inventory and Unamortized Fulfillment costs																				
\$50k in uninstalled materials in CONTRACTOR's control																				
\$10k of unamortized fulfillment cost																				
0100	Job 1	1,000,000	140,000	760,000	900,000	100,000	10.00%	15.56%	155,556	140,000	15,556	250,000	-	94,444	50,000	10,000	155,556	140,000	15,556	10.00%
Uninstalled Materials in Owner Control and Unamortized Fulfillment costs																				
\$50k in uninstalled materials in OWNER's control																				
\$10k of unamortized fulfillment cost																				
0100	Job 1	950,000	140,000	710,000	850,000			16.47%	156,471	140,000	16,471						156,471	140,000	16,471	
	Job1 - Uninstalled Materials	50,000	50,000	-	50,000			100.00%	50,000	50,000	-						50,000	50,000	-	
	Job 1 Total	1,000,000	190,000	710,000	900,000	100,000	10.00%	21.11%	206,471	190,000	16,471	250,000	-	43,529	-	10,000	206,471	190,000	16,471	7.98%
Waste and Inefficiencies																				
0100	Job 1	1,000,000	190,000	700,000	890,000	110,000	11.00%	21.35%	213,483	190,000	23,483	250,000					213,483	190,000	23,483	
	Job1 - Waste and inefficiencies	-	10,000	-	10,000	(10,000)	(1.00%)	100.00%	-	10,000	(10,000)	-					-	10,000	(10,000)	
	Job 1 Total	1,000,000	200,000	700,000	900,000	100,000	10.00%		213,483	200,000	13,483	250,000	-	36,517	-	-	213,483	200,000	13,483	6.32%
Total for contracts in process		5,000,000	930,000	3,570,000	4,500,000	500,000	10.00%		1,016,159	930,000	86,159	1,250,000	-	233,841	50,000	20,000	1,016,159	930,000	86,159	8.48%
Completed Contracts																				
0200	Job 2	500,000	450,000	-	450,000	50,000	10.00%	100.00%	500,000	450,000	50,000	490,000	10,000	-	-	-	400,000	350,000	50,000	12.50%
0300	Job 3	750,000	650,000	-	650,000	100,000	13.33%	100.00%	750,000	650,000	100,000	750,000	-	-	-	-	600,000	550,000	50,000	8.33%
0400	Job 4	1,000,000	850,000	-	850,000	150,000	15.00%	100.00%	1,000,000	850,000	150,000	1,000,000	-	-	-	-	200,000	175,000	25,000	12.50%
	Misc Jobs	250,000	225,000	-	225,000	25,000	10.00%	100.00%	250,000	225,000	25,000	250,000	-	-	-	-	250,000	225,000	25,000	10.00%
Total for completed contracts		2,500,000	2,175,000	-	2,175,000	325,000	13.00%		2,500,000	2,175,000	325,000	2,490,000	10,000	-	-	-	1,450,000	1,300,000	150,000	10.34%
Total		\$ 7,500,000	\$ 3,105,000	\$ 3,570,000	\$ 6,675,000	\$ 825,000	11.00%		\$ 3,516,159	\$ 3,105,000	\$ 411,159	\$ 3,740,000	\$ 10,000	\$ 233,841	\$ 50,000	\$ 20,000	\$ 2,466,159	\$ 2,230,000	\$ 236,159	9.58%

XYZ CONSTRUCTION CORP. (An S Corporation)																					
ILLUSTRATIVE PERCENTAGE OF COMPLETION CONVERSION TO ASC 606 WORKSHEET																					
Job#/Line #		Estimated Contract Amounts							Contracts to Date as of December 31, 2019							For the Year Ended December 31, 2019				Net Impact on Profit From Adopting ASC 606	
		Current Contract Total	Costs to Date	Estimated Costs to Complete	Total Estimated Costs	Estimated Final Gross Profit (Loss)	Estimated Gross Profit (Loss) %	% Complete	Revenues Earned	Costs to Date	Gross Profit (Loss)	Progress Billings to Date	Contract Assets	Contract Liabilities	Uninstalled Materials	Unamortized Contract Fulfillment Costs	Gross Revenues Earned	Cost of Revenue	Profit (Loss)		Gross Profit (Loss) %
Contracts in Process																					
Uninstalled Materials in Inventory and Unamortized Fulfillment costs																					
\$50k in uninstalled materials in CONTRACTOR's control																					
\$10k of unamortized fulfillment cost (Assume \$12k incurred prior to transfer of control)																					
0100	Job 1	\$ 1,000,000	\$ 200,000	\$ 700,000	\$ 900,000	\$ 100,000	10.00%	22.22%	\$ 222,222	\$ 200,000	\$ 22,222	\$ 250,000	\$ -	\$ 27,778	\$ -	\$ -	\$ 222,222	\$ 200,000	\$ 22,222	10.00%	
	Remove Uninstalled Materials	-	(50,000)	50,000	-	-			(55,556)	(50,000)	(5,556)	-	-	55,556	50,000	-	(55,556)	(50,000)	(5,556)		
	Remove Start-Up Fulfillment Costs	-	(12,000)	12,000	-	-			(13,333)	(12,000)	(1,333)	-	-	13,333	-	12,000	(13,333)	(12,000)	(1,333)		
	Recalculate Revenue	1,000,000	138,000	762,000	900,000	100,000	10.00%	15.33%	153,333	138,000	15,333	250,000	-	96,667	50,000	12,000	153,333	138,000	15,333		
	Addback Amort. of Start-Up Cost to Job	-	2,000	(2,000)	-	-			2,223	2,000	223	-	-	(2,223)	-	(2,000)	2,223	2,000	223		
	Recalculate Revenue	\$ 1,000,000	\$ 140,000	\$ 760,000	\$ 900,000	\$ 100,000	10.00%	15.56%	\$ 155,556	\$ 140,000	\$ 15,556	\$ 250,000	\$ -	\$ 94,444	\$ 50,000	\$ 10,000	\$ 155,556	\$ 140,000	\$ 15,556	10.00%	\$ (6,666)
Uninstalled Materials in Owner Control and Unamortized Fulfillment costs																					
\$50k in uninstalled materials in OWNER's control																					
\$10k of unamortized fulfillment cost (Assume \$12k incurred prior to transfer of control)																					
0100	Job 1	\$ 1,000,000	\$ 200,000	\$ 700,000	\$ 900,000	\$ 100,000	10.00%	22.22%	\$ 222,222	\$ 200,000	\$ 22,222	\$ 250,000	\$ -	\$ 27,778	\$ -	\$ -	\$ 222,222	\$ 200,000	\$ 22,222	10.00%	
	Remove Uninstalled Materials	(50,000)	(50,000)	50,000	(50,000)	-			(55,556)	(50,000)	(5,556)	-	-	55,556	50,000	-	(55,556)	(50,000)	(5,556)		
	Remove Start-Up Fulfillment Costs	-	(12,000)	12,000	-	-			(13,333)	(12,000)	(1,333)	-	-	13,333	-	12,000	(13,333)	(12,000)	(1,333)		
	Recalculate Revenue	950,000	138,000	762,000	850,000	100,000	10.53%	16.24%	154,235	138,000	16,235	250,000	-	95,765	50,000	12,000	154,235	138,000	16,235		
	Addback Amort. of Start-Up Cost to Job	-	2,000	(2,000)	-	-			2,236	2,000	236	-	-	(2,236)	-	(2,000)	2,236	2,000	236		
	Recalculate Revenue	950,000	140,000	760,000	850,000	100,000			156,471	140,000	16,471	250,000	-	93,529	50,000	10,000	156,471	140,000	16,471		
	Recognize Revenue on Uninstalled Materials	50,000	50,000	(50,000)	50,000	-			50,000	50,000	-	-	-	(50,000)	(50,000)	-	50,000	50,000	-		
		\$ 1,000,000	\$ 190,000	\$ 710,000	\$ 900,000	\$ 100,000			(a) \$ 206,471	(a) \$ 190,000	\$ 16,471	\$ 250,000	\$ -	\$ 43,529	\$ -	\$ 10,000	\$ 206,471	\$ 190,000	\$ 16,471	7.98%	\$ (5,751)
(a) Revenue is no longer calculated using percent complete x contract total when there are uninstalled materials under the Owner's control as a result of revenue recognition on uninstalled materials limited to cost of uninstalled materials (no profit recognition).																					
Waste and Inefficiencies																					
0100	Job 1	\$ 1,000,000	\$ 200,000	\$ 700,000	\$ 900,000	\$ 100,000	10.00%	22.22%	\$ 222,222	\$ 200,000	\$ 22,222	\$ 250,000	\$ -	\$ 27,778	\$ -	\$ -	\$ 222,222	\$ 200,000	\$ 22,222	10.00%	
	Remove Waste and Inefficiencies Costs	-	(10,000)	-	(10,000)	10,000			(8,739)	(10,000)	1,261	-	-	8,739	-	-	(8,739)	(10,000)	1,261		
	Recalculate Revenue	1,000,000	190,000	700,000	890,000	110,000	11.00%	21.35%	213,483	190,000	23,483	250,000	-	36,517	-	-	213,483	190,000	23,483		
	Addback Waste and Inefficiencies Costs	-	10,000	-	10,000	(10,000)			-	10,000	(10,000)	-	-	-	-	-	-	10,000	(10,000)		
		\$ 1,000,000	\$ 200,000	\$ 700,000	\$ 900,000	\$ 100,000			\$ 213,483	\$ 200,000	\$ 13,483	\$ 250,000	\$ -	\$ 36,517	\$ -	\$ -	\$ 213,483	\$ 200,000	\$ 13,483	6.32%	\$ (8,739)