



CPAs WHO KNOW CONSTRUCTION



Revenue Recognition Implementation Guide

Guidance for CPAs and Construction Companies

Sponsored by



SOFTWARE

➤ Table of Contents

Welcome from Carl Oliveri, Revenue Recognition Task Force Chair	Page 3
Revenue Recognition Task Force Members	Page 4
Identifying Contracts with Customers	Pages 5 - 10
Assessing Multiple Performance Obligations	Pages 11 - 18
Series of Performance Obligations	Page 19
Evaluating Variable Consideration	Pages 20 - 25
Uninstalled Materials	Pages 26 - 36
Recognizing Revenue	Pages 37 - 38
Fulfillment Costs	Pages 39 - 40
Capitalized Costs to Obtain a Contract	Pages 41 - 43
Financing	Pages 44 - 46
Transition Method	Pages 47 - 52
Sample Note Disclosures	Pages 53 - 58
Thanks to our Sponsors	Page 59



As I pen these introductory comments to CICPAC’s Revenue Recognition Implementation Guide, it is hard for me to believe the industry has been grappling with the proposed changes for over nine years. And yet, here we are. In that period, we have seen extensive rewrites from the initial proposed guidance to where we are today. Following an outcry from the credit community, construction contractors and, of course, the construction CPAs, we were able to influence the incoming model to a point of comparability between the periods before and after adoption. In other words, percentage of completion (or something similar to it) is still here.

During our executive committee meetings in May 2015 (in Atlanta, GA), it was unanimously agreed that CICPAC needed to be proactive in terms of education and thought leadership as it related to Proposed Accounting Standards Update, Revenue Recognition (Topic 605): Revenue from Contracts with Customers. After all, as the CPAs who know construction our opinions, perspective and guidance would be critical to the construction industry as implementation drew closer. We believed it was our responsibility to ensure these changes would have minimal impact and disruption to the construction contractor’s business and financial reporting model. So, our final product, be it a flow chart or series of white papers, would need to be deep enough to provide guidance on more complicated construction finance/accounting arrangements but flexible enough for the small contractor needing their first bond or line of credit.

We are fortunate to have a true and dear friend in Mr. John Armour, CPA, CCIFP, construction accounting industry consultant and member of the FASB/IFRS Committee, who has already shaped much of what we do today as construction industry CPAs. When we shared our vision with John, he zealously volunteered to help guide our efforts, which are contained within these pages.

The materials and positions compiled in this publication were from the efforts of CICPAC’s Revenue Recognition Task Force (listed on next page), all of who answered our “call to arms” and volunteered their time. Additionally, the content was thoroughly reviewed by John Armour. A Herculean effort, one which deserves an even larger “thank you” for their dedication and determination!

In summary, after close to three years of brainstorming, discussions and debate, research, collaboration, drafting and reviewing, the publication is here for your use. It has been edited by the best in the industry, it is your “go to guide” as construction CPAs. This guide tackles the issues that are most pressing to construction companies, as they drive through 2018 and begin to understand the implications of the new standards.

On a personal note, it was an honor and privilege to work with Kathleen Baldwin, John Corcoran, Michelle Class, the CICPAC executive committee, our volunteer members and John Armour on this guide.

> Thanks to the Revenue Recognition Task Force

Carl Oliveri, CPA, CCIFP, CFE - Partner, Grassi & Co. - Task Force Chair

Emilio Alvarez, CPA - Managing Partner, EFA CPAs

Natalie Anzzolin, CPA - Partner, Thompson Greenspon

John Armour, CPA - Armour Consulting

Kathleen Baldwin, CPA, CCIFP - Executive Director, CICPAC

Denise Bendele, CPA, CVA - Partner, RSM US LLP

Bob Biehl, CPA, CCIFP - Director, GBQ Partners

Joshua Billiard, CPA, CCIFP - Partner, EKSH

Michelle Class, Marketing With Class LLC

Brian Coller, CPA, CCIFP - Partner, BerganKDV

Gray Coyner, CPA - Manager, Thompson Greenspon

Judith Enright, CPA, CGMA - Director, Citrin Cooperman

Bryan Eto, CPA, CCIFP, CFE, CGMA - Beach Fleischman

Matt Ferrell, CPA - Senior Manager, HORNE LLP

Ken Gardiner, CPA, CCIFP, CDA - Partner, Dannible & McKee, LLP

Eric Goodman, CPA - Director, Barnes, Dennig & Co.

Steve Mannhaupt, CPA - Partner, Grassi & Co.

Jason Patras, CPA - Senior Manager, Cohn Reznick

Eric Scholtes, CPA - Iannuzzi, Manetta & Co.

Anneka Sciola, CPA, CFE - Director, CalvettiFerguson

Tony Stagliano, CPA, CCIFP - Managing Director, CBIZ

Bucky White, CPA - Partner, Thompson Greenspon

Claudia Wolter, CPA, CCIFP, CCA - Shareholder, KatzAbosch

Julian Xavier, Clifton Larson Allen

> Identifying Contracts with Customers

OVERVIEW

Construction contractors are very familiar with contracts, however the new revenue recognition standard will require management to make additional judgments regarding when to recognize revenue associated with contracts.

Accounting Standards Codification (ASC) 606-10-25-1 provides five criteria that must be met for an agreement to be identified as a contract:

1. Approval and commitment of the parties
 - a. Must be legally enforceable
 - b. Written, oral, or implied
 - c. Certain termination clauses may demonstrate lack of commitment
2. Identification of the rights of the parties
 - a. The goods or services associated with the contract must be identified
3. Identification of the payment terms
 - a. Not required to be fixed or stated, but need to be determinable and enforceable
4. The contract has commercial substance
 - a. Risk, timing, amount of the entities' future cash flows must be impacted by the execution of the contract
5. Collection of payment is probable
 - a. Ability and intent of customer to pay the contract consideration

ASC 606 excludes lease contracts, insurance contracts, financial instruments, guarantees and nonmonetary exchanges.

Laws and regulations vary across legal jurisdictions and should be considered when

determining whether an agreement meets the above criteria.

The majority of typical construction contracts will meet the five criteria above, however there may be instances where a contractor must make judgments regarding the criteria and it is important to be aware of these. For example, if a contractor provides financing to a credit risk customer for the construction of a building, the contractor could possibly not recognize revenue until the customer's ability to pay has become probable.



COMBINATION OF CONTRACTS (ASC 606-10-25-9)

Under current guidance a group of contracts **may** be combined for accounting purposes if all of the conditions below exist:

1. Contracts are negotiated as a package in the same economic environment with an overall profit margin objective. Contracts not executed at the same time may be considered for combination only if the time period between commitments of the parties involved is reasonably short.
2. The contracts constitute, in essence, an agreement to do a single project. A project consists of construction, phases, or units of output that are closely interrelated.

> Identifying Contracts with Customers (continued)

3. The contracts require closely interrelated construction activities with substantial common costs that cannot be separately identified with, or reasonably allocated to the elements, phases or units of output.
4. The contracts are performed concurrently or in a continuous sequence under the same project management at the same location or at different locations in the same general vicinity.
5. The contracts constitute, in substance, an agreement with a single customer.

Under the new guidance the combining of contracts is **required** if one or more of the following conditions below exist:

1. The contracts are negotiated as a package with a single commercial objective.
2. The amount of consideration to be paid in one contract depends on the price or performance of the other contract.
3. The goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation in accordance with ASC 606-10-25-14 through 25-22.

Note that negotiating multiple contracts at the same time does not necessarily demonstrate the contracts represent a single arrangement. The more likely scenario for combining will occur

when a contractor prices a second contract based on advantages existing in the first contract. An example is that the second contract can use the general conditions of the first project with minimal additional cost.

The guidance in the new standard was included because in some cases, the amount and timing of revenue recognition might differ depending on whether an entity accounts for contracts as a single contract or separately. One possible difference is that under the new GAAP a loss is measured at the level of the combined contracts rather than on a contract by contract basis. So if a contractor enters into a loss leader contract to obtain a follow-on contract, the loss on the initial contract would not be accrued but would merely reduce the overall profit on the combined contract. The presentation of a contract asset/liability (under/over billing) is limited to one account per contract. When the contracts are combined for reporting purposes only one under/overbilling will be reported on the combined contract level. So if one contract is underbilled and the other is overbilled the net amount will be reflected on the statement of financial position.

Judgment will need to be made on whether contracts are entered into at or near the same time because there is no bright line in making the assessment but it is noted that the longer the period between entering into different contracts, the more likely the economics have changed.

As noted above the current guidance allowed the entity to combine contracts if certain items existed but in the new guidance it is required to combine contracts if those items above exist. The principles



> Identifying Contracts with Customers (continued)

and criteria for application are different between the old and new standards. The prior standard's criteria were almost impossible to achieve whereas the new standard's criteria for combining will be met frequently. The decision to combine contracts occurs before the evaluation of performance obligations.

CONTRACT MODIFICATIONS (ASC 606-10-25-10 through 25-13)

A contract modification is a change in scope, price or both. The modification exists when the parties to a contract approve a modification that either creates new or changes the existing enforceable rights and obligations of the parties to the contract. This can be approved in writing, by oral agreement, or implied by customary business practices.

If the parties have not approved the modification, an entity should continue to apply the guidance in ASC 606 to the existing contract until the modification is approved. Even if it's not approved, a modification may still be accounted for even though a dispute exists regarding the scope and/or price. The entity should consider all relevant facts and circumstances, including the terms of the contract and other evidence, in determining whether the rights and obligations regarding the modification are enforceable.

If the parties to a contract have approved a change in the scope of the contract but have not yet determined the corresponding change in price, the entity should estimate the change to the transaction price arising from the modification in accordance with the guidance on estimating variable consideration and on constraining estimates of variable consideration.

An entity should account for a modification as a separate contract if:

1. The scope of the contract increases because of the addition of promised goods or services that are distinct; and
2. The price of the contract increases by an amount of consideration that reflects the entity's

standalone selling prices of the additional promised goods or services and appropriate adjustments to that price to reflect the circumstances.

- a. For example, an entity adjusts the standalone selling price of an additional good or service for a discount the customer receives because the entity does not incur additional general conditions that it would incur when selling a similar good or service to a new customer.

If a contract modification is not accounted for as a separate contract, an entity should account for the promised goods or services not yet transferred at the date of the modification in whichever of the following ways is applicable:

1. If the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification, the entity should account for the contract modification as if it were a termination of the existing contract and the creation of a new contract. The amount of consideration to be allocated to the remaining performance obligations (or to the remaining distinct goods or services in a single performance obligation) is the sum of:
 - a. The consideration promised by the customer (including amounts already received from the customer) that was included in the estimate of the transaction price and that had not been recognized as revenue; and
 - b. The consideration promised as part of the contract modification.
2. If the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied at the date of the modification. The

> Identifying Contracts with Customers (continued)

entity should account for the modification as if it were a part of the existing contract. The effect that the modification has on the transaction price, and on the entity's measure of progress towards satisfaction of the performance obligation, is recognized as an adjustment to revenue either as an increase in or a reduction of revenue at the date of the modification. The adjustment to revenue is made on a cumulative catch-up basis.

3. If the remaining goods or services are a combination of the above two items, the entity should account for the effect of the modification on the unsatisfied (which includes items that are partially unsatisfied) performance obligations in the modified contract in a manner that is consistent with the objectives of the modifications guidance discussed above.

EXAMPLE: CONTRACT MODIFICATION ACCOUNTING RESULTING IN A NEW AND SEPARATE CONTRACT (I.E. PROSPECTIVELY)

A general contractor was awarded a contract to build a new hospital for \$250 Million. After construction has started, the hospital approves a modification for an additional pediatric wing to be built on the hospital property. Both the contractor and the hospital agree to modify the contract to include the construction of the pediatric wing for a total price of \$270 Million, to be completed within nine months. Based on similar contracts, the general contractor would normally charge \$21 Million to build the pediatric wing; however, the contractor expects to take advantage of various efficiencies at the job site, given that most of the equipment and labor resources necessary for the additional build-out are already on site. Accordingly, the \$20 Million reflects the standalone selling price of the additional service to be provided at the date of the modification.

How should this situation be accounted for?

Answer

The contracts are closely interrelated and the contracts are required to be combined. The change order may qualify as a separate performance obligation.

> Identifying Contracts with Customers (continued)

REVENUE RECOGNIZED AT POINT IN TIME VS. OVER TIME (ASC 606-10-25-23)

Revenue from contracts with customers is recognized when or as performance obligations are satisfied. Satisfaction is evidenced by the transfer of control over the goods or services to the customer and coincides with the customer's ability to obtain the potential cash flows associated with an asset. The determination of how and when control is transferred ultimately directs how revenue is recognized. This determination is made at the inception of the contract for each identified performance obligation and results in recognition either over time or at a point in time. This assessment may only be revised during the contract if there are modifications to the contract that warrant reconsideration.

PERFORMANCE OBLIGATIONS SATISFIED OVER TIME (ASC 606-10-25-27)

Performance obligations are deemed to be satisfied over time if one of the following is true:

1. The goods or services are received and consumed by the customer simultaneously. This requirement is typically met during the performance of services that are consumed immediately such as service work, maintenance and similar routine or recurring services. Another consideration that would result in transfer of control over time is if another entity would not need to reperform work in the event the remaining contract was transferred.
2. The customer controls an asset created during the performance of the contract, as the asset is created. This is true for customers who own or control land or an underlying structure which is being improved

or expanded during the performance of the contract. Contract terms will need to be scrutinized to determine if customers take possession or have the risks and rewards of ownership prior to the completion of the contract. This criterion will apply to a large number of construction contracts and will result in the recognition of revenue over time.

3. Performance of the contract does not create an asset with an alternative use to the contractor and there is an enforceable right to payment for performance completed to date. An asset that does not have an alternative use is sufficiently customized (at completion) to the extent it would not be feasible to redirect the asset for another use or sell to a different customer, assuming there has been no termination of the contract. Enforceable right to payment exists if the customer would be required to pay a reasonable margin if the contract was terminated for convenience or reasons other than failure to perform. In order for revenue to be recognized over time under the no alternative use and enforceable right to payment criteria, both of these conditions must apply.

The above elements must be evaluated for all performance obligations and will require substantial amounts of judgment to determine the proper application. The following list of questions should be applied to each performance obligation, and if answered yes, would likely result in the recognition of revenue over time:

1. Are performance by the contractor and consumption by the customer simultaneous?
2. If the contract were terminated, and transferred to a different contractor, would the completion of the contract require the new contractor to reperform significant work?

> Identifying Contracts with Customers (continued)

3. Does the customer control the property where work is being performed or own an asset that is being renovated or upgraded?
4. Do you have the right to payment during the contract for performance under the contract to date?
5. Does the legal title, physical possession, or risk/reward of ownership transfer to the customer during the performance of the contract?
6. Does the customer accept or take ownership of an asset as it is created?
7. Is the asset customized to the customer's specifications and if the contract were terminated before completion, would you be entitled to receive payment reflecting a reasonable gross margin on the work that has already been performed?

PERFORMANCE OBLIGATIONS SATISFIED AT A POINT IN TIME (ASC 606-10-25-30)

If, based on the above guidance, control is not deemed to be transferred over time, the performance obligation is satisfied at a point in time. When this applies, the point in time of transfer is determined by one or more of the following:

1. Present right to payment exists.
2. Transfer of legal title to the asset.
3. Transfer of physical possession of the asset.
4. Transfer of significant risks and rewards of ownership.
5. Customer acceptance of the asset.

In application of the above factors, judgment will be required to determine the weight that each factor carries in the context of the contract. Revenue recognized at a point in time will often follow the current practice under the completed contract method. Certain elements of the construction industry frequently sell products, products and services, as well as normal contract commitments. For example, a heavy highway contractor may sell aggregates from its pits while also using aggregates to fulfill construction contracts. The aggregate sales would be properly classified as a point in time sale. Likewise an HVAC contractor that has a service division might classify some or all of its service work as a point in time transaction. Whereas a time and material contract would likely be recognized over time.



> Assessing Multiple Performance Obligations

OVERVIEW

The determination of the various performance obligations in contracts with customers requires a great deal of analysis and judgment on the part of a contractor.

After identifying the contract, an entity will evaluate the contract terms and its customary business practices to identify all promised goods and services within the contract and determine which of those promised goods and services (or bundled goods and services) should be accounted for as separate performance obligations (i.e., the unit of account for purposes of applying the standard). The revenue standard identifies several activities common to engineering and construction entities that are considered promised goods and services, including the construction, manufacture or development of an asset on behalf of a customer and the performance of a contractually agreed-upon task for a customer (e.g., design and engineering services).

The criteria in the new revenue standard for identifying performance obligations differ from the contract segmentation guidance in ASC 605-35, which could result in different conclusions about the units of account. For example, today a contractor may consider an entire contract to be a profit center (i.e., a single unit of account), but under the new standard, it may determine that the contract contains two or more performance obligations that would be accounted for separately. These judgments may be more complex when, for example, a construction contract also includes design, engineering or procurement services.

The following section walks through the specifics of the new revenue standard related to identifying performance obligations in a contract, which is followed by a couple of best practices for implementing controls related to the identification of performance obligations within a contract. There are also some examples included which may be

helpful to a contractor in their determinations surrounding performance obligations in their individual contracts.

ACCOUNTING GUIDANCE AND CHALLENGES

According to ASC 606-10-25 et al, promised goods and services represent separate performance obligations if (1) the goods or services are distinct (by themselves or as part of a bundle of goods and services) or (2) if the goods and services are part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer.

Determining whether goods and services are distinct involves a significant degree of judgment based on the facts and circumstances of a given contract. According to ASC 606-10-25-19, goods and services are distinct if both of the following are met:

- The customer can benefit from the goods and services on their own or with other readily-available resources (capable of being distinct); and
- The contractor's promise to transfer goods and services is separately identifiable from other promises in the contract (distinct in the context of the contract).

Identifying performance obligations and how they are satisfied will directly affect when revenue is recognized.

> Assessing Multiple Performance Obligations (continued)

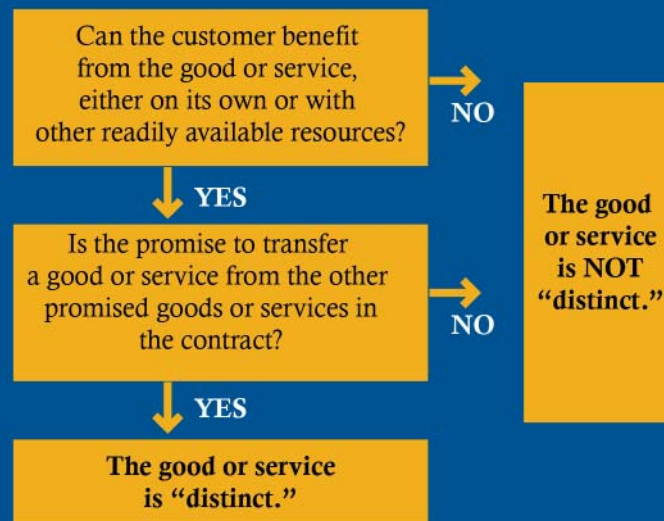
ACS 606-10-25-21 includes a non-exclusive (i.e. not complete) list of considerations to be evaluated by the contractor to determine whether or not a promise is distinct in the context of the contract, such that it would require separate revenue recognition from other promises within the contract. The considerations described in ASC 606-10-25-21 that indicate two or more promises to transfer goods and services are not separately identifiable (and therefore not distinct in the context of the contract) are as follows:

- The contractor provides a significant service of integrating goods or services to provide a combined output contracted for by the customer, or
- One or more of the goods or services significantly modifies or customizes one or more of the other goods or services in the contract, or
- The goods or services are highly interdependent or highly interrelated.

In many engineering and construction contracts, the finished deliverable is constructed in a number of phases (for example, front-end engineering and design, detailed engineering, procurement, fabrication, construction or construction management, and validation or start-up) that each include goods or services that normally provide benefit to the customer on their own or together with other readily available resources. Therefore, the contractor's evaluation regarding whether a promised good or service is or is not distinct will likely depend more on an evaluation of the criteria in ASC 606-10-25-19(b), that is, whether those goods or services are distinct within the context of the contract.

Moreover, a good or service is not separable from other promises in the contract when an entity provides an integration service to incorporate individual goods and/or services into

DEFINITION OF A “DISTINCT” GOOD OR SERVICE



a combined output. This may be relevant in many construction contracts if a contractor provides an integration service to manage and coordinate the various construction tasks and to assume the risks associated with the integration of those tasks. An important factor for determining that goods or services should be combined with an integration service into a single performance obligation is that the risk the entity assumes in performing the integration service is inseparable from the risk relating to the transfer of the other promised goods or services. The judgment about the risk an entity assumes with respect to a promised good or service can often be inferred by certain terms of the contract, such as the contract's acceptance or warranty provisions. For example, if the contract specifies that the entity is warranting that a promised good or service will meet certain specifications, then it may suggest that an output of the contract is that particular good or service.

> Assessing Multiple Performance Obligations (continued)

Essentially, in the eyes of the owner/customer, if they are not receiving a stand-alone benefit which is distinct in the context of the contract, then the transfer of a specific good/service under the contract is not a distinct promise or separate performance obligation on which to recognize revenue separately.

Change orders, maintenance agreements, phases and/or multiple units of delivery will require additional analysis (as these may represent multiple promises and multiple deliverables). As a best practice, contractors should approach the analysis of determining if a good/service is distinct by analyzing what the benefit is to the customer/owner, and if the benefits received from the change order work, maintenance, different phases, or individual units stand on their own or if the benefits are highly related to the overall deliverable in the contract.

Promises that are deemed to be immaterial in the context of the entire contract do not need to be evaluated under the standard as performance obligations. (Note: that this is not the same measurement as financial statement materiality). However, a promise in the form of an option that provides the customer the ability to acquire additional goods or services from the contract should not be deemed immaterial. When assessing materiality of promises, both the quantitative and qualitative aspects should be considered in the context of the contract as a whole. The purpose of applying this concept in the identification of performance obligations is to remove insignificant items and further clarify the primary value drivers in the contract. The transaction price associated with immaterial items should be allocated to the identified performance obligations and recognized accordingly. Any related expense should be accrued in the same period in which the revenue is recognized. As in any circumstance where materiality is being

applied, this step requires significant judgment.

As mentioned earlier, the standard explains that a single performance obligation can be “a series” of goods or services if certain requirements are met (See Page 19 for Series of Performance Obligation).

When multiple performance obligations (distinct goods and services) are present within a contract, the standard requires the transaction price (overall contract value) be allocated to the separate performance obligations. An exception to this rule would be accounting for contract modifications and allocating variable considerations in accordance with 606-10-32-39(b). The transaction price should be allocated to each performance obligation based upon an estimate of stand-alone selling prices of the goods and services.



INTERNAL PROCEDURES REQUIRED OF CONTRACTORS TO COMPLY WITH THE NEW STANDARD RELATED TO DETERMINING PERFORMANCE OBLIGATIONS

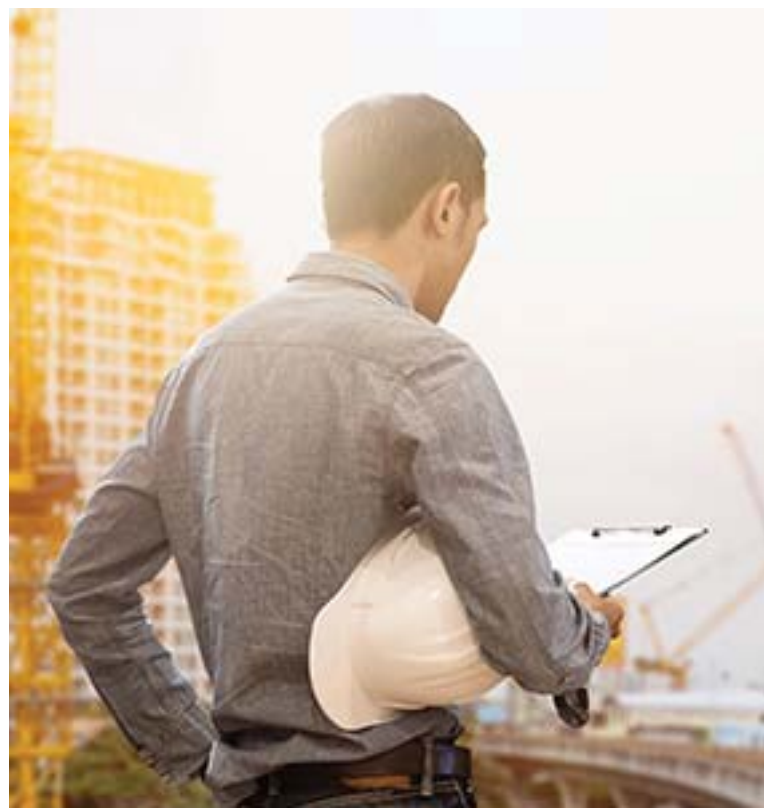
- Contractors should develop fact patterns for certain types of contracts they typically enter into to simplify the determination of performance obligations, but extreme care must be taken to avoid inappropriately determining performance obligations for unique contracts.
- Contractors should determine performance obligations initially during the contract writing/acceptance processes, but care must be taken to ensure additional change order and other contract modifications do not represent new performance obligations requiring a separate stream for revenue recognition. Project accountants and the finance department should work closely with preconstruction and project management to ensure all agree on the various promises within a contract.

Internal control points related to the identification of multiple performance obligations.

- Adoption of a checklist or decision tree to be completed for each new contract that supports the ultimate conclusions, including questions such as:
 - Does the contract include more than one good or service that could be considered distinct?
 - Are the goods and services part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer?

- Does the contract include significant service of integrating goods or services to provide a combined output contracted for by customer?
- Does one or more of the goods or services significantly modify or customize one or more of the other goods or services in the contract?
- Are the goods or services highly interdependent or highly interrelated?
- Are you providing a stand-alone benefit which is distinct (in the eyes of the customer) in the context of the contract?

The checklist/decision tree should be tailored to specific considerations pertinent to a contractor's individual contract types. The preparation and review of the document should be performed by competent individuals familiar with the requirements under the new standard.



EXAMPLE: GENERAL CONTRACTOR / DESIGN-BUILD

Let's take the example of a general contractor who is awarded a contract to construct a new high school campus consisting of a main hall building surrounded by multiple ancillary buildings (administrative, library, etc.). The contract requires the general contractor to perform or subcontract all facets of construction including site work, foundation, vertical erection, build out and finishing work. All buildings are to be constructed simultaneously and completed in the timeline set forth in the contract. Each phase of construction and each structure built constitutes promised goods and services that are capable of being distinct such that the project owner could generate economic benefit from each separate building.

Although these promises may be distinct at the individual level, the contractor must also consider whether they are distinct in the context of the overall contract and in the eyes of the customer. From the owner's perspective, the general contractor is charged with satisfying multiple promises through the integration of various goods and services. The combined output of a high school constructed under the terms of the contract is determined to be a single performance obligation.

Let's also consider the same contract with an additional assumption; the contractor is also awarded the design and demolition components of the contract. Prior to commencing actual construction, the general contractor is to deliver plans to the school board and must also raze an existing storage building on the site. The actual construction has already been determined to constitute a single performance obligation, now the contractor must evaluate the design and demolition aspects of the contract.

The general contractor notes the demolition of the single small shed on-site is estimated to be completed in one day at minimal cost, therefore, is considered immaterial in the context of the contract. As such, this promise is not required to be considered as a separate performance obligation and may be allocated to the existing performance obligation.

The design of the high school campus is deemed to be a distinct service since the owner could utilize the plans separate from the actual construction. However, the design component is significantly interrelated to the construction phases. As the design function directs and customizes the construction phase, the two services are not distinct in the context of the contract or in the eyes of the customer based on the criteria in ASC 606-10-25-19. The design and construction services when combined result in a single output, the high school, and should be combined into one performance obligation.



EXAMPLE: HEAVY HIGHWAY CONTRACTOR

Let's assume a heavy highway contractor enters into a contract to repave 10 miles of state highway for a department of transportation for \$50 Million. The contract calls for portland cement paving for the roadway, along with approximately 157 drainage culverts, the demolition and reconstruction of three over-highway bridges, the repaving of three sets of exit/entrance ramps, and the installation of protective road barriers along the entire stretch of road. In this situation, the completion of the specific components of the stretch of highway (i.e., drainage culverts, barriers, exit/entrance ramps, etc.) are most likely not separate performance obligations since they are not distinct in the context of the contract. This is due to the fact that the department of transportation contracted for 10 miles of state highway to be completed, and the department of transportation does not derive a benefit from those component goods being installed.

As another example, let's assume that a heavy highway contractor is contracted by an airport authority to construct a new runway for \$8 Million. During construction of this runway, the airport authority received authorization and funding for the construction of another runway for \$7.5 Million. The airport authority issued a change order amending the original contract for this additional runway instead of a new, stand-alone contract.

This additional runway would likely be accounted for as a separate performance obligation, as the airport authority will derive stand-alone benefit from each runway. In addition, this separate runway would be considered distinct in the context of the contract, since construction of the second runway is a promise in which the contractor does not provide a combined output contracted for by customer (two separate runways), assuming that the second runway does not significantly modify or customize the first runway and assuming the second runway is not highly interdependent or highly interrelated with the first runway.



EXAMPLE: SPECIALTY CONTRACTOR

A HVAC contractor enters into a contract to design, fabricate and install a new HVAC system at a new hospital. The HVAC contractor is responsible for designing the system, purchasing the material, and installing the system. As all of these services are interdependent and interrelated (the customer cannot benefit from each good on its own), the contract would be considered one performance obligation. In this example, the owner of the project is benefiting from a completed and installed HVAC system.

If the contract requires the HVAC contractor to provide maintenance/service for the system over the next five years this would need to be evaluated separately from the promises to design, fabricate and install the new HVAC system. In this case, the maintenance/service of the system would be distinct from the initial system completion and accordingly, this would be treated as a separate performance obligation.

EXAMPLES: CONSTRUCTION MANAGEMENT AND JOB ORDER CONTRACTS

CONSTRUCTION MANAGEMENT

Owner is constructing a \$20 Million building and hires Contractor to oversee the project. The project is expected to take 12 months to complete. Under the terms of the agreement, Owner will pay Contractor \$1.2 Million in \$100,000 monthly installments for services provided. Contractor will provide all administrative services for Owner including bid process, scheduling and monitoring, pay application approval, and inspections.

There are four performance obligations noted in the agreement. However, Contractor determines that promise to the Owner is to provide construction management for the project. The performance obligations are inputs into the overall deliverable and are highly interrelated. Therefore, the performance obligations should be bundled into a single performance obligation.

JOB ORDER CONTRACTS

Contractor has been awarded a master service contract from Pima County Procurement to provide patching and repair services to county roads. The contract length is January 1, 2017 to December 31, 2017 for a not to exceed total of \$1.5 Million including set hour and material rates. The County will provide Contractor separate purchase orders (POs) for each patch or repair to be performed.

Here the Contractor has entered into a contract with set rates, maximum total amount, and a defined length of time. The piece missing is the performance obligation. When a PO is issued, the performance obligation has now been identified. Each PO is to be treated as a separate performance obligation.

EXAMPLE: ALLOCATION OF TRANSACTION PRICE TO MULTIPLE PERFORMANCE OBLIGATIONS

A contractor has a contract to build an airport terminal and runway for a contract price of \$140 Million. If the terminal and the runway are considered separate performance obligations, an estimate of the price of each stand-alone project needs to be determined: \$125 Million for the terminal and \$25 Million for the runway, for a total of \$150 Million on a stand-alone basis (the stand-alone value can be determined by either expected cost plus a margin or estimated market value) The contract price would be allocated as follows:

Terminal: $(\$125\text{M} / \$150\text{M}) * \$140\text{M} = \116.7 Million
Runway: $(\$25\text{M} / \$150\text{M}) * \$140\text{M} = \23.3 Million



> Series of Performance Obligations

ASC 606-10-25-14 indicates that a contractor should assess goods or services promised in a contract and identify as performance obligations each promise to transfer to the customer either:

- a. a good or service (or bundle of goods or services) that is distinct, or
- b. a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

ASC 606-10-25-15 indicates that a series of distinct goods or services has the same pattern of transfer to the customer if both the following criteria are met:

- a. 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.
- b. 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.

In the Engineering and Construction industry, an example of a contract that included a series of goods or services to be provided to the customer may be a landscaping contractor who has a contract to install and maintain a lawn, other landscaping and gardens at a university. The maintenance portion includes provisions to maintain the landscaping and provide snow removal and mowing over a three-year term.

The contractor would need to assess the

distinct performance obligations which existed. When evaluating the maintenance portion of the contract, they would need to assess whether the maintenance services were not highly integrated with or highly dependent on the construction services to determine if the maintenance services were a separate performance obligation.

Additionally, assuming they determined a separate performance obligation existed, they would need to determine if the maintenance portion of the contract included one or more performance obligations and if any of those performance obligations was a series of goods and services with the same pattern of delivery. Depending on the terms of the contract, the garden maintenance may not be a series of distinct goods and services with the same pattern of transfer, but it would be highly likely the mowing services would be a series of services that are substantially the same with the same pattern of transfer to the customer.

FASB/IASB TRG AGENDA REF. 16

Stand-Ready Performance Obligations discusses that a promise to provide periodic maintenance, when and if needed, on a customer's equipment after a pre-established amount of usage, may be considered a "stand-ready" obligation. ASU No. 2014-09 (BC 160) notes that promises to "stand-ready" are evaluated based on increments of time (that is, the act of standing ready) as opposed to the underlying activities of providing goods and services. FASB/IASB TRG Agenda Ref 39 - Application of the Series Provision and Allocation of Variable Consideration discusses that if the contractor determines that the nature of the arrangement is a stand-ready obligation, the maintenance arrangement will generally be accounted for as a series in accordance with ASC 606-10-25-14(b). Therefore, if the contractor concludes that the snow removal services are considered a "stand-ready" obligation, the contractor may also determine that snow removal services should be accounted for in accordance with the series guidance.

> Evaluating Variable Consideration

A significant change included in the new revenue recognition standard, ASC 606 Revenue from Contracts with customers, is the treatment of variable consideration. This change will likely impact every contractor.

The following are examples of variable considerations within a contract:

- Claims and pending change orders
- Unpriced change orders
- Incentive and penalty provisions within the contract
- Shared savings
- Price concessions
- Liquidating damages
- Unit price contracts with variable units

In accordance with ASC 606, entities are required to estimate variable consideration in determining the transaction price, subject to guidance on constraining estimates of variable consideration. As discussed in ASC 606-10-32-9:

“...an entity shall consider all the information (historical, current and forecasted) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. The information that an entity uses to estimate the amount of variable consideration typically would be similar to the information that the entity’s management uses during the bid-and-proposal process and in estimating prices for promised goods and services.”

After estimating the transaction price, an entity is required to evaluate the likelihood and magnitude of a reversal of revenue due to a subsequent change in the estimate. ASC 606-

10-32-11 discusses when to include variable consideration in the transaction price and notes that an entity should include in the transaction price some or all of the variable consideration amount estimated in accordance with ASC 606-10-32-8 only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Note that the “significance” of a reversal is measured against cumulative revenue recognized to date on the performance obligation and is not a financial materiality measure.

According to ASC 606-10-32-12, factors that could increase the likelihood and magnitude of a revenue reversal include the entity’s experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value.

When a contract includes multiple performance obligations, the assessment of the significance of the future reversal is measured at the contract or financial materiality level, not at the performance obligation level. The amount of the estimate must be updated each period for changes as events occur or when the uncertainty has been resolved.

The new standard requires an entity to estimate variable consideration and apply the constraint in determining the transaction price, rather than assessing whether the amount is fixed or determinable. This may result in earlier revenue recognition in a number of circumstances.

➤ Evaluating Variable Consideration (continued)

A contractor will need to assess at the start of the contract all information (historical, current and forecasted) to determine the contract price.

Contractors need to consider the following steps in calculating the amount of variable consideration in the contract:

1. Step 1 – identify all variable considerations associated with a given contract or performance obligation.
2. Step 2 – determine which items if any can be grouped together due to similar characteristics for evaluation.
3. Step 3 – document the amount of the variable consideration using information that the contractor typically uses during the bid and proposal process as well as information used in establishing prices for promised goods.

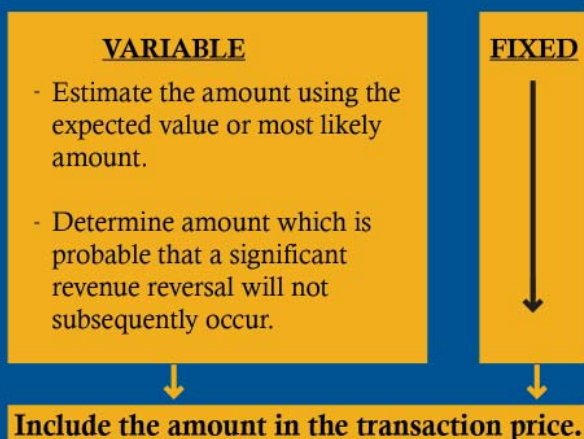
After identifying all the variable considerations, a contractor must assess the amount of variable consideration to include in the transaction price and should consider both the likelihood and magnitude of a revenue reversal. An estimate of variable consideration is not constrained if the potential reversal of the cumulative revenue reversal recognized is not significant. The contractor should consider the probability of the constraint to the contract price. For a reversal to be “probable” GAAP utilizes a 70-80% likelihood of occurrence.

The amount of the estimated variable consideration to be included in the contract price should be calculated based on one of two methods – (1) the expected value method, or (2) the most likely amount.

- a. The expected value approach works particularly well with the portfolio method of aggregating customer contracts. If management makes reasonable estimates and applies them to a large number of similar contracts, the aggregate amount of revenue should reflect the sum of all of the expected amounts of the individual contracts. The expected value approach also works well in situations where there is a spectrum of amounts possible, as in the example above, where there is a bonus for each day prior to a deadline that an entity completes a performance obligation (or a penalty for each day late).
- b. The most likely amount approach may be the better predictor when the contractor expects to be entitled to one of only two possible amounts.

The entity is required to use the method that best predicts this amount and this method should be applied consistently throughout the contract (not a policy choice). Different methods may be used for different forms of variable consideration under the contract. Expected value is typically recommended when there are several possible outcomes (such as number of days prior to substantial completion date) and most likely amount when there are binary outcomes (such as an award received for meeting a milestone date or not). Bonus/incentives that represent possible outcomes are typically explicitly described in the contract. However, the standard does not preclude the use of the most likely amount approach when there are multiple possible outcomes (not binary) if in the judgment of management the method is the better measurement.

IS THE CONSIDERATION VARIABLE OR FIXED?



> Evaluating Variable Consideration (continued)

Unpriced and unapproved change orders will likely be the most challenging and frequent types of transactions for contractors evaluation of variable consideration. If deemed appropriate, an entity can combine pending items that have similar risks to assess the amount of variable consideration to be included in the transaction price and in assessing the constraint.

Risk of significant reversal may be indicated by (ASC 606-10-32-12):

- The amount is highly susceptible to factors outside the entity's control.
- The uncertainty is not expected to be resolved for a long period of time.
- The entity's experience (or other evidence) with similar types of contracts is limited.
- The entity has a practice of offering a broad range of price concessions, changing terms frequently, or many possible different consideration amounts.
- Additional factors unique to the contractor may exist as well.

Throughout the life of the contract, as additional information is provided to clarify assumptions of the variable consideration or circumstances originally identified change, the contractor must update the estimated amounts recorded. In accordance with ASC 606-10-32-14, the contractor should update the contract price in each period. The cumulative effect of the change is recognized in revenue in the period that the change is recorded.

Due to the nature of construction contracts, there is often a high level of susceptibility to factors outside the entity's influence that will likely constrain some or all of the estimate of awards

and incentives based on timing or performance metrics to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is subsequently resolved. Entities are required to update the estimated transaction price (including assessment of constraint of variable consideration) at the end of each reporting period to represent faithfully the circumstances present at the end of the reporting period and any changes in circumstances.

For variable consideration such as liquidated damages, contractors need to consider the following regarding the magnitude of the penalty: history of similar projects, lack of experience with similar types of contracts, competing in a new market or capability.

Internal procedures should be developed, following steps similar to the above listing, to address each area of variable consideration that an entity would reasonably experience.

Internal procedures for contractors to comply with guidance for variable consideration related to a contract penalty provision, are as follows:

The contractor is required to evaluate whether to “constrain” amounts of variable consideration included in the transaction price. The objective of the constraint is to include variable consideration in the transaction price only to the extent it is “probable” that a significant revenue reversal will not occur when uncertainty is subsequently resolved.

Note: “Significant” is relative to cumulative revenue recognized on the contract.

➤ Evaluating Variable Consideration (continued)

1. Develop internal control process to identify variable considerations in each contract.
2. Since prior experience is needed to assess probability of penalties, create internal analysis by contract owner and contract type of the contractor's experience where penalties applied.
3. Educate project management teams to alert the accounting department regarding the inclusion of penalty provision and notification of likelihood of incurring the penalty.
4. Contractors will need to analyze all claims outstanding continually (most contractors already do this).
5. Contractors will need to document the above issues for all significant claims outstanding on uncompleted contracts.
6. Additional coordination required between project managers and project accountants/ finance departments of companies.
7. Consider susceptibility to factors outside the entity's influence, such as market volatility, judgment or actions of third parties, and weather conditions, as part of reviewing constraint.
8. When uncertainty about amount of consideration is expected to be resolved.
9. Experience with similar types of contracts or limited predictive value of experience.
10. Practice of either offering a broad range of price concessions or changing payment terms and conditions of similar contracts in similar circumstances.
11. Large number of and broad range of possible consideration amounts in contract.



EXAMPLE 1: ESTIMATING VARIABLE CONSIDERATION FOR PROJECT AWARDS / PENALTIES

ASC 606-10-55-197

An entity enters into a contract with a customer to build a customized asset. The promise to transfer the asset is a performance obligation that is satisfied over time. The promised consideration is \$2.5 Million, but that amount will be reduced or increased depending on the timing of completion of the asset.

Specifically, for each day after March 31, 20X7 that the asset is incomplete, the promised consideration is reduced by \$10,000. For each day before March 31, 20X7 that the asset is complete, the promised consideration increases by \$10,000.

ASC 606-10-55-198

In addition, upon completion of the asset, a third party will inspect the asset and assign a rating based on metrics that are defined in the contract. If the asset receives a specified rating, the entity will be entitled to an incentive bonus of \$150,000.

ASC 606-10-55-199

In determining the transaction price, the entity prepares a separate estimate for each element of variable consideration to which the entity will be entitled using the estimation methods described in ASC 606-10-32-8:

- a. The entity decides to use the expected value method to estimate the variable consideration associated with the daily penalty or incentive (that is, \$2.5 million, plus or minus \$10,000 per day). This is because it is the method that the entity expects to better predict the amount of consideration to which it will be entitled.
- b. The entity decides to use the most likely amount to estimate the variable consideration associated with the incentive bonus. This is because there are only two possible outcomes (\$150,000 or \$0) and it is the method that the entity expects to better predict the amount of consideration to which it will be entitled.

ASC 606-10-55-200

The entity considers the guidance in ASC 606-10-32-11 through 32-13 on constraining estimates of variable consideration to determine whether the entity should include some or all of its estimate of variable consideration in the transaction price.

EXAMPLE 2: SEPARATE CONTRACT

A concrete supplier enters into a contract to provide a concrete contractor with 100,000 cubic yards of concrete for \$9 Million (\$90 per cubic yard), which is to be delivered with transfer of control over a ten month period. Seven months into the contract the concrete supplier has delivered 65,000 cubic yards of concrete under the original contract and the concrete contractor has requested the concrete supplier to provide a bid for an additional 20,000 cubic yards of concrete, which is to be delivered with transfer of control over a period of two months from the contract modification date. The concrete suppliers bid of \$80 a cubic yard for the additional 20,000 cubic yards of concrete is reflective of the stand alone selling price based on current quoted prices in the market place and was accepted by the concrete contractor.

Should the concrete supplier account for the modification as a separate contract?

Yes. The contract modification or change order to sell an additional 20,000 cubic yards at \$80 each should be accounted for as a separate contract because the additional cubic yards are distinct and the price reflects their stand alone selling price. Revenue on the remaining 35,000 cubic yards of concrete under the original contract should be recognized at \$90 a cubic yard and the revenue from the contract modification should be recognized at \$80 per cubic yard as the transfer of control occurs and the performance obligation has been satisfied.

EXAMPLE 3: CONTRACT MODIFICATIONS - CUMULATIVE CATCH-UP ADJUSTMENT

Contractor enters into an 18-month contract with developer to build an office building for \$2 Million. The contract for construction of the office building is a single performance obligation. Later the contractor and developer agree to modify the original floor plan at the end of the first six months which will increase the transaction price and expected cost by approximately \$400,000 and \$350,000, respectively.

How should the contractor account for the modification (change order)?

The contractor should account for the change order as if it were part of the original contract. The change order does not create a separate performance obligation because the remaining goods and services to be provided under the modified contract are not distinct. The contractor should update its estimate of the transaction price and its measure of progress to account for the effect of the change order. This will result in a cumulative revenue catch-up adjustment at the date of the contract modification.

> Uninstalled Materials

OVERVIEW

Determining the amount and timing of revenue recognition as costs are incurred for uninstalled materials under a cost-to-cost input method under ASC 606 requires significant judgment by the contractor based on the facts and circumstances present in a given contract.

ACCOUNTING GUIDANCE

ASC 606 guidance is secondary to other GAAP guidance. Accordingly, the first requirement regarding uninstalled materials is to determine if it meets the requirement of classification as inventory. If so, then inventory should be recorded and the item is treated as a contract cost only after customary inventory transfer accounting.

If costs including uninstalled materials, wasted resources, or inefficiencies are not proportionate to progress in satisfying the performance obligation, an entity must carve out these costs if using a cost-to-cost input method. For example, a faithful depiction of performance might be to recognize zero profit, if at contract inception, Contractor A expects all of the following conditions to be met: (ASC 606-10-55-21 (b))

- The equipment or materials are not distinct.
- The customer is expected to obtain control of the equipment or materials significantly before receiving services related to the materials or equipment.
- The cost of the transferred equipment or materials is significant to the total expected costs to completely satisfy the performance obligation.

- Contractor A procures the equipment or materials from a third party and is not significantly involved in designing and manufacturing the equipment (but Contractor A is acting as a principal).

The condition in this example “at contract inception” is not intended to suggest that assessment of uninstalled materials should only be performed on facts that exist at contract inception. If the condition listed above exist at any time during the performance of the contract, the impact should be evaluated.

The determination of whether the cost of uninstalled materials are significant is a judgment. While there is no specific GAAP guidance, the construction industry accounting experts have suggested that 15% or more might be appropriate thresholds.



EVALUATION OF WHEN CONTROL OF THE ASSET PASSES TO THE CUSTOMER

A key element of correct accounting for uninstalled materials is the evaluation of when control of the asset passes to the customer. For performance obligations for which control is not transferred over time, control is transferred at a point in time. In many situations, the determination of when that point in time occurs is relatively straightforward. However, in other circumstances, this determination is more complex.

The contractor should consider the following when determining when control of a promised asset has been transferred:

- The entity has a present right to payment for the asset.
- The customer has legal title to the asset.
- The entity has transferred physical possession of the asset.
- The customer has the significant risks and rewards of ownership of the asset.
- The customer has accepted the asset.

The listing above is not to be considered a checklist and all of the above items do not need to be met for the transfer of control of the assets. The contractor is required to consider all relevant facts and circumstances to determine whether control has transferred.



EXAMPLE: REFURBISH BUILDING, NO DESIGN OR MANUFACTURING

ASC 606 applies the four conditions described above for uninstalled materials where a cost incurred is not proportionate to an entity's progress in satisfying its performance obligation in the procurement of elevators. In this example, the entity is not involved in designing or manufacturing the elevators and it has assessed that including the costs to procure the elevators in the measure of progress would overstate the extent of the entity's performance:

- a. In November 20X2, an entity contracts with a customer to refurbish a three-story building and install new elevators for total consideration of \$5 Million. The promised refurbishment service, including the installation of elevators, is a single performance obligation satisfied over time. Total expected costs are \$4 Million, including \$1.5 Million for the elevators. The entity determines that it acts as a principal in accordance with ASC 606-10-55-36 through 55-40 because it obtains control of the elevators before they are transferred to the customer.
- b. A summary of the transaction price and expected costs is as follows:

Transaction price \$ 5 Million

Expected costs:

Elevators \$ 1.5 Million

Other costs \$ 2.5 Million

Total expected costs \$ 4 Million

- c. The entity uses an input method based on costs incurred to measure its progress toward complete satisfaction of the performance obligation. The entity assesses whether the costs incurred to procure the elevators are proportionate to the entity's progress in satisfying the performance obligation in accordance with ASC 606-10-55-21. The customer obtains control of the elevators when they are delivered to the site in December 20X2, although the elevators will not be installed until June 20X3. The costs to procure the elevators (\$1.5 Million) are significant relative to the total expected costs to completely satisfy the performance obligation (\$4 Million). The entity is not involved in designing or manufacturing the elevators.
- d. The entity concludes that including the costs to procure the elevators in the measure of progress would overstate the extent of the entity's performance. Consequently, in accordance with ASC 606-10-55-21, the entity adjusts its measure of progress to exclude the costs to procure the elevators from the measure of costs incurred and from the transaction price. The entity recognizes revenue for the transfer of the elevators in an amount equal to the costs to procure the elevators (that is, at a zero margin).

> Uninstalled Materials (continued)

e. As of December 31, 20X2, the entity observes that:

- i. Other costs incurred (excluding elevators) are \$500,000.
- ii. Performance is 20% complete (that is, $\$500,000 \div \2.5 Million).

Consequently, at December 31, 20X2, the entity recognizes the following:

- i. Revenue \$ 2.2 Million (a)
 - ii. Costs of Goods Sold \$ 2 Million (b)
 - iii. Profit \$ 200,000
- a). Revenue recognized is calculated as $(20\% \times \$3.5 \text{ Million}) + \1.5 Million .
($\$3.5 \text{ Million}$ is $\$5 \text{ Million}$ transaction price $-\$1.5 \text{ Million}$ cost of elevators.)
- b). Cost of Goods Sold is $\$500,000$ of costs incurred $+ \$1.5 \text{ Million}$ cost of elevators.

Practical Application Note: Many contractors are significantly involved in designing and manufacturing the products that they procure, such that condition four (4) in ASC 606-10-55-21 (b) is not met and the cost of procurement would be a faithful depiction of an entity's performance and therefore a valid cost to be considered in measuring progress towards completion of the contract. This significant involvement is one of the reasons that many engineering, procurement and construction (EPC) contracts provide the entity with the right to payment from the customer for the cost of procurement plus a reasonable profit in the event of termination for convenience by the customer.



ISSUES / CHALLENGES REGARDING IMPLEMENTATION

- An evaluation of the facts and circumstances is required for determination of whether such costs should be excluded from an input method should be performed at onset and throughout duration of contract.
- A contractor must consider whether materials procured are distinct. Since most materials can be readily used by the contractor on other construction projects without incurring significant costs to modify the items, materials are not distinct and should be considered for inclusion as an uninstalled material.

Practical Application Note: *The contractor must evaluate all factors relative to the determination of whether the materials are distinct as discussed in ASC 606-10-25-19 through 22.*

ASC 606-10-25-19 states: A good or service that is promised to a customer is distinct if both of the following criteria are met:

- a). The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (that is, the good or service is capable of being distinct).
- b). The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (that is, the promise to transfer the good or service is distinct within the context of the contract).

See ASC 601-10-25-20 through 22 for additional clarification on determining whether materials are distinct.

- Is this literature only applicable to inventoriable or non-inventoriable, highly customized materials?
 - Many contracts include standard materials such as steel, concrete and copper wire as well as components that require high level of customization to fit the requirements of the asset, such as a turbine generator or specifically designed and fabricated pipe. Standard materials are frequently not unique to the contract and can be used on other construction contracts. If unexpected delays occur, contractor may determine that the customer has not obtained control of these goods and should carve out such costs from the cost-to-cost method as inventory as they can likely use these materials for other projects without incurring significant costs. However, an evaluation should be performed to determine when the control of these materials transferred to the customer as control may transfer prior to installation. It would be inappropriate for the contractor to recognize the goods as inventory once the customer obtains control of the goods. For example, a security interest in the materials may pass to the owner through billing of these materials or delivery to the job site. In this instance, it may be appropriate to include such costs under the cost-to-cost input method or to recognize revenue equal to related costs. If the customer obtains control of the goods significantly before installation and the cost of the transferred goods

> Uninstalled Materials (continued)

is significant relative to the total expected goods, these costs do not depict the entity's performance in satisfying the performance obligation and should still be excluded from the cost-to-cost formula.

- Is the contractor significantly involved in the design and manufacturing of an item that is procured from a third party? If so, the production and receipt of such materials will likely represent progress towards satisfying the performance obligation but the contractor still must determine if costs are proportionate to such progress in determining whether to include in cost-to-cost formula.

Practical Application Note: *The language requires significant involvement in design and manufacturing. While the contractor is often significantly involved in design, they rarely are significantly involved in manufacturing. It is believed that this exception will rarely be met in the construction industry where a third party produces the equipment or material.*

- How do you account for materials when installed? Do you add the costs and estimated costs to the cost-to-cost formula at this time?
 - In some cases, it may be appropriate to include the cost of the materials in the cost-to-cost calculation once the materials are installed when it would result in an insignificant amount of margin being recorded in any one accounting period, such as when a large amount of pipe, conduit or copper wire is installed over time.
 - In other cases, it may be appropriate to exclude costs from the cost-to-cost calculation for the entire duration of

the contract because it would result in a significant amount of margin being recorded in a single accounting period, such as when there is a single asset significant to the overall contract that is installed at a single point in time.

- Such an evaluation requires significant judgment about which conclusion best depicts the entity's performance in the contract.
- Carving uninstalled materials out of the revenue recognition process on a contract will result in WIP schedule presentation challenges to convey the computation to users of these statements.



IMPLEMENTATION EXAMPLE: BUILDING CONSTRUCTION

A contractor is engaged in a \$13 Million fixed-price contract to construct a building, which includes the installation of elevators. There is only one distinct performance obligation: the construction of the building. The estimated cost to the contractor is \$10 Million, including \$1 Million for the elevators and related equipment. As of December 31, 20XX, the contractor has incurred \$4 Million in costs, including the elevators, which have been purchased and delivered on-site but have yet to be installed.

CALCULATION OF % COMPLETE

Step 1: Adjust the cost-to-cost input method by subtracting the \$1 Million for the uninstalled elevators from the \$4 Million in total costs incurred to date and from the \$10 Million in total estimated costs.

Step 2: Divide the two to determine progress toward completion, which is 33.3% (\$3 Million divided by \$9 Million).

CALCULATION OF REVENUE EARNED

Step 1: Subtract the \$1 Million for the elevators from the \$13 Million transaction price.

Step 2: Multiply the new transaction price of \$12 Million by our progress of (33.3%) and then add the \$1 Million for the elevators back in, resulting in a current total of \$5 Million in revenue to be recognized.

\$ 12 Million	transaction price
33%	percent complete
3.96 Million	revenue earned (includes all profit earned)
1 Million	uninstalled materials
4.96 Million	revenue earned to date

Practical Application Note: If the \$1 Million for the elevators was included in the calculation of progress towards satisfaction of the performance obligation, the measurement of progress would have been over-estimated and \$5.2 Million of revenue would have been recognized.

IMPLEMENTATION EXAMPLE 2: BUILDING CONSTRUCTION

Scenario A

A construction contractor enters into an arrangement to construct a building for \$100,000 with original estimated cost to construct the building of \$80,000. If at period end the contractor has incurred \$40,000 in costs but of the \$40,000 in costs \$10,000 is wasted costs due to inefficiencies that were not included in the pricing of the contract, then only 37.5% (\$30,000 cost incurred over the \$80,000 total expected costs excluding wasted costs) ...or \$37,500 should be recognized as revenue.

Practical Application Note: *Be aware that inefficiencies that the contractor anticipated in the contract do not modify the percentage of completion computation. The cost of inefficiencies included as costs for reporting purposes but not for measuring performance. Therefore, costs are \$40,000 and the job reports a loss in the current period of \$2,500 even though it is a profitable contract.*

Scenario B

However, let's change the previous example and of the \$40,000 in costs incurred as of period end, \$10,000 is wasted costs and another \$10,000 is for uninstalled materials purchased and delivered to the construction site, but not yet used in the construction. Should 37.5% or only 28.6% (\$20,000 over the \$70,000 modified expected costs (\$90,000 total estimated costs excluding \$10,000 uninstalled materials and excluding \$10,000 wasted costs)) of revenue be recognized? Again, judgment is required. If the \$10,000 in uninstalled materials meets all of the criteria below then the related costs should be excluded in estimating progress towards completion:

- Good(s) are not distinct.
- The customer expected to obtain control of the good significantly before receiving the related service (e.g., integration of the goods).
- The cost of the goods is significant to the relative total cost of satisfying the performance obligation.
- The entity procures the goods from a third party and is not significantly involved in designing or manufacturing the goods, but is still acting as principle (i.e. not an agent transaction).

IMPLEMENTATION EXAMPLE 2: BUILDING CONSTRUCTION

Alternative Presentation of Scenario B

If the contractor determines that control of the uninstalled materials has not been transferred to the customer, the uninstalled materials should be classified as inventory and not recorded as job costs. The wasted costs would be excluded from costs to date for purposes of measuring performance. Under this scenario performance would be 25% (\$20,000 over \$80,000). Job costs deducted would be \$30,000. Revenue recognized \$25,000 (\$100,000 x 25%). Gross profit recognized job to date would be a \$5,000 loss.

Practical Application Note: ASC 606 does not change the way inventory has or will be accounted for. ASC 606 uses a standard of transfer of control where in the past it was transfer of risk and reward as to when an item ceased to be inventory. Across the US, the legal rights of owners are different by jurisdiction and in some cases as little as creating a lien right against the property creates a transfer of control under ASC 606. This could happen long before the item is transferred to the job site or alternative site. Similarly, some jurisdictions require the material to be billed to the customer. This is a fact that has to be evaluated based upon the conditions of each company.

If the contractor determines that control of the uninstalled materials has been transferred to the customer, the uninstalled materials would be carved out of estimated costs and transaction price. Performance of other costs would be 28.6% (\$20,000 over the \$70,000 estimated costs (\$90,000 total estimated costs minus \$10,000 uninstalled materials and wasted costs)). The performance to date of 28.6% would be applied to the remaining transaction price of \$90,000 recognizing \$25,740 earned to date plus \$10,000 zero profit recognition for the uninstalled materials. Note that the revenue recognized to date is \$35,740 following the uninstalled material guidance costs to date \$40,000, and recognized loss to date \$4,260. Therefore, revenue could potentially be the following:

\$25,000 – Control not transferred and materials reported as inventory.

\$35,740 – Control transferred and uninstalled materials significant to cost incurred to date.

\$37,500 – Control transferred and uninstalled materials not significant to costs incurred to date.

The following example is applicable when the cost-to-cost percentage of completion method is used. This might be a factor to consider when companies are evaluating their methodology in adopting ASC 606 – using an output method would totally eliminate the complexity around materials other than whether the material is inventory or job cost.

Example: A Company specializes in building manufacturing facilities in which the contract includes significant specialized/customized equipment as part of building the facility in which equipment control is transferred to the customer upon delivery and not installation, which is significantly later than delivery. Under this scenario, the transaction price would be reduced by the cost of equipment and revenue would be recognized only up to costs incurred when the equipment is delivered to the customer. Additionally, the contractor should assess whether the customized equipment is a separate performance obligation.

IMPLEMENTATION EXAMPLES

Practical Application Note: *If the procurement and installation of the equipment is a separate performance obligation, a portion of the transaction price would be allocated to the procurement and installation of the specialized equipment. If the transfer of control of the equipment is significantly before the installation services then revenue related to the procurement of the equipment would be recognized at a zero profit and the remaining transaction price of the performance obligation would be recognized under percentage of completion method as installation occurs.*

INTERNAL PROCEDURES REQUIRED OF CONTRACTORS TO COMPLY WITH THE NEW STANDARD RELATED TO UNINSTALLED MATERIALS

- Company has written policy on criteria for accounting for materials as inventory, uninstalled materials, or job cost.
- Company assesses typical contract terms and local law (consulting legal counsel as appropriate) to determine the moment that control of materials pass to customers.
- Company has an accounting policy that establishes whether uninstalled equipment or materials are “significant to the total expected costs.” Note that this measurement is not a materiality measure.
- Company has internal controls to identify and account for items such as inventory, uninstalled materials (i.e., control has passed to customer), or job cost.
- System/procedures are in place to segregate estimated uninstalled materials from total estimated costs and from the transaction price. Note that once this is done, it continues to be accounted for on this basis for the life of the contract unless including the costs as installed has an immaterial effect on margin earned to date.
- Project management is trained on identifying (GAAP basis) uninstalled materials and a process is in place to quantify these at each reporting date.
- Project management is trained on identifying procurement policies that will procure materials significantly before installation. Best practices will suggest that operations adopt practices that minimize long lead-time procurement except in critical supply situations.

Uninstalled Materials (Sample Abbreviated Contract Schedule)

Uninstalled Materials Example

Contract Transaction Value	Estimated Cost at Completion	Estimated Gross Profit	Percent Complete	Contract Revenue Earned	Costs Incurred to Date	Gross Profit Earned	Billed to Date	Revenue		Billings		Unamortized	
								in Excess of Billings	in Excess of Revenue	in Excess of Revenue	Cost of Contract	Unamortized Fulfillment Cost	
Contract A	\$15,000,000	\$3,000,000	25.00%	\$3,750,000	\$3,000,000	\$ 750,000							
Contract A Uninstalled Materials	<u>3,000,000</u>	-	<u>66.67%</u>	<u>2,000,000</u>	<u>2,000,000</u>	-							
Total Contract A	\$18,000,000	\$3,000,000		\$5,750,000	\$5,000,000	\$ 750,000	\$6,000,000	\$ 250,000			\$ 60,000		\$ 420,000

Note: Contract A has a single performance obligation.

Note: Control of uninstalled materials has passed to owner so materials cannot be classified as inventory on the balance sheet.

Note: Percent complete is measured on the cost-to-cost method.

Note: Company plans to have a total of \$3 Million in uninstalled materials over the course of the contract but has acquired \$2 Million to date.

Note: No need to allocate billings. ASC 606 allows only one (1) contract asset at the contract level.

Contract is 90% Complete and Materials are Installed

Contract A	\$15,250,000	\$12,600,000	87.62%	\$13,361,905	\$11,040,000	\$2,321,905							
Contract A Uninstalled Materials	<u>3,000,000</u>	-	<u>100.00%</u>	<u>3,000,000</u>	<u>3,000,000</u>	-							
Total Contract A	\$18,250,000	\$15,600,000		\$16,361,905	\$14,040,000	\$2,321,905	\$16,000,000	\$ 361,905			\$ 8,000		\$ 60,000

Note: Once costs are segregated to uninstalled materials they never allocate back to the contract percentage of completion calculation for recognizing gross profit.

> Recognizing Revenue

When performance obligations are to be recognized over time, an appropriate driver should be selected to measure the progress of transferring control to the customer. Again, judgment will be required in this selection and should be based on the nature of the contract. Both input and output methods are generally acceptable as long as they appropriately measure the transfer of control of goods or services to the customer. Once a method of recognition is selected for a certain performance obligation, it must be used until the performance obligation is satisfied. Changing methods is not allowed.

Output methods such as time lapsed, units produced, surveyed or appraised results, or milestones reached may be preferable if they accurately measure the progress in transfer of control to the customer; however, these methods must be reliably and consistently measured throughout the performance of the contract.

Input methods used to recognize revenue such as cost incurred, resources consumed, labor hours utilized, and time elapsed relative to the estimated total inputs are acceptable under ASC 606. Absent an identified input or output method that better measures progress, the use of cost incurred to total estimated cost, as is often used in current percentage of completion accounting, can be continued by the construction industry. It is important to note that the use of the cost-to-cost method is not a free election, but rather can be utilized only if it results in a reasonably accurate approximation of transfer of control to the customer. If control is not ratably transferred, cost-to-cost may not be a satisfactory measure.

Current percentage of completion methods are Method A and Method B. Method A recognizes both revenue and costs based on the percentage of completion. Method B recognizes revenue equal to costs incurred plus the amount of estimated gross profit that is earned based on the percent complete. Neither of these methods are permissible under the new standard. Under ASC 606 revenue is measured and not gross profit. In selecting the

OUTPUT METHOD

- Milestones reached
- Units produced or delivered
- Time elapsed
- Surveyed or appraisal results

INPUT METHOD

- Cost incurred
- Resources consumed
- Labor hours utilized
- Time elapsed

most appropriate input or output measure the entity should focus only on revenue. Under current GAAP some specialty contractors may have used labor as an appropriate measure of recognition of gross profit under Method B. However, under ASC 606 labor may not be an appropriate proxy to measure revenue.

When using the input method, it is important to note that only inputs that depict the transfer of control should be included in the input method calculation. Costs or other inputs that are deemed to be inefficient in the context of the performance of the contract should not result in the recognition of revenue. Judgment should be applied when determining inefficiencies in performance. Inefficient costs that are known or expected at the inception of the contract are likely included

> Recognizing Revenue (continued)

in contingencies and would not necessarily need to be excluded. Labor strikes and design errors are examples of significant unexpected inefficiencies that would be excluded from the input method of revenue recognition on a performance obligation.

As in current percentage of completion accounting, adjustments may be required during the performance of the contract to appropriately measure progress. Measures and estimates should be evaluated each period and any necessary adjustments to revenue should be reflected on a cumulative catch-up basis.

If it is determined that progress cannot be reliably and consistently measured, revenue should not be recognized until that measurement is possible. An exception to this rule is any contract where a loss will not be incurred, such as a cost-plus contract where the performance of the contract is expected to, at a minimum, result in the recovery of cost incurred. Revenue should be recognized up to cost incurred until the gross margin can be reasonably measured. If initially progress is determined to be unmeasurable, but subsequently becomes measurable, revenue should be recognized at that point in time based on the appropriate measure of progress. This is a significant change from the current accounting under the completed contract method. It is acceptable under ASC 606 to follow a conservative accounting policy to recognize revenue equal to costs incurred until a predetermined threshold of completion has occurred. For example, recognition of revenue equal to costs until the contract is 20% complete.

When negotiating contracts with customers, entities should consider the potential impacts of the contract terms on the measurement of performance obligation satisfaction. Specific outputs, milestones, and timing of transfer of control to the customer can directly impact the selection of an appropriate measurement of progress. If the terms of the contract indicate that progress cannot be reliably and consistently measured, revenue will be recognized at a point in time similar to the current practice of completed contract accounting.

> Fulfillment Costs

Certain costs to fulfill contracts are to be capitalized on the balance sheet. The contractor must first determine whether the costs are addressed by other standards (i.e. inventory) and if so, apply that guidance. The contractor should amortize a capitalized contract fulfillment cost to job costs over the period reflecting the transfer of control to the customer which, in most cases, will be the expected duration of the contract for construction contract containing a single performance obligation.

The general guidance for identifying fulfillment costs are that the cost must:

- a. relate directly to a contract or anticipated contract or an anticipated contract that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved),
- b. generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future, and
- c. are expected to be recovered.

Costs to fulfill a contract that are incurred prior to the transfer of control to the customer (or that do not result in a transfer of a service or product to the customer) are subject to review for capitalization. Therefore, if a contract with a customer will transfer control at completion of a service, the costs incurred in fulfilling the contract would be capitalized under this guidance if not required by other guidance. On the other hand, if the cost incurred results in or is part of the transfer of control to the customer, the cost is recognized as a contract cost in measuring performance in recognizing revenue.

SPECIFIC EXAMPLES OF COSTS TO FULFILL A CONTRACT

(Note that for each item, care should be taken to ensure such costs are allowable under the contract and expected to be recovered and whether there is transfer of control relative to the related performance obligation.)

- a. Engineering, design, mobilization, or other services performed on the basis of commitments or other such indications of interest. Mobilization costs are costs incurred by contractors to mobilize equipment and labor to and from a job site.
- b. Surety bonds and insurance costs incurred for a contract.
- c. Costs for production equipment and materials relating to specific anticipated contracts (for example, costs for the purchase of equipment, materials, or supplies).
- d. Costs incurred to acquire or produce goods in excess of contractual requirements in anticipation of follow-on orders for the same item.
- e. Startup or mobilization costs incurred for anticipated but unidentified contracts.
- f. Direct labor (for example, salaries and wages of employees who provide the promised services directly to the customer). Generally, these costs are explicitly allowed in a contract and can be directly tied to a specific contract, thus meeting the criteria for capitalization.

> Fulfillment Costs (continued)

- g. Direct materials (for example, supplies used in providing the promised services to a customer). Generally, these costs are also explicitly allowed in a contract and can be directly tied to a specific contract, thus meeting the criteria for capitalization.
- h. Allocation of costs that relate directly to the contract or to contract activities (for example, costs of contract management and supervision, insurance, and depreciation of tools and equipment used in fulfilling the contract) are capitalizable.
- i. Costs that are explicitly chargeable to the customer under the contract. These are costs described in the contract that will be recoverable when they meet the appropriate specifications and are recoverable from the customer. For example, in many contracts overhead is a recoverable cost. Generally, there is a limit to the amount of the costs, which is described in the contract.
- j. Other costs that are incurred only because an entity entered into the contract (for example, payments to subcontractors).
- b. Costs of wasted materials, labor, or other resources to fulfill the contract that were not reflected in the price of the contract.
- c. Costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in the contract (that is, costs that relate to past performance).
- d. Costs for which an entity cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations).

Practical Application Note: *The most common costs that will meet the requirement to be capitalized as fulfillment costs are mobilization costs and bonding fees.*

Implementation Issues: *Entities will need to develop a system of identifying these costs and establishing responsibility for transferring the costs to job costs as they are amortized to the performance obligation.*

EXAMPLES OF COSTS THAT DO NOT MEET THE DEFINITION OF FULFILLMENT COSTS, AND THEREFORE WOULD BE EXPENSED AS INCURRED:

- a. General and administrative costs (unless those costs are explicitly chargeable to the customer under the contract).

FULFILLMENT COSTS

- *Relate directly to an existing contract or specific anticipated contract;*
- *Generate or enhance resources of the entity that will be used to satisfy performance obligations in the future;*

AND

- *Are expected to be recovered.*

> Capitalized Costs to Obtain a Contract

ASC 340-40-25-1 states that the costs of obtaining a contract should be recognized as an asset if the costs are incremental and are expected to be recovered.

Incremental costs of obtaining a contract – these are costs that the contractor would not have incurred if the contract had not been awarded to the contractor. These costs are to be capitalized on the balance sheet and then amortized on a basis consistent with the transfer of the goods or services to which the amounts relate. Note that the unamortized costs are to be evaluated for impairment.

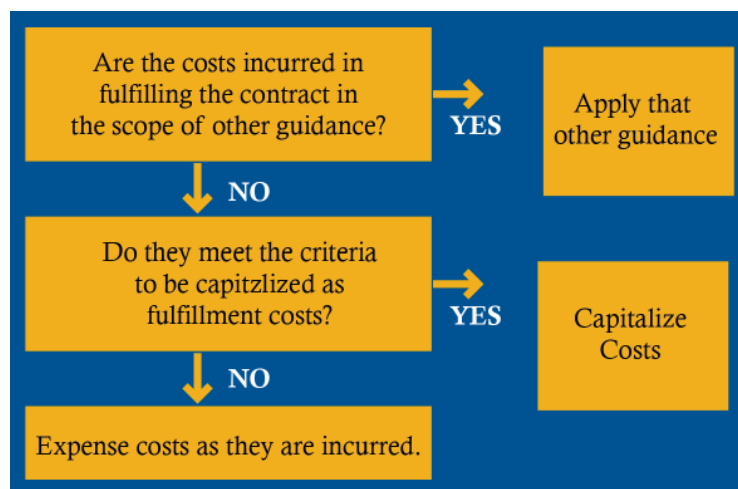
The word to focus on is “incremental.” A typical (and almost exclusive) cost that a construction entity will incur that will be considered an incremental cost to obtain a contract will be a sales commission. The key is that to be a transaction of this type, the cost would not be incurred if the contract were not obtained (not that the contract is pursued). The Revenue Recognition Transition Resource Group (TRG) minutes reflect the concept that if immediately prior to signing the contract a cost has been incurred it would not meet this definition.

Practical Application Note: *Costs incurred for a contract that is not yet awarded should be capitalized based on the likelihood of recovery.*

Practical Application Note: *As a practical expedient, an entity may recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.*

COSTS TO BE RECOGNIZED AS EXPENSES WHEN INCURRED

The following items are NOT considered incremental costs of obtaining a contract and thus should be evaluated for proper accounting treatment:



- Costs such as the salesperson’s salary, travel costs incurred in negotiations, marketing, and proposal costs do not meet the criteria because those costs would have been incurred regardless of whether the company ultimately obtained the contract. The exception to this rule is if the costs are explicitly chargeable to the customer, regardless of whether the contract is obtained. In this case the asset would be a receivable rather than an asset amortized as an expense.
- Costs that will be incurred - regardless of whether the contract is obtained – including costs that are incremental to trying to obtain a contract, such as bid costs that are incurred even if the entity does not obtain the contract – are expensed as they are incurred, unless they meet the criteria to be capitalized as fulfillment costs.
- Engineering and design work that is incurred prior to obtaining a contract are incurred whether the contract is obtained or not. So, they might qualify as precontract costs but not incremental cost to obtain.

IMPLEMENTATION EXAMPLE: IDENTIFICATION OF CAPITALIZED COSTS

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 deliver bid proposal	\$10,000
Commissions paid to the salesperson	\$ 5,000
Total	\$15,000

Solution

The contractor should only capitalize the \$5,000 commission paid to its salesperson. The costs related to the delivery of the bid proposal should be immediately expensed because those costs would have been incurred even if the company did not ultimately obtain the contract. The contractor should amortize the recognized asset over the estimated life of the contract.

AMORTIZATION OF CAPITALIZED COSTS

ASC 340-40-35-1 states that capitalized costs should be amortized “on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.” The pattern in which the related revenue is recognized could be significantly front-loaded, back-loaded, or seasonal, and costs should be amortized accordingly. If there is no evidence to suggest that a specific pattern of transfer can be expected, a straight-line amortization method may be appropriate.

FINANCIAL STATEMENT MATTERS

- **Statement Presentation:** Cost capitalized are presented as “Deferred Contract Costs” or “Capitalized Contract Costs” or “Unamortized Costs to Obtain Contracts” in the statement of financial position. Entities must disclose information to the users of the financial statement to support the right to receive consideration for the contract asset.
- **Current vs Long-Term:** Contract assets will be expensed to contract costs on a “systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.” Classification of the contract asset as current or noncurrent will be dependent on the timing of the expected recovery.
- **Impairment Analysis:** The contract asset is subject to impairment analysis. Any impairment loss is presented separately from losses on contracts.

DISCLOSURE REQUIREMENTS

The standard requires entities to provide disclosures of assets recognized (capitalized costs) from costs to obtain or fulfill a contract. (ASC 340-40-50-1)

The entity must disclose:

- Judgments made in determining the amount of costs incurred to obtain or fulfill a contract with a customer.
- The method used to determine the amortization for each reporting period.
- The closing balances of assets recognized from the costs incurred to obtain or fulfill a contract with a customer. Balances must be disclosed by main category of asset such as costs to obtain contracts, precontract costs, and setup costs.
- The amount of amortization and any impairment losses recognized in the reporting period.
- The use of the practical expedient on the incremental costs of obtaining a contract.

POLICIES AND PROCEDURES TO IDENTIFY CAPITALIZED COSTS

The Company should establish a mechanism to accumulate all costs associated with a potential contract (spreadsheet, separate g/l account, separate job #). Once a contract has been awarded, the contract accountant (designated person from accounting) and the project manager should review the costs incurred to determine if they meet the definition of one of the categories listed below. Once the type of cost is determined, the determination is documented so that accounting can properly record in the general ledger.

- Incremental costs to obtain a contact.
- Fulfillment costs.
- Expenses.

OVERVIEW

Step three of the five step process of this ASU is “determine the transaction price.” The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. One effect of the transaction price that must be considered or assessed is the existence of a significant financing component.

The objective is for the entity to recognize revenue based on a “cash selling price.”

SIGNIFICANT FINANCING COMPONENT

A significant financing component exists when the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer.

What to do:

1. Apply the practical expedient.
2. Assess the significance.
3. Determine the discount rate.
4. Adjust the transaction price.

STEP 1: APPLY THE PRACTICAL EXPEDIENT

At inception of the contract, if the entity expects to receive payment within one year or less of when a good or service is transferred to the customer, the transaction price does not have to be adjusted for any significant financing components. This judgment would be applied to incremental costs as they are scheduled and the anticipated timing to receive payment from the customer for incurring the costs. The entity should apply the practical expedient consistently to similar contracts in similar circumstances.

If the practical expedient is applicable, stop now. No adjustment is needed to the transaction price, however use of it must be disclosed.

Practical Application Note: Remember, if the practical expedient option is used, it **MUST BE disclosed!**



STEP 2: ASSESS THE SIGNIFICANCE

- Assess at the contract level.

Practical Application Note: Note that typical retainage terms customarily used in construction contracts does not constitute financing.

- Assessment should typically be done at the contract inception. However, parties may need to reassess if material contract modifications are made.
- Assessment is based on relevant, individual facts and circumstances.
- Only in situations where the financing component is significant in relation to the contract, would an adjustment to the price be needed.

The significance of a financing component should include:

- The difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services.
- The combined effect of both of the following:
 - The expected length of time between when the entity transfers promised goods or services and when the customer pays for those goods or services.
 - The prevailing interest rate in the relevant market.

Practical Application Note: Two conditions must exist before a financing component is

recognized. First, there must be a financing component. Second, the financing component must be significant to the contract.

The longer the time between performance and payment, the more likely a significant financing component exists.

A significant financing component does not exist in all situations, even if there is a long-time difference between transfer and payment. The standard provides factors that indicate that a significant financing component does not exist.

A significant financing component would not exist if any of the following factors were present:

- The customer paid for the goods or services in advance, and the timing of the transfer of those goods and services is at the discretion of the customer.
- A substantial amount of the consideration promised by the customer is variable, and the amount or timing of that consideration varies on the basis of the occurrence or nonoccurrence of a future event that is not substantially within the control of the customer or the entity (for example, if the consideration is a sales-based royalty).
- The difference between the promised consideration and the cash selling price of the good or service arises for reasons other than the provision of finance to either the customer or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide the entity or the customer with protection from the other party failing to adequately complete some or all of its obligations under the contract.

STEP 3: DETERMINE THE DISCOUNT RATE

The entity must use a discount rate that would be reflected in a separate financing transaction between the entity and the customer at contract inception and is not reassessed. The rate would reflect the credit risk of the party obtaining financing in the contract.

If the contract includes a specified rate, the entity or customer must consider whether the rate reflects a market rate. A nonmarket rate may not appropriately reflect the financing element of the contract and should be assessed to determine if a more appropriate rate should be used.

STEP 4: ADJUST THE TRANSACTION PRICE

When the conclusion is made that a contract contains a significant financing component, the entity should present the effects of financing separately from contracts with customers in the statement of comprehensive income. Interest income or interest expense is recognized only to the extent that a contract asset (or receivable) or a contract liability is recognized in accounting for a contract with a customer.

Practical Application Note: *When financing exists, the transaction value assigned to the contract excludes the financing on the job schedule. Companies with financing may decide to add a line on the job schedule to segregate the financing component so the surety can see the total contract commitment on the schedule.*

INTERNAL CONTROL CONSIDERATIONS

Develop a checklist to identify financing components in each contract at inception:

- Is there a long period of time (i.e., more than a year) between delivery of goods and services and receipt of payment? (indicates financing component)
- Is the financing component significant to the contract?
- What is the prevailing interest rate in the market?
- Discount the contract transaction price to “cash” price.
- Create separate lines on work-in-progress schedule to account for financing component.





ASC 606-10-65

Revenue Recognition Transition and Effective Date for ASU 2014-09, Revenue from Contracts with Customers, and Related ASU's 2016-08, 2016-10, 2016-12, 2016-20, 2017-05

Note: Written primarily from the perspective of a non-public business entity.

EFFECTIVE DATE

The effective date for implementation is for annual reporting periods beginning after December 15, 2018. For most entities, this means a calendar year beginning January 1, 2019 and ending December 31, 2019. If the entity presents interim financial statements, the effective date is for interim periods with annual reporting periods beginning after December 15, 2019.

The date of the initial application of the new standards is the start of the applicable reporting period (January 1 for a calendar year entity). For most entities, this will be January 1, 2019.

EARLY IMPLEMENTATION

An entity may elect to early adopt for annual reporting periods beginning after December 15, 2016 (calendar year 2017), including interim periods within calendar year 2017.

Or, an entity may elect to early adopt for periods beginning after December 15, 2016, and for interim periods within the next annual reporting period after the year of adoption.

Public business entities, certain not-for-profit entities, and employee benefit plans that file with the SEC must adopt for annual reporting periods beginning after December 15, 2017, with early adoption permitted for periods beginning after December 15, 2016.

Practical Application Note: *Unless there is a compelling reason to do so, we do not recommend early adoption. There is no advantage to early adoption for most contractors. We would advise to use the time available until the required adoption date to prepare for adoption of the new standard for calendar year 2019. Of course, newly formed entities are encouraged to early adopt. Joint venture entities that will be consolidated by a public company need to coordinate the adoption date with their related entities.*

TRANSITION METHODS

The presentation of the change to the new standards will be guided by ASC 250, Accounting Changes and Error Corrections, with some modifications.

There are two approaches:

1. Apply the new standard retrospectively with a cumulative catch-up adjustment to retained earnings as of the date of the initial application (January 1, 2019). The comparative 2018 financial statements would not be restated (Transition Method – Modified Retrospective).
2. Apply the new standard retrospectively to each financial statement reporting period presented subject to certain practical expedients. When presenting calendar year 2019 and 2018 in comparative financial statements, 2018 would need to be restated using the new standards (Transition Method – Full Retrospective).

MODIFIED RETROSPECTIVE

ASC 606-10-65-1(d)(2)

Section (d)(2) is the section that provides the adoption requirements for the modified retrospective transition method.

When an entity elects to apply the modified retrospective transition method the entity will need to recognize the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings (or other applicable equity account) for the annual reporting period that includes the date of initial application (January 1, 2019). The adjustment will be to recognize the difference between the revenue recognized for each contract under legacy GAAP and the contract revenue under this new standard

since contract inception. The adjustment will also include any adjustments relating to unamortized costs to obtain contracts, capitalized fulfillment costs, financing, etc.

The entity can elect to apply this standard retrospectively to all contracts at the date of initial application or only to contracts that have not been completed at the date of initial application (for example, January 1, 2019, for an entity with a December 31 year end). Most private entities adopting the modified retrospective method will likely make the election to apply the new standard only to contracts that have not been completed at the date of initial application (January 1, 2019). They must disclose whether they are applying the new standard to all contracts or only to contracts that have not been completed at the date of initial application.

If an entity elects to apply the modified retrospective method, the entity must disclose for the reporting period that includes the year of adoption, the nature of and the reason for the change in the accounting principle and provide disclosures for the following:

1. A breakdown of the amount of change by financial statement line item between what is recognized under the new revenue recognition standard and the amount that would have been reported under legacy GAAP for 2019. Since 2018 is presented under legacy GAAP there should be no restatement of amounts for that year.
2. An explanation of the reasons for significant changes identified in (1) above.

The codification allows a practical expedient for the modified retrospective transition method that an entity can elect as specified below:

1. For contracts that have been modified prior to the start of the earliest reporting period being presented in accordance with ASC

> Transition Method (continued)

606 (2019) the entity will not need to retrospectively restate the contract for contract modifications. The entity can instead reflect the aggregate effect of all contract modifications that occur prior to the start of the earliest period presented in accordance with ASC 606 (2019) for the following:

- a. Identifying the satisfied and unsatisfied performance obligations.
- b. Determining the transaction price.
- c. Allocating the transaction price to the satisfied and unsatisfied performance obligations.

If the practical expedient is used, the financial statements must disclose that the expedient has been used and also disclose “to the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.”

1. What are the issues at hand in regards to implementation?
 - a. For the year of adoption (typically 2019), the financial statements will have to disclose the differences for each line on the financial statements, causing revenue (i.e. the contract schedule) to be calculated under legacy GAAP and ASC 606 resulting in a duplicative effort. This would not be required for the full retrospective accounting method.
 - b. There are four (4) practical expedients available to entities that are doing the full retrospective adoption, while there is only one (1) for entities that are doing the modified retrospective.



- c. Entities will need to determine if they are going to apply the guidance to all contracts at the date of initial adoption or only to contracts that are not completed at the date of the initial adoption.
 - d. If the practical expedient is used, a qualitative assessment of their estimated effects is needed.
 - e. The legacy uncompleted contract schedule that was presented with the 2018 financial statements will need to be rolled forward to include the revisions based on the new GAAP application. The roll forward schedule will then be used to reconcile contracts in the 2019 contract schedules.
 - f. Since the modified retrospective transition results in a cumulative catch-up adjustment, the entity will have either revenue that is never reported on the income statement or revenue that is duplicated in the income statement.
2. What is CICPAC's interpretation as to what the accounting needs to be? See recommendations on page 54.
 3. What does the entity need to do (internally) to comply? If an entity chooses the modified retrospective method, is non-public, and adopts for calendar year 2019, they need

> Transition Method (continued)

to start gathering the data for disclosures and be able to account for these contracts in accordance with this standard and also legacy GAAP in 2019. The entity must disclose the nature of, and reason for, the change in accounting principle (required new standard). The entity must also disclose the effect of any changes in the current reporting period of any financial statement line items related to the cumulative adjustment and an explanation of the significant changes. Entities will also need to decide if they want to use the practical expedient. The entity must disclose what the financial line items would have been reported for 2019 if legacy GAAP had been applied.

FULL RETROSPECTIVE TO EACH PRIOR REPORTING PERIOD PRESENTED

ASC 606-10-65-1(d)(1)

Section (d)(1) is the section that provides the adoption requirement for the full retrospective adoption. This option requires all reporting periods presented in the financial statement to be accounted for in accordance with this topic. However, the entity only needs to disclose the effect of the change for prior periods that have been retrospectively adjusted (typically 2018).

The entity shall present the cumulative effect to the earliest period presented, and shall be reflected in the carrying amounts of assets and liabilities as of the beginning of the first period presented with offsetting adjustment to opening retained earnings. The financial statements for each prior period presented will be adjusted to reflect application of ASC 606 to all contracts with customers.

If it is impractical to determine such years for the prior period adjustment is applicable, the cumulative effect will be applied to the earliest

period for which the adjustment can be determined. In most cases, non-public entities are only presenting two years.

The retrospective application should only include the direct effects of the changes due to the new standard. Any indirect effects would be included in the year of adoption. An indirect change would include items such as profit sharing or royalty payment or bonuses based on income.

The determination of what is impractical is a matter of judgment. There must be a reasonable effort to apply the standard to the prior periods. You are not required to make assumptions about management intent in a prior period if documentation does not exist. Nor are you required to make significant estimates of amounts.

The codification allows for the retrospective transition method to have certain practical expedients that an entity can elect as specified below:

1. No need to restate contracts that start and are completed within the same annual reporting period.
2. Use the contract transaction price as of the date of completion rather than estimating the variable consideration in the comparative reporting periods for completed contracts with variable consideration.
3. Will not need to disclose the transaction price that is being allocated to the remaining performance obligations or disclose when the entity expects to recognize the revenue for the reporting periods that are presented before the date of initial application.
4. For contracts that have been modified prior to the start of the earliest reporting period being presented in the financial statements the entity will not need to

> Transition Method (continued)

retrospectively restate the contract for contract modifications. The entity can instead reflect the aggregate effect of all contract modifications that occur prior to the start of the earliest period presented in the financial statements for the following:

- a. Identifying the satisfied and unsatisfied performance obligations.
- b. Determining the transaction price.
- c. Allocating the transaction price to the satisfied and unsatisfied performance obligations.

If any practical expedient is used, the financial statements will need to disclose that the expedient has been used and also disclose “to the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.”

1. What are the issues at hand in regards to implementation?

An entity applying the full retrospective method to all prior periods presented must disclose:

- a. The nature of, and reason for, the change in accounting principle.
- b. A description of the prior period information adjusted and the effect on prior periods of income from continuing operations, net income and other financial statement line items.
- c. The cumulative effect on retained earnings.
- d. If impractical to adjust prior periods, the reasons therefore.
- e. If indirect effects of the change are

applicable, a description and the amounts recognized in the current year. And, if practical, the amounts applicable to each prior year presented.

- f. The required disclosures shall be presented in any interim statements.
 - g. If practical expedients are used, a qualitative assessment of their estimated effects is needed.
2. What is CICPAC’s interpretation as to what the accounting needs to be? See recommendations on page 54.
 3. What does the entity need to do (internally) to comply? If an entity chooses this method, is non-public, and adopts for calendar year 2019, they need to start gathering the data for disclosures and be able to account for these contracts in accordance with this standard in 2018. Entities need to decide which, if any, of the practical expedients they want to apply.



OUR RECOMMENDATIONS

Entities should carefully consider the method of adoption that is best in their situation, taking into account the concerns of sureties and other users of the financial statements and the practical expedients available under both the modified and full retrospective methods. Entities should recognize that both methods come with challenges. For example, the modified retrospective method requires entities keep their books on both legacy and new GAAP, while the full retrospective method requires entities to use judgement on contract modifications at the transition date.

The remaining recommendations below are based on the assumption that the modified retrospective transition method is used.

- The entity may apply a practical expedient with respect to contract modifications (change orders) and variable consideration that were applicable to contracts that were modified before the beginning of the earliest period presented applying ASC 606 (generally January 1, 2019). The entity may aggregate the effects of all contract modifications applicable to the initial adoption when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligations. The use of this expedient must be disclosed and, if practical, a qualitative assessment of the estimated effect of the use of this expedient.
- The entity must elect to apply the new guidance to either all contracts or only to contracts not completed at the date of initial application (January 1, 2019,

assuming a December 31, 2019 year end). This election must be disclosed in the year of adoption. We see no reason to make any changes to contracts that have previously been reported as complete. We would recommend that the new guidance be applied only to contracts in process at the date of initial application.

- Additionally, there are choices to be made for contracts with noncustomers. Refer to ASC 610-20, Gains and Losses From the Derecognition of Nonfinancial Assets.



CONSTRUCTION COMPANY, INC.

Sample Footnotes - Revenue Recognition, ASC 606

(Note the examples are based on a single year financial statement presentation)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contract Receivables

Contracts 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 contracts 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 and due diligence for collections has taken place, the contract receivable is written off.

Revenue and Cost Recognition

In the process of performing its construction contracts with its customers, the Company considers each contract to be one performance obligation, unless the circumstances dictate otherwise. Revenue is recognized as the work is performed over time and it is arrived at by determining the amount of cost incurred as it relates to total estimated cost after giving effect to the most recent estimates of cost to complete.

Combined Contract

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

Uninstalled Materials

When the Company determines there are uninstalled materials on a contract, the Company recognizes revenue for the transfer of the goods but only in an amount equal to the cost of those goods. In those circumstances, the Company excludes the costs of the goods from the cost-to-cost calculation to be consistent with the cost-to-cost methodology.

Multiple Performance Obligations

Some of the Company's contracts have multiple performance obligations, most commonly due to the contract covering multiple phases of a project (design, construction, operational management and maintenance). For contracts with multiple performance obligations, the Company allocates the contract's transaction price to each performance obligation using the Company's best estimate of the standalone selling price of each distinct good or service in the contract.

> Sample Note Disclosures (continued)

Transaction Price

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 award 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 the Company'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.

Contract Modifications

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.

Service Contracts

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.

Estimates

It is reasonably possible that changes in estimates may occur in the near term and those revisions and cost and revenue estimates are reflected in the period in which the facts that require the revisions become known.

The contract asset, "Revenue in excess of billings on contracts in progress," represents revenue recognized in excess of amounts billed. The contract liability, "Billings in excess of revenue on contracts in progress," represents billings in excess of revenue recognized.



> Note 1: Disaggregation of Revenue

In the following table, revenue is disaggregated by primary geographical market, major product line, and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the reportable segments.

Primary Geographic Markets	General	Renewable		
	Contracting	Energy	Specialty	Trade
Northern California	\$ 450,000	\$ 650,000		\$ 1,100,000
Washington	2,500,000	400,000	5,000,000	7,900,000
Texas	50,000,000	3,500,000		53,500,000
	<u>\$ 52,950,000</u>	<u>\$ 4,550,000</u>	<u>\$ 5,000,000</u>	<u>\$ 62,500,000</u>

Major Product Lines / Service Lines

Tenant Improvement	\$ 6,500,000			\$ 6,500,000
Government	3,500,000			3,500,000
General Building	42,950,000			42,950,000
Mechanical			3,500,000	3,500,000
Concrete			1,500,000	1,500,000
Solar		4,550,000		4,550,000
	<u>\$ 52,950,000</u>	<u>\$ 4,550,000</u>	<u>\$ 5,000,000</u>	<u>\$ 62,500,000</u>

Timing of Revenue Recognition (*)

Products Transferred at a Point in Time	\$ 4,500,000		1,000,000	5,500,000
Products and Services Transferred Over Time	48,450,000	4,550,000	4,000,000	57,000,000
	<u>\$ 52,950,000</u>	<u>\$ 4,550,000</u>	<u>\$ 5,000,000</u>	<u>\$ 62,500,000</u>

* Required for Non-Public Companies, other items in table are optional.

Practical Application Note: The only quantitative disaggregation requirement for non-public entities is reporting revenue recognized at a point in time and over time. It is believed that most entities will reflect these two numbers on the face of the P&L statement. While private companies may present quantitative disaggregation, many will use qualitative disclosure language to meet the requirement of "how economic factors affect the nature, amount, timing and uncertainty of revenue and cash flows."

> Note 2: Contracts Receivable

Practical Application Note: Current GAAP guidance for long-term contracts, ASC 310-10-45-2, requires disclosure of the different classes of receivables by either separately presenting them on the face of the financial statement or in the footnotes. This requires at a minimum, that receivables from contracts with customers (completed and in-progress) be shown as one amount and retentions shown as a separate amount. However, it is easy to make the argument that receivables from completed contracts are a different “class” of receivable from in-progress receivables and therefore each of them should be presented.

Practical Application Note: Note that the disclosure example below is not required if the detail information is on the face of the statement of financial condition and comparative statements are presented.

	2018	2017
Completed Contracts	\$ 1,224,000	\$ 123,334
Contracts in Progress	59,330,459	56,300,186
Other receivables - point in time sales	2,100,000	1,098,000
Retainage	28,492,329	30,169,790
	<hr/>	<hr/>
	91,146,788	87,691,310
Less: Allowance for Doubtful Accounts	100,000	100,000
	<hr/>	<hr/>
	\$ 91,046,788	\$ 87,591,310

Practical Application Note: ASC 606-10-50-10 requires disclosures related to significant changes in the contract asset and liability balances. Keep in mind that there is only one contract asset for any given contract. That will be the underbilling or overbilling. This section of the standard only applies to the under/overbilling. Accounts receivable, payable, capitalized costs, etc. are contract “balances” but not the contract “asset” or “liability”.

➤ Note 3: Costs and Estimated Gross Profit on Contracts in Progress

Costs and estimated gross profit on construction contracts in progress related billings as follows:

Costs incurred to date on contracts in progress	\$ 72,316,000
Estimated gross profit to date	3,290,000
Contract revenue earned to date	<u>75,606,000</u>
Less billings to date	<u>(77,932,000)</u>
Excess of billings over revenue earned	<u><u>\$ (2,326,000)</u></u>

The excess of billings over revenue earned is included in the accompanying balance sheet under the following captions:

Costs and estimated gross profit in excess of billings on contracts in progress	\$ 106,000
Billings in excess of costs and estimated gross profit on contracts in progress	<u>(2,432,000)</u>
Excess of billings over revenue earned	<u><u>\$ (2,326,000)</u></u>

The revenue in excess of billings primarily relate to the Company's rights to consideration for work completed but not billed at the reporting date. The revenue in excess of billings balances are transferred to receivables when the rights become unconditional. The billings in excess of revenue primarily relate to the advance consideration received from customers, for which revenue has not yet been recognized.

Significant changes in revenue in excess of billings and billings in excess of revenue balances during the period are as follows.

	Revenue in Excess of Billings	Billings in Excess of Revenue
Balance, December 31, 2017	\$ 375,000	\$ 6,500,000
Revenue recognized that was included in contract liability balance at beginning of period		(5,500,000)
Increases due to cash received, excluding amounts recognized as revenue during the period		1,432,000
Increases due to revenue recognized prior to billings	2,500,000	
Transferred to receivables from revenue in excess recognized at the beginning of the period	<u>(2,769,000)</u>	
Balance, December 31, 2018	<u><u>\$ 106,000</u></u>	<u><u>\$ 2,432,000</u></u>

> Note 4: Contract Backlog (Remaining Performance Obligations)

The following schedule is a reconciliation of contract backlog (remaining performance obligations) representing approved contracts as of December 31, 2018:

Balance, January 1, 2018	\$ 37,843,000
Contract adjustments and new contracts awarded	<u>90,073,000</u>
Subtotal	127,916,000
Less contract revenue earned	<u>85,264,000</u>
Balance, December 31, 2018	<u>\$ 42,652,000</u>

The entity will recognize this revenue as the contracts are completed, which is expected to occur over the next 12 - 18 months.

Contract backlog does not include amounts considered variable consideration that are constrained based on the Company's assessment of probability of significant reversal.

Practical Application Note: Note that there is no requirement to quantify the amount of constrained transaction price. Also, this comment assumes that the footnote 1 has been expanded to describe the treatment of variable consideration and the nature of such items.

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied at the end of the reporting period. (Note that the disclosure of remaining performance obligations is not required for non-public companies.)

Remaining Performance Obligations:

Tenant Improvement	\$ 3,500,000
Government	1,500,000
General Building	32,152,000
Mechanical	2,000,000
Concrete	500,000
Solar	<u>3,000,000</u>
	<u>\$ 42,652,000</u>

> Thanks To Our Sponsors

The extensive work that goes into a publication of this sort would not be possible without the support of our amazing sponsors:

SPONSOR



SOFTWARE

B2W Software empowers and inspires construction companies to win more work and complete it more profitably. The company's ONE Platform includes unified, enterprise-class elements to manage estimating and bidding as well as four vital operational processes: resource scheduling and dispatching, field performance tracking, equipment maintenance, and data capture and analysis.

The B2W Operations Platform compliments and interfaces seamlessly with financial ERP systems. This gives contractors the cohesive solution they need to manage operational workflows as well as financial workflows more effectively.

B2W is headquartered in Portsmouth, NH and has focused exclusively on software solutions for the construction sector since 1993. To learn more about the B2W Software Platform and how it can help your business, please call (800) 336-3808 or click www.b2wsoftware.com.

SUPPORTERS



A powerful software for job cost accounting and construction management. With an easy to use platform, Foundation provides the accounting and management tools contractors need.

To learn more, contact: Steve Antill
santill@foundationsoft.com | 800.246.0800



Payroll4Construction.com is a full-service payroll provider just for the construction industry. Through a philosophy of keeping a singular focus on construction clients, Payroll4Construction built a service to automate complex construction payroll and make it easier for contractors.

To learn more, contact: Steve Antill
santill@foundationsoft.com | 800.246.0800



Viewpoint is the leading provider of integrated construction software for the office, team and field. Clients rely on Viewpoint's solutions to improve profitability, enhance productivity, manage risk, and collaborate effectively. Viewpoint clients realize fully-integrated operations across financial and HR systems, project management tools, and mobile field solutions.

To learn more, contact: Wayne Newitts
wayne.newitts@viewpoint.com | 971.255.4800