



ASC 606: FREQUENTLY ASKED QUESTION

Will the Work In Progress Schedule Be Impacted Due To The Changes In Revenue Recognition?

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Hopefully by now you have heard that the new Revenue Recognition Standards will impact the financial statements you receive and analyze for contractors.

You may be asking: “what will the ultimate impact be, if any, to the work in progress schedule as a result of these GAAP changes?”

- **Answer: DROP THE “IF” –**
- Every construction company that enters into a contract and prepares their financial statements in accordance with generally accepted accounting principles (“GAAP”) WILL feel these changes;
- In some instances, the changes may be seismic, in others, it may be immaterial, but the changes will affect the contractors’ financial reporting;
- **PERIOD.**

Do you have a good understanding of the following?

- Increased level of management/contractor judgment in the revenue recognition process.
- How change orders are impacted under the new standard. For example, change orders are added to the contract when it’s probable the amount will be approved and can be estimated (70% - 80% likelihood). **New guidance WILL require management to determine if the modification should be accounted for as a separate contract. How will this “separate contract” be reflected on the WIP schedule?**
- Which costs now must be capitalized and included on the balance sheet to be amortized into job cost vs going directly to job costs as period cost? This covers items such as job site mobilization, bonds, and pursuit costs.
- How Uninstalled Materials will be handled originally and then throughout the life of the job on the WIP schedule?

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The items above are just a few examples of the issues that will be impacting contractor financial statements and therefore items you need to fully understand.

Reach out to Bucky White at nsw@tgccpa.com or via telephone at (703) 385-8888 to ask any questions so you can fully understanding the impact of the new revenue recognition standard will have on contractor financial statements.