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# Revenue Recognition Standard finally effective for nonpublic companies. Are you ready or still in denial?

AUDIT, CONSTRUCTION  
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I was just there for the massage. I had no knowledge of any hush payments. It's all about respect in the locker room. The adoption of ASC Topic 606, "Revenue from Contracts with Customers" won't have an impact on us. These are all denials we've heard lately. I'm not saying I believe any of them, but maybe for the construction industry, I can at least address whether one of those denials is an alternative fact or fake news.

For nonpublic companies, ASC Topic 606 is effective for years beginning after December 15, 2018, which means if you are a calendar-year-end company, it would be effective January 1, 2019. Are you ready or still in denial that it won't impact your company? Maybe answering a few of these questions will give you a sense of which end, fact or fiction, you are closest to.

- **Do your contracts have modifications (changes in scope and/or price)?** If so, you will need to address whether or not to account for those modifications as a separate contract (changes relate to goods or services that are distinct, and price of the contract increases by standalone selling price) OR as part of the original contract.
- **Do your contracts have either multiple goods and/or services provided to a customer OR multiple contracts with the same customer?** If you have the first scenario, you may need to evaluate those multiple goods and/or services as separate performance obligations, with separate transaction price and revenue recognition. If you have the second scenario, you may need to evaluate whether those contracts should be combined. Were they negotiated as a package? Is the price to be paid for one contract dependent on the price of the other? These questions are relevant to the accounting treatment of multiple contracts.
- **Do your contracts have warranties OR discounts?** If your customer has the option to separately purchase a warranty (or extended warranty), which represents a separate performance obligation, you may be required to allocate a portion of the contract value to the warranty. If you have discounts and multiple goods and/or services provided within your contracts, you will need to address how those discounts are applied to the separate performance obligations.
- **Do your contracts have variable consideration (change orders, claims, liquidated damages, bonuses, performance incentives, etc.)?** If you have any variable consideration in your contracts, you will need estimate that transaction price using an approach that best predicts the amount to which your company is entitled to (expected value or most likely amount approaches). Once variable consideration is determined, you may need to consider whether that price needs to be "constrained," to the extent that a revenue reversal will not be probable. The cash basis for claims

and bonuses, or waiting for a signed change order may no longer be appropriate accounting options under the new standard.

- **Do you have uninstalled materials on your job sites?** Did you have a large shipment of aggregate, copper wire or rebar delivered to the jobsite that wasn't installed prior to balance sheet date? What about an HVAC system or elevators that weren't installed before the new year? If certain criteria are met, it may indicate that those costs were incurred, and they were not in proportion to your measure of progress in completing the contract. Accordingly, you may have to adjust your percentage-of-completion calculation to recognize revenue only to the extent of that cost incurred (no margin).

Did you answer yes to any of the items listed above? If so, the adoption of ASC 606 will likely impact your company. If you answered no to all of them, you're probably not in the construction industry. The last question and most important: Are you ready for the adoption of ASC 606? While the questions above address some of the more common factors that impact the construction industry, the actual guidance and subsequent amendments are thousands of pages and cover a multitude of other topics.

Seems overwhelming to get your arms around? Whether you're already starting on your implementation plan, or still trying to figure out the meaning of "distinct" and "constraint," or somewhere in between, Schneider Downs' advisory services can help. Not fake news, not alternative facts. We have the experts who know the construction industry and are ready to get you to the ASC 606 adoption finish line.

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