



INPUT METHOD FOR RECOGNIZING REVENUE OVER TIME

ASC 606 adds specific guidelines for how the construction industry must account for uninstalled goods or services. Under Topic 606, uninstalled goods or services may be recorded as job cost on the WIP, but at zero margin. The margin is recognized over time as the materials are transferred to the customer.

When making the assessment of when control of the goods or services passes to the customer, contractors must use significant judgement based on the facts and circumstances of the particular contract.

Keep in mind that while both the input and output methods are acceptable for measuring transfer of control to the customer, the chosen method must remain in place until the performance obligation is completed.

HOW THIS RULE WORKS

THE INPUT METHOD MAY BE CHOSEN IF ANY OF THE FOLLOWING CAN BE CONSISTENTLY MEASURED TO ACCURATELY REFLECT THE PROGRESS OF TRANSFER OF CONTROL TO THE CUSTOMER:

**COST
INCURRED**



**RESOURCES
CONSUMED**



**LABOR HOURS
UTILIZED**



**TIME ELAPSED
RELATIVE TO
ESTIMATED
TOTAL INPUTS**



If no method is chosen, the cost-to-cost method may be used if it represents a reasonably accurate approximation of transfer of control to the customer. If this method is used, measures and estimates should be evaluated each performance period so revenue can be accurately reflected on a cumulative catch-up basis.

However, revenue recognition should be deferred if progress cannot be reliably and consistently measured. In such instances, measurement should be put off until either (1) it becomes measurable or (2) a defined point in performance of the contract is reached (e.g., revenue may be equal to cost until the contract is 20 percent complete). 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.

This determination requires the contractor to use a significant amount of judgment. To avoid making an error, be sure to review your determination with a professional with expertise in ASC 606.

HAVE QUESTIONS?

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