



TRANSITION METHODS FOR IMPLEMENTATION

Certain entities that have not either issued their financial statements or made them available for issuance may elect one of the following options:

- ▶ Adopt the guidance for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020.
- ▶ Follow the original effective date of annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

Companies may use either the modified retrospective method (ASC 606-10-65-1(d)(2)) or the full retrospective method (ASC 606-10-65-1(d)(1)), as outlined below. Keep in mind that while the modified retrospective approach may be easier to implement, some items (e.g., recognized revenue and income trends) may not reflect the true circumstances. In certain circumstances, the full retrospective approach may provide the needed consistency and comparability between periods.

HOW THIS RULE WORKS

- ▶ Modified retrospective method
 - This approach requires ASC 606 to be applied to all new contracts initiated after the effective date.
 - Existing contracts with obligations extending beyond the effective date must be recomputed and a cumulative catch-up adjustment made to the opening balance of retained earnings as of the effective date.
 - For each contract, two sets of accounting records must be kept for the year of adoption (one under the new standard and one under the old). This information will be needed for the required expanded footnote disclosures.
 - Only one practical expedient can be used.
 - The election must be disclosed in the year of adoption.
- ▶ Full retrospective method
 - Under this method, revenue previously recognized for multi-period contracts must be analyzed and possibly restated even if those contracts were completed before ASC 606 went into effect.
 - Because so much effort is required under this approach, FASB allows for four practical expedients:
 1. Revenue does not have to be restated for contracts that begin and are completed within the same annual reporting period.
 2. Variable consideration can be evaluated after completion of the contract.
 3. For uncompleted contracts, entities are not required to disclose either (a) the amount of the transaction price allocated to the remaining performance obligations or (b) when that portion is expected to be recognized as revenue.
 4. For contracts that were modified before the beginning of the earliest period presented, an entity does not need to retroactively restate the specific contract for contract modifications. Instead, the aggregate effect with the original contract can be reflected for determining performance obligations, transaction prices and allocation of transaction prices.

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FIVE STEPS TO COMPLIANCE

To make sure you're properly treating receivables, under ASC 606, follow these steps in order:



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?

Adams Brown, Strategic Allies and CPAs, provides a wide range of traditional and specialized CPA and consulting services to construction businesses, contractors, and sub-contractors across the nation. The firm has a specialized, diverse team of experts immersed in the industry that holistically serves construction leadership teams. To learn more, contact Mark P. Barnett, Jr., CPA, CVA, CGMA, CCIFP, MBA, Construction Industry Leader, at MBarnett@AdamsBrownCPA.com or 870.520.6215.