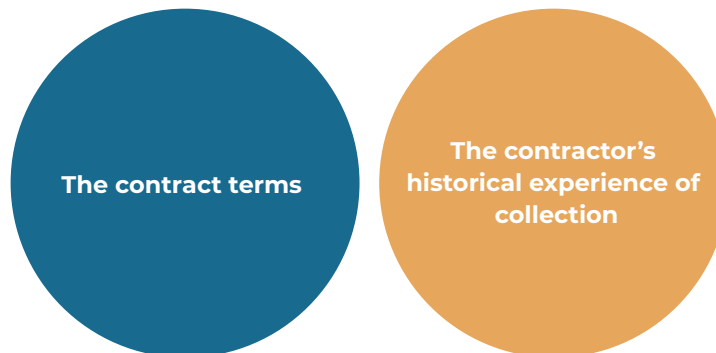




ACCOUNT RECEIVABLE OR CONTRACT ASSET?

ASC 606 details how to determine when a retention receivable is an account receivable and when it is a contract asset. The rule states that retention receivables must be included in contract assets until all performance requirements are completed.

THE FINAL DETERMINATION OF CLASSIFICATION IS BASED ON A REVIEW OF:



IMPORTANT TERMINOLOGY

- ▶ **Account receivable** = Unconditional right to consideration
- ▶ **Contract asset** = Right to consideration in exchange for goods or services that have been transferred to a customer

HOW THIS RULE WORKS

- ▶ An agreement does not become a contract unless it meets these five defined requirements:
 1. Approval and commitment
 2. Identification of rights
 3. Determinable and enforceable payment terms
 4. Commitment to pay
 5. Commercial substance
- ▶ Enforceable contracts may be written, oral or implied.
- ▶ Some contracts may be combined, but others must be combined. The determination of which category the contract falls into must be made before performance obligations are evaluated.
- ▶ Lease contracts, insurance contracts, financial instruments, guarantees and nonmonetary exchanges do not qualify under ASC 606.

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ACCOUNT RECEIVABLE OR CONTRACT ASSET,

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- ▶ Contracts must comply with the laws and regulations of the jurisdictions in which the project is located.
- ▶ Until further guidance is issued, a company's interpretation of "unconditional" will dictate whether retention receivable will be shown as a component of accounts receivable or a contract asset.

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.