

PERFORMANCE OBLIGATIONS SATISFIED OVER TIME

Performance obligations are recognized either over time or at a specific point in time. The distinction is important because the decision affects when revenue is recognized. Judgment is required to determine which method best measures the progress of the performance obligation.

Performance obligations are deemed to be satisfied over time when the goods or services are delivered in stages, rather than all at once. For a contractor, a retention receivable is the money the customer holds back (retains) until certain benchmarks in the project are met, for example when the concrete is poured or when the plumbing work is finished. The final retainage receivable is not disbursed until the project is completed.

IMPORTANT TERMINOLOGY

- ▶ **Satisfaction** = The point in time when control over the goods or services transfers to the customer coincides with the time the customer's ability to obtain potential cash flows associated with the asset that was transferred.

HOW THIS RULE WORKS

PERFORMANCE OBLIGATIONS ARE CONSIDERED SATISFIED OVER TIME IF

- The goods or services are received and consumed by the customer simultaneously (e.g., service work) and the work would not have to be redone if the remaining contract was cancelled.
- The customer controls an asset created during the performance of the contract as the asset is created.
- Legal title, physical possession or risk/reward of ownership passes to the customer during performance of the contract.
- The asset that is created (1) cannot be used by the contractor for any other purpose and (2) the customer would be required to pay even if the contract was terminated for any cause other than failure to perform.

The contract must be carefully examined to determine when and whether these conditions are met

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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