

UNINSTALLED MATERIALS

Uninstalled materials generally are defined as standard materials that are easily transferable to other jobs and those which are custom ordered for projects. ASC 606 guidance on this topic is secondary to other GAAP guidance. Consequently, contractors must first determine whether the uninstalled materials are classified as inventory. If they are, then they are recorded as inventory. Materials that are not considered inventory under the cost-for-cost input method.

HOW THIS RULE WORKS



Items that meet the GAAP requirement for classification as inventory, may be recorded as inventory after treatment as an inventory transfer.



The good or service must be distinct from other materials that were procured.

- Is the material a standard material (e.g., steel, concrete, copper wire) that can be used on other construction projects before it is customized to fit the requirements of the asset?
- Did a security interest in the materials pass to the customer through, for example, delivery to the worksite?



Was the contractor significantly involved in the design or manufacture of the asset?



Transfer of control is a matter of judgment after all relevant facts and circumstances are considered, including:

- Whether the customer or the company
 - Holds legal right to title
 - Has the significant risks and rewards of ownership
- The company has
 - The right to payment
 - Transferred physical possession of the asset
- The customer has accepted the asset

*WIP scheduling will need to reflect any carve-outs of uninstalled materials

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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