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Page Title: Contractors Can Still Comply With FASB's Revenue Recognition Rules | [INSERT FIRM NAME]

Meta Description: [FIRM NAME] offers valuable guidance on FASB's new revenue recognition rules and how it affects accounting and contractors in industries, including real estate, construction and manufacturing. The new accounting standards for contractors began in January 2019.

Headline: The Clock is Ticking: Why Contractors Should Comply With FASB's New Accounting Standards

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Companies who do business in industries like construction, manufacturing and real estate are heavily impacted by the new revenue recognition rules imposed by the Financial Accounting Standard Board (FASB), effective January 1, 2019 (for annual reporting – and in 2020 for interim periods). As these rules removed the ability to apply separate accounting rules to contractors, many companies may be unsure how best to proceed under the new rules.

Overview

The reason for the change in accounting standards stems from a need for an approach that more accurately portrays the transfer of promised goods and services. The new standards apply to any entity entering into a contract for the transfer of goods or services – or the transfer of nonfinancial assets – unless the contract falls within the scope of other accounting standards.

What the Accounting Change Means for the Construction Industry

When it comes to accounting for revenue recognition, the construction industry has long been held to separate accounting principles due to the nature of long-term contracts. That all changed when the Financial Accounting Standards Board (FASB) issued the new standard, Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. In issuing its new revenue recognition standards, FASB effectively swept away all preexisting GAAP in the area of revenue recognition, including the separate accounting principles specific to contractors.

The Five-Step Model

The new accounting principle will be achieved using the following five-step model:

1. Identify the contract with a customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the price to the performance obligations
5. Recognize revenue with the satisfied performance obligation

Key Industry Considerations

There have been a number of interpretations regarding the new revenue recognition standard, and some of those can be misleading. With that in mind, here are a few clarifications:

- Contrary to some assumptions, revenue recognition under the new standard will be similar to the percentage of completion method used today. The new standard allows for the use of input or output methods to determine the percentage complete.
- Many construction contracts may have only one performance obligation—it will be up to contractors to evaluate each contract for separate performance obligations and document their conclusions.
- FASB included language to allow contractors – in certain circumstances – to recognize revenue equal to the cost of uninstalled materials if the customer obtains control of the goods.
- If the company has claims or unapproved change orders on a contract, the revenue associated is recorded based on the company's estimate of the expected amount of claim that will be received, if it is probable that a significant reversal of revenue will not occur in the future.
- Warranties purchased separately by the customer may represent separate performance obligations that require their own revenue recognition treatment. Warranties included as part of the company's normal contract may represent additional costs to include in the company's cost-to-cost revenue recognition method.

Despite these challenges, now is the time to become organized so that your business can be in compliance with the new standards. Delaying will only result in a greater time investment to make adjustments during a year-end audit or review.

CLOSE:

Do you have questions about how to become compliant with the new revenue recognition standards? Please contact [NAME] in our [DEPARTMENT] at [NUMBER/EMAIL].

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