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Revenue Recognition - What Public Construction Industry Companies are Saying

CONSTRUCTION, PUBLIC COMPANIES

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In just over a month and a half, many public construction industry companies will be adopting FASB ASU 2014-09, Revenue from Contracts with Customers (Topic 606). So we were interested in what they would be disclosing about the adoption of the standard in their most recent public filings. We researched 12 public construction industry companies' most recent Form 10-Q filings to determine if there were any trends, practices or procedures, or effects that their non-public counterparts could benefit from. The interesting results are as follows:

- Of the 12 companies, 11 disclosed that they would be using the modified retrospective method for adoption (as opposed to the full retrospective method). The remaining company has not yet determined the methodology of adoption that it will utilize.
- Only 2 of the 12 companies characterized their process and analysis as "substantially completed," which speaks directly to the time and efforts involved in addressing the standard and evaluating its impact on the financial statements, business processes, systems and controls.
- Only 5 of the 12 companies disclosed that they believed the adoption of the standard "is not expected to have a material effect on the timing or amount of revenue recognized as compared to current practices." Two of the companies had not yet determined the impact, while the remaining 5 companies disclosed they expected the adoption to impact the amount, timing and disclosures related to revenue recognition.
- Of the companies that determined the adoption would impact their financial statements, the following areas were disclosed as likely to be impacted by the standard:
 - Determination of which goods and services are distinct and represent separate performance obligations,
 - Accounting for variable consideration,
 - Determination of unit of account for projects,
 - Accounting for contract modifications, and
 - Determination of whether revenue should be recognized at a point in time or over time for each performance obligation.
- Most of the companies disclosed implementing revised accounting policies, completing an evaluation of the disclosure requirements on business processes, internal controls and information systems, and evaluating the new qualitative and quantitative requirements regarding the nature, amount, timing and uncertainty of revenues from contracts.

So, what can you learn from the publicly traded construction industry disclosures?

Consider the following:

- Addressing the new standard will not only require you to review your contracts and related revenue recognition compared to the new standard, but require you to address potential impact on internal controls, technology and business processes.
- Consider the information you will need to complete financial statements and new disclosures under either methodology (full or modified retrospective).
- Be aware that the construction industry has many areas that may be impacted by the new standard – variable consideration, contract changes and modifications, claims and change orders, identification of distinct goods and services, etc., and they may vary from contract to contract.
- Start early and get the right experts to assist you. Non-public entities will need to adopt for years beginning after December 15, 2018. Schneider Downs has developed a customized approach that will address your current capabilities and processes and the impact of adopting the new standard. Don't go it alone - we are ready with subject-matter experts to guide you through the adoption of this new standard.

For more information on how revenue recognition is affecting public construction companies, [contact us](#).

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