

IMPLEMENTING FASB ASC TOPIC 606 USING THE MODIFIED RETROSPECTIVE METHOD

A checklist for private companies

WHERE TO START

- Alert your surety, bonding agent, lender, and other financial statement users of intent to implement Topic 606 using the modified retrospective approach.
- Coordinate adoption policy elections with any joint venture managers.
- Be certain there are controls in place ensuring finance is aware of all contracts and modifications.

1. Document implementation-related elections in a policy

- Choose either to apply Topic 606 to all contracts at the date of initial implementation (January 1, 2019 for calendar year private companies) or only to contracts that weren't complete at date of initial implementation.
- Recognize incremental costs of obtaining a contract as contract expenses if the period of amortization remaining at date of initial Topic 606 inception was less than one year.
- Ignore calculation of any financing component if payments are expected to be received within one year of project completion.
- Elect not to restate projects started and completed within the same annual reporting period.

Recommendation: Elect to apply Topic 606 only to contracts in process at date of initial implementation.

Good news! Retainage is really just a mechanism employed by the owner to help ensure the job is completed. It is not considered financing.

2. Document adoption of the available practical expedient in a policy

- Elect not to retrospectively restate contracts for contract modifications before the beginning of the earliest period presented; instead reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to performance obligations.

Disclosures should include a description of, to the extent possible, the aggregate effect of all contract modifications that occurred prior to the date of initial implementation.

3. Set thresholds and document within a policy

- | | |
|--|---|
| <input type="checkbox"/> Establish contract value and duration levels at which finance will perform a deeper contract and contract modification (change orders, etc.) review for Topic 606-related terms and elements. | e.g., finance reviews contracts with award values of at least \$X (say 0.5% to 1% of forecasted annual revenues) and X months in duration |
| <input type="checkbox"/> Set thresholds at which uninstalled materials will be separately tracked and reported. | e.g., $\geq 15\%$ (or a lesser percentage) of contract value on contracts of at least \$X and X months in duration |
| <input type="checkbox"/> Set a threshold to capitalize fulfillment costs for amortization (e.g., bonds, mobilization, specialized equipment, etc.). | e.g., costs are $\geq 5\%$ of contract value on significant contracts or modifications |
| <input type="checkbox"/> Set a threshold for separately reporting rework or waste. | e.g., $\geq 5\%$ (or a lesser percentage) of total estimated contract costs, excluding rework or waste and $\geq \$X$. |

4. Add to or revise disclosures

- Refer to FASB ASC 606-10-50 for complete disclosure requirements.
- Disclose adoption of Topic 606, the initial implementation date and the nature and reason for the change in accounting principle.
- Update all legacy-GAAP revenue and contract-related balance disclosures and qualitative information about how performance obligations are determined.
- Indicate Topic 606 implementation-specific policies elected and that the available practical expedient was adopted.

- | | |
|--|--|
| <input type="checkbox"/> Add disclosures on differences in each line of the financial statements causing revenue recognized in 2019 under Topic 606 to differ from revenue that would have been reported using former accounting guidance and include explanations of the reasons for any significant differences. | If management believes Topic 606 implementation had no impact to the financial statements, we suggest it is best practice to disclose that belief. |
|--|--|

- | | |
|---|--|
| <input type="checkbox"/> Add new, disclosures on disaggregated revenue—revenue recognized by timing of transfer of goods or services to customers, region, job type, etc. | Minimally, report total revenue recognized during the year for goods or services transferred at a point in time and transferred over time. |
|---|--|