



# Construction Bookkeeping & Accounting

Presented by Brandon Dougherty, CPA, MBA

[bdougherty@hbkcpa.com](mailto:bdougherty@hbkcpa.com)

(239) 263-2111

August 17, 2021

# Hill, Barth & King, LLC

## HBK Fast Facts



founded in  
**1949**



**20k+**  
active clients



**15+**  
industries served



**7+** years as a  
Top 100 firm



**10**  
service lines:

- HBK CPAs & Consultants
- HBK Client Accounting & Advisory Services
- HBK Corporate Finance
- HBK Risk Advisory
- HBK Valuation, Litigation & Forensics
- HBKS® Wealth Advisors
- HBKS® Retirement Planning
- HBK Information Technology Services
- High Performance by HBK
- Level 3 Wealth Services

### OFFICE LOCATIONS



**17** OFFICES  
serving **4+** STATES

#### Florida

Fort Myers  
Naples  
Sarasota  
Stuart  
West Palm  
Beach

#### New Jersey

Cherry Hill  
Clark  
Princeton

#### Ohio

Alliance  
Columbus  
Youngstown

#### Pennsylvania

Blue Bell  
Erie  
Hermitage  
Meadville  
Pittsburgh



### RANKINGS

2020 **TOP100** Firms  
*Accounting Today*

2018  
**FASTEST GROWING**  
*Accounting Today*

2020 **TOP100** Firms  
*Inside Public Accounting*

2020  
**BEST EMPLOYERS** in Ohio  
11 years running



HBK is ranked in the **Top 1%** of U.S. accounting firms.



# HBK Construction Solutions

**BRANDON DOUGHERTY**  
FL Regional Director



**FRANK BALOG**  
PA Regional Director



**MICHAEL KAPICS**  
National Director

**KYLE MELEWSKI**  
OH Regional Director



**MIKE WOLF**  
Mid Atlantic Regional Director



**60** specialists, including Certified Construction Industry Financial Professionals



Serving more than **600** construction businesses



Ranked **27th** among U.S. accounting firms with a dedicated construction practice



Serving construction firms since our founding in

**1949**



Ranked in the **Top 1%** of U.S. accounting firms

# Users of your Financial Statements

**Consider the following potential users of your company's financial reports:**

- Ownership
- Management
- Bankers/Lenders
- Sureties
- General Contractors
- Joint Venture Partners
- Customers
- Investors
- Business M&A Targets



# Ways Having the Right Partner Can Help

**A CPA that is knowledgeable in construction should be able to provide additional guidance in the following areas:**

- Benchmarking/Industry Comparisons
- Developing Key Performance Indicators (KPIs)
- Subcontractor Prequalification
- Key Vendor Relationships
- Taxes
  - Provisions that offer the greatest benefits to contractors
  - Latest changes to the tax code
- FASB
  - Changes in financial reporting standards
    - ASC 606 Revenue Recognition
    - ASC 842 Leases

# Work in Progress

## How WIP Works and What It Means

- Revenue is recognized relative to progress toward completion
- Imbalance between billings and revenue recognized creates one of the following:
  - Contract Asset if billings are behind revenue recognition (underbilling)
  - Contract Liability if billings are ahead of revenue recognition (overbillings)

# Work in Progress

## What your WIP Can Tell You

- Large Contract Asset Balances
  - Could be an indication of losses on a job
  - Billing delays
  - Unrecorded change orders
- Large Contract Liability Balances
  - Typically looked upon more favorably but need to be considered in the big picture along with the rest of the jobs on the WIP.
- Are estimated gross profit percentages reasonable?  
Avoid profit fade.
- Who are your strongest project managers?
- What types of work do you perform best on?

# Tax Strategies

## Overall Method

- Cash or Accrual

## Contract Method

- Percentage of Completion or Completed Contract
- Choice of entity structure
- Cost Segregation Studies
  - Opportunities to accelerate depreciation deductions

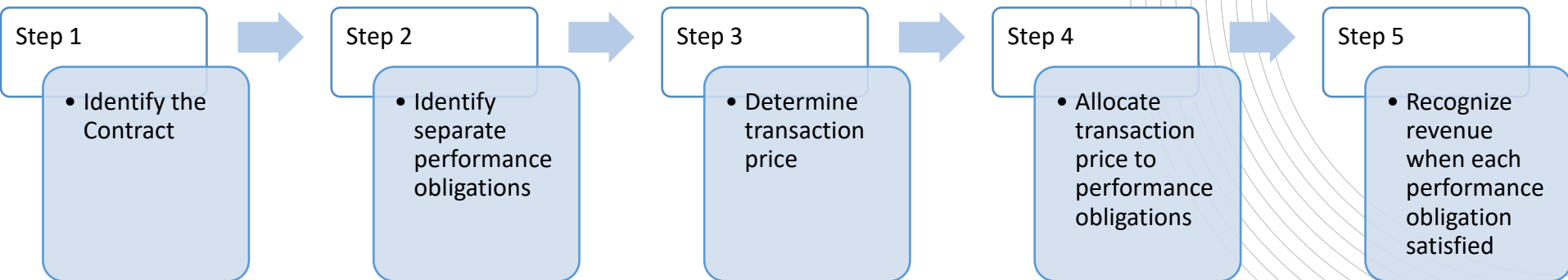


# ASC 606 Revenue from Contracts with Customers

## Core Principle:

To depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

## Steps to Apply:



# ASC 606 Revenue from Contracts with Customers

## Step 1: Identify the Contract

- Contracts can be written, oral, or implied by the entity's business practices
- Contracts with customers must meet ALL of the following criteria:
  - The parties to the contract must approve it and be committed to perform their respective obligations
  - Each party's rights regarding goods and services to be transferred can be identified
  - The payment terms for goods and services to be transferred can be identified
  - The contract must have commercial substance
  - It is probable that the entity will collect the consideration to which it is entitled

# ASC 606 Revenue from Contracts with Customers

## Step 1: Identify the Contract

### ○ Combining Contracts

- Two or more contracts entered into at or near the time of sale with the same customer should be combined and accounted for as a single contract if any one of the following criteria is met:
  - Contracts are negotiated as a package with a single commercial objective
  - The amount of consideration to be paid in one of the contracts is dependent on the price or performance of the other contract(s)
  - All or some of the goods or services promised represent a single performance obligation

### ○ Contract Modifications

- Represents a change in the scope or price of a contract and should be accounted for as a separate contract if:
  - The scope of the contract changes due to the addition of promised goods or services that are distinct
  - The price of the contract increases by an amount of consideration that reflects the contractor's standalone selling price

# ASC 606 Revenue from Contracts with Customers

## Step 2: Identify Separate Performance Obligations

- Distinct goods or services promised to the customer
  - A good or service is distinct if the customer can benefit from it either on its own or together with other resources that are readily available to the customer AND
  - The contractor's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract
- Not considered distinct if it is highly interdependent and interrelated
- Identification is fundamental to proper recognition
- Not required to identify if immaterial in the context of the contract
- Explicit within contract or implied by:
  - Customary business practice
  - Published policies
  - Specific statements

# ASC 606 Revenue from Contracts with Customers

## Step 2: Identify Separate Performance Obligations

- A scenario:
  - A contractor enters into a contract with a customer to install an HVAC system. The contractor manufactures the ductwork for the system and purchases additional HVAC equipment from other vendors. The contractor does not design or manufacture the purchased HVAC equipment, but it does install the equipment in the customer's facility. The construction contract includes a one-year preventative maintenance agreement at no additional charge to the customer. The contractor regularly contracts with other customers to provide preventative maintenance services.
  
- How many contracts?
  - The contractor evaluates 4 distinct goods and services, the installation services, manufacturing the ductwork, the purchase of the HVAC equipment, and the maintenance agreement. However, the 1<sup>st</sup> three should be combined into one performance obligation due to their interdependence with the maintenance agreement treated as a second contract since the customer can benefit from this service separately.

# ASC 606 Revenue from Contracts with Customers

## Step 3: Determine the Transaction Price

- Variable Consideration:
  - Discounts, rebates, credits, incentives, performance bonuses, or penalties
- Noncash Consideration
  - Should be included in the contract revenue and contract costs
- Significant Financing Component
  - Practical expedient is available when the period between a customer's payment and a contractor's transfer of goods and services is expected to be one year or less at contract inception
  - For longer-term projects, the transaction price would be discounted with interest income being recognized when customer payments are deferred and interest expense when customer payments are accelerated

# ASC 606 Revenue from Contracts with Customers

## Step 4: Allocating the Transaction Price

- Standalone Selling Price
  - Actual selling price for the same good or service
- Allocating Variable Consideration
  - Can be allocated to all of the performance obligations based on the relative standalone selling price or only to specific performance obligations depending on its relevance to a specific performance obligation.
- Changes in the Transaction Price
  - Shall be allocated to the performance obligations identified in the contract before modification

# ASC 606 Revenue from Contracts with Customers

## Step 5: Recognizing Revenue

- Over time
  - A customer simultaneously receives and consumes the benefits of the performance obligation as the work is performed.
  - A contractor's performance creates or enhances a customer-controlled asset.
  - A contractor's performance does not create an asset with an alternative use to the customer
- At a point in time
  - Similar to completed contract method
  - Contractor has a present right to payment for the asset
  - Customer has legal title to the asset
  - Contractor has transferred physical possession of the asset
  - Customer has the significant risks and rewards of ownership
  - Customer has accepted the asset



# ASC 842 Lease Accounting

**Implementation effective for private companies with annual reporting periods beginning after December 15, 2021.**

- Need to recognize and measure leases at the beginning of the earliest period presented

# ASC 842 Lease Accounting

**Operating and Finance Leases will require the recognition of lease assets and lease liabilities.**

- Both an asset and a corresponding liability needs to be recognized under the new standard
  - Value recognized should include all payments to be made, including optional periods that are reasonably certain to be exercised.
  - For leases of 12 months or less, the lessee can recognize lease expense on a straight-line basis over the lease term.
- Difference between Operating and Finance Leases are as follows
  - Finance leases recognize interest on the lease, separately from amortization of the right-of-use asset in the income statement
  - Finance lease of principal payments are classified in the financing activities and payments on interest are shown in the operating activities. All cashflow recognition under operating leases are classified as operating activities

# Can you answer these questions?

- **How far does your current backlog get you without any changes to staffing/overhead?**
- **Have you talked to customers about material costs and their impact on the contract?**
- **Do you need help assessing subcontractors and their ability to finish work (sub pre-qualification)?**
- **What is your ideal job size?**
- **What is your break-even gross profit percentage?**

# Proactive Steps to Take

- **Actively manage your Work-in-Progress schedule:**
  - Eliminate underbillings to the extent possible.
  - Monitor overbillings to guard against using receipts from one job to fund another.
- **Know your costs:**
  - Make sure overhead costs are covered in your estimating and bidding process.
  - Monitor material costs. Add price adjustment clauses.
- **Project cash flows as far out as possible and update monthly.**
- **Monitor your business' performance against the industry.**
- **Monitor your subcontractors.**
- **Build your Balance Sheet.**
- **Stay connected with CPA and other trusted advisors**



Questions



Hill, Barth & King, LLC (“HBK”) is a multidisciplinary financial services firm, offering the collective intelligence of hundreds of professionals committed to delivering exceptional client service across a wide range of tax, accounting, audit, business advisory, valuation, financial planning, wealth management and support services.

Copyright © 2020 Hill, Barth & King, LLC. All rights reserved.

This Presentation contains general information only, and HBK is not providing through this presentation accounting, tax, business, financial, investment, legal or other professional services or advice. This presentation is not a substitute for professional services or advice, and it must not be used as a basis for any decision or action that may affect you or your business. Please consult a qualified business advisor before making any decision or taking any action that may affect your business. HBK shall not be responsible for any loss sustained by any person who relies on this presentation.