



## ASC 606 CONSIDERATIONS for Architectural and Engineering Firms

### STEP ONE: IDENTIFY THE CONTRACT

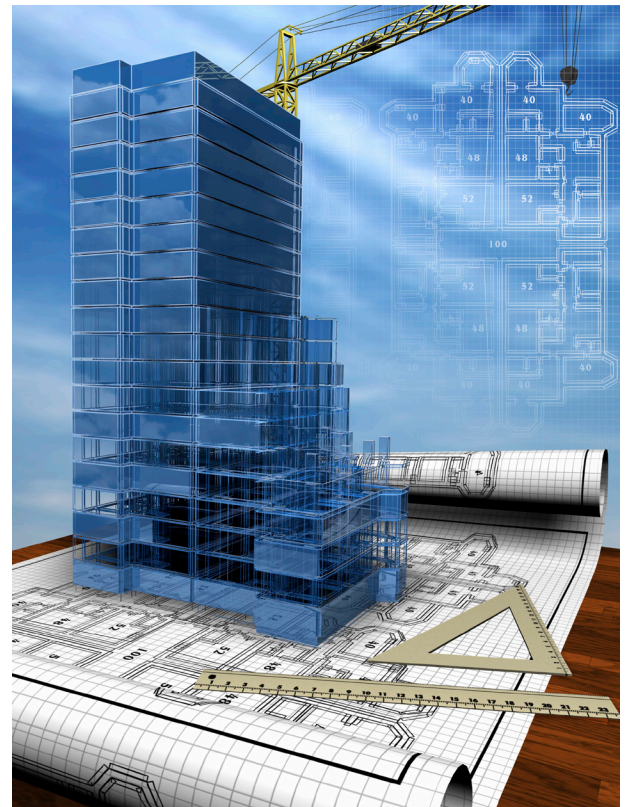
- ☐ Contract modifications (change orders and claims).

**EXAMPLE:** Although a change order may add new goods or services that would be distinct in a standalone transaction, it may not be ASC 606 'distinct' in the context of the modified contract. Therefore, evaluate to determine if it is a distinct performance obligation to be separated from the primary contract, or not.

### STEP TWO: IDENTIFY THE PERFORMANCE OBLIGATIONS

- ☐ Review contract terms for ASC 606 implications, particularly custom arrangements for significant contracts.
- ☐ Review existing arrangements for service-type warranties. These may be separate performance obligations. Extended service warranties that can be purchased separately are a separate performance obligation; basic assurance type warranties are not.
- ☐ Operations and maintenance services: usually a separate performance obligation if providing substantially the same service for a day-to-day operation. 'Stand-ready' arrangements will require a deeper analysis.

**EXAMPLE:** Maintenance services which are not highly integrated with or highly dependent on the design and construction, and do not significantly modify or customize the design, are usually a separate performance obligation.



## STEP THREE: DETERMINE THE TRANSACTION PRICE

□ High quality, probable variable consideration is now considered and included in the transaction price. Variable consideration can be estimated using either the “expected value method”, or the “most likely amount method”. This includes:

- Incentive bonuses and penalties
- Change orders and claims
- Back charges

**EXAMPLE:** The A/E firm is offered an incentive if they complete a contract before the contract completion date, and they will be assessed a penalty if they finish it after the contract completion date. The most probable incentive/penalty ultimately achieved should be estimated and proportionately allocated at the beginning of the contract, and reevaluated at each subsequent financial reporting date.

## STEP FOUR: ALLOCATE THE TRANSACTION PRICE

□ This step only applies if there is more than one performance obligation.

**EXAMPLE:** Allocating one purchase price to an extended warranty and a maintenance service agreement (2 performance obligations). The relative ‘standalone selling price’ for each of those performance obligations must be determined, and utilized to allocate the total transaction price proportionately.

## STEP FIVE: RECOGNIZE REVENUE

- Pay attention to the actual terms of the contract in order to determine when control passes to the customer.
- Revenue recognized over time can be measured using either an input method (i.e. cost-to-cost) or an output method (i.e. units of production).

Email us at [info@withum.com](mailto:info@withum.com) for a deeper dive into a sample of revenue transactions.



**Paul Kuhl, CPA, Team Leader**  
**Revenue Recognition Accounting**  
T (609) 945 7923  
[pkuhl@withum.com](mailto:pkuhl@withum.com)



**Justin O'Horo, CPA, Team Leader**  
**Architecture and Engineering**  
T (732) 759 6818  
[johoro@withum.com](mailto:johoro@withum.com)