

ACC 300 · SESSION 8

Apply the revenue model

Follow one customer contract from enforceable promises to the balances that remain.

UNIT 2 · REVENUE RECOGNITION

Why is revenue hard to get right?

Revenue depends on what the seller promised, how much consideration belongs to each promise, and when each promise transfers.





Revenue decisions for one customer contract

By the end of class, you should be able to make and defend each decision.

- 1 **2.3a · Analyze** Determine whether an arrangement should be accounted for as a contract with a customer under ASC 606.
- 2 **2.3b · Analyze** Determine the performance obligations in a customer contract.
- 3 **2.3c · Analyze** Determine the transaction price for a customer contract.
- 4 **2.3d · Apply** Allocate the transaction price to performance obligations.
- 5 **2.3e · Analyze** Determine when and how much revenue to recognize for each performance obligation.
- 6 **2.3f · Analyze** Classify and account for the balances arising from a customer contract.

💡 Revenue follows promised performance

Identify the promises, allocate the transaction price, and follow each promise until control transfers.

Invoices and cash provide evidence, but neither determines revenue by itself.



Today's class

We will apply the revenue model to Granite Harbor, then prepare for Exam 1.

1 · CONTRACT

Confirm the agreement



2 · PROMISES

Identify obligations and allocate the price



3 · TIMING

Recognize revenue and classify balances



4 · EXAM 1

Logistics and questions



ASC 606 revenue recognition model

Each conclusion supplies information needed for the next decision.

- 1 Identify the contract or contracts with a customer.
- 2 Identify the distinct performance obligations.
- 3 Estimate the transaction price and apply the constraint.
- 4 Allocate the transaction price using relative standalone selling prices unless a specific-allocation exception better meets the objective.
- 5 Recognize each allocation when control of that obligation transfers.

Scope

Topic 606 applies broadly to customer contracts. Specialized issues and contracts governed by other guidance are outside this class's scope.

ASC 606 · STEP 1

Identify a qualifying contract

Which enforceable arrangement meets all five contract criteria?

Does the arrangement qualify?

Only an arrangement that meets all five contract criteria proceeds through the ASC 606 model.

LOCATE

Find the agreement or agreements with a customer and the enforceable rights involved.

EVALUATE

Apply all five contract criteria to the arrangement.

DECIDE

- All criteria met = **proceed**
- Not all criteria met = **stop** + record a deposit liability if applicable



A customer contract must meet five criteria

Apply these criteria before identifying obligations or estimating the price.

- 1 The parties approved the arrangement and are committed to perform.
- 2 Each party's rights can be identified.
- 3 Payment terms can be identified.
- 4 The arrangement has commercial substance.
- 5 Collection of substantially all consideration the seller expects to be entitled to for the goods or services that will transfer is probable. Consider the customer's ability and intention to pay when due.

Price concession versus credit risk

An expected commercial concession can reduce the amount the seller expects to be entitled to. Doubt that the customer will pay an amount still owed is credit risk, not a concession.



When the arrangement does not qualify

Stop: ASC 606 does not yet treat the arrangement as a contract with a customer.

NO CASH RECEIVED

- Do not proceed under ASC 606.
- Reassess contract qualification when relevant facts change.

CASH RECEIVED

ACCOUNT	DEBIT	CREDIT
Cash	5,000	
Customer Deposit liability		5,000

⚠ Deposit liability $\neq$ contract liability.



When does the deposit liability change?

- Keep it until refunded or revenue recognition is allowed under ASC 606-10-25-7.
- If the arrangement qualifies under ASC 606, apply the revenue-recognition rules. Any deposit for goods or services still owed becomes a contract liability.



Does this agreement qualify?

Read the agreement and customer file. Decide whether all five contract criteria are met.

Granite Harbor–Fairmont agreement

Both parties signed the binding agreement on December 2. Cancellation requires an uncured breach. Granite Harbor will manufacture, deliver, and install an automated specimen-storage system in Fairmont Health's new laboratory by January 1. It will then provide quarterly calibration and preventive maintenance for 36 months. Fairmont must provide site access and accept conforming work. Fairmont will pay \$40,000 at signing, \$60,000 upon acceptance, and \$20,000 after the first maintenance year. Timely installation adds \$12,000.

CUSTOMER FILE

Granite Harbor will receive cash and incur new manufacturing, installation, and service costs. Fairmont paid the deposit, has an approved credit line, and paid two prior contracts on time.

TEST ALL FIVE CRITERIA

Approval and commitment

Identifiable rights

Identifiable payment terms

Commercial substance

Probable collection

✓ Why the Granite Harbor agreement qualifies

Each color connects one criterion to the evidence that supports it.

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Probable collection

ASC 606 · STEP 2

Identify performance obligations

Which promised goods or services are distinct?



The two-part distinct test

Test 1 considers the item. Test 2 considers the promise within this contract. Both must pass.

CAPABLE OF BEING DISTINCT

Can the customer benefit from the item on its own or with another readily available resource?

Example. Lumber passes because another builder can use it, or the customer can resell it for more than scrap value.

SEPARATE FROM OTHER PROMISES

Is the promise separately identifiable rather than an input to a combined output?

Example. The same lumber is not separate when a contractor integrates it with labor and other materials to deliver a finished house.

✔ Decision after both questions

- Both answers are yes: the promise is a separate performance obligation.
- Either answer is no: combine it with related goods or services and reassess the new bundle.

? Which fact fails the second distinct test?

Assume tires and batteries are sold separately and work with cars customers already own.

? iClicker · Question 1 of 5

Which additional fact makes the components inputs to one combined performance obligation?

- ☐ A An automaker integrates them with other components to deliver a finished vehicle.
- ☐ B A parts supplier transfers each replacement part separately.
- ☐ C The customer can resell each part for more than scrap value.
- ☐ D The contract lists a separate price for each component.

✓ Integration fails the second test

The components can provide benefit separately, but the automaker promises one combined output.

✓ iClicker · Answer 1 of 5

A

One combined performance obligation.

The automaker integrates the components into the finished vehicle promised to the customer.

B

Separate promises. A supplier that transfers replacement parts individually does not promise one integrated output.

C

Test 1 evidence. A resale value above scrap shows that each component can provide economic benefit.

D

Not decisive. Contract pricing does not determine whether the promises are separately identifiable.



Series rule: repeated services = one obligation

Apply the rule only after concluding that each service in the series is distinct.

1 · REPEATED SERVICES

Each service is distinct and substantially the same.



2 · SAME TRANSFER PATTERN

Each service qualifies for over-time recognition and uses the same progress measure.



3 · SERIES RESULT

Account for the repeated services as one performance obligation.

The series rule changes the unit of account. It does not make an otherwise inseparable service distinct.

What has Granite Harbor promised?

Identify every possible promised good or service before deciding which are performance obligations.

Service schedule

- Manufacture and deliver the automated specimen-storage system.
- Install the system at Fairmont's laboratory.
- Provide quarterly calibration and preventive maintenance for 36 months.

Additional facts

- The storage system can function after ordinary installation.
- Other qualified vendors routinely install and service comparable systems.
- Granite Harbor's installation does not significantly modify the equipment or integrate it into another combined output.
- Before maintenance begins, Granite Harbor creates Fairmont's account in its internal service system.

Classify Granite Harbor's promises

2 minutes · Work on your own or with the people near you.

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CUSTOMER FILE

Granite Harbor will receive cash and incur new manufacturing, installation, and service costs.

Fairmont paid the deposit, has an approved credit line, and paid two prior contracts on time.

CLASSIFY EACH ITEM

For the storage system, installation, maintenance, and account setup, choose:

- Its own performance obligation
- Part of a combined performance obligation
- Not a promised transfer

Additional fact outside the agreement: Before maintenance begins, Granite Harbor creates Fairmont's account in its internal service system.

Label any series obligation.

✓ Granite Harbor's promised goods and services

Apply both distinct questions to each promised item.

STORAGE SYSTEM

A separate obligation: usable with ordinary installation and not integrated or modified.

INSTALLATION

A separate obligation: available from another vendor and not part of a combined output.

MAINTENANCE

- Capable of being distinct: **yes**. Fairmont benefits from each maintenance period with the installed system.
- Separate from other promises: **yes**. Maintenance does not modify or integrate the system or installation.
- Series result: substantially same service periods transfer evenly, so account for them as one performance obligation.

ACCOUNT SETUP

No obligation: an internal fulfillment activity that transfers nothing to the customer.



Integration can change the obligation map

Tires and batteries are sold separately and work with cars customers already own. Both cases pass Test 1.

REPLACEMENT-PARTS SALE

- Capable of being distinct: **yes**. The customer can use each part with a car it already owns.
- Separate from other promises: **yes**. The supplier transfers each replacement part without producing a combined output.
- Result: **two performance obligations**.

FINISHED-VEHICLE SALE

- Capable of being distinct: **yes**. The same components are sold separately and can provide benefit.
- Separate from other promises: **no**. The automaker integrates the components into the finished vehicle promised to the customer.
- Result: **one combined performance obligation**.

Test 1 asks whether each part can provide benefit. Test 2 asks whether the seller promises individual parts or a finished vehicle.

ASC 606 · STEP 3

Determine the transaction price

How much consideration does the company expect to receive for the promised goods or services?



One transaction price covers the contract

Step 3 determines one total before Step 4 allocates that total to the performance obligations.

Transaction price

Expected consideration for all promised goods or services in the contract. Step 3 produces one total, not a separate amount for each performance obligation.

Amounts to consider

- Fixed and variable consideration, including the variable consideration constraint
- Noncash consideration and consideration payable to the customer
- Payment timing and any significant financing component



Two methods estimate variable consideration

Select the method that better predicts the consideration in this contract.

EXPECTED VALUE

- Sum of probability-weighted amounts
- Often fits a range of outcomes or a portfolio of similar contracts

MOST LIKELY AMOUNT

- Select the single **most likely** amount
- Often fits when the contract has two possible consideration amounts

Method choice

A binary outcome supports the most likely amount, but it does not dictate the method. The standard still asks which method better predicts the consideration.

? Which method fits a two-outcome bonus?

A contract pays a \$12,000 deadline bonus or \$0.

? iClicker · Question 2 of 5

Which method would usually better predict the bonus for one contract?

- ☐ A Most likely amount, because the contract has two possible bonus amounts.
- ☐ B Expected value, because every variable amount requires probability weighting.
- ☐ C Relative standalone selling price, because the bonus is part of the transaction price.
- ☐ D Cost-to-cost, because the company controls its work schedule.

✓ The most likely amount fits two outcomes

The method estimates the amount before the company applies the constraint.

✓ iClicker · Answer 2 of 5

A

Use the most likely amount.

Selecting one amount usually better predicts consideration when the outcome is either \$12,000 or \$0.

B

Usually a weaker fit. Expected value often fits a range of outcomes or a portfolio of similar contracts.

C

Different step. Relative standalone selling prices allocate the transaction price after the company determines it.

D

Different purpose. Cost-to-cost can measure progress after an obligation qualifies for over-time recognition.



Estimate the amount, then test reversal risk

The estimate predicts consideration. The constraint limits what enters the transaction price.

WHAT AMOUNT IS EXPECTED?

- Choose the method that better predicts the consideration.
- Calculate the variable amount from the possible outcomes.

HOW MUCH CAN BE INCLUDED?

- Assess both the likelihood and size of a later revenue reversal.
- Include only the amount for which it is probable that a significant reversal will not occur.

Q Why the constraint is separate

An amount may be the best estimate and still be too uncertain to include. Outside control, limited experience, or a long period before resolution can increase reversal risk. Reassess any excluded amount when the facts change.



Transaction price practice

4 minutes · Keep estimation and the constraint separate.

Granite Harbor facts

- Fixed price: \$120,000
- Deadline bonus: \$12,000 or \$0
- 39 of 40 comparable installations finished on time
- No unusual site condition exists
- Granite Harbor controls manufacturing, delivery, and installation scheduling



Your task

- Choose the estimation method.
- Estimate the deadline bonus.
- Apply the constraint.
- Calculate the transaction price.
- Identify the evidence for each answer.

✓ Granite Harbor transaction price

Estimate the bonus first, then decide whether to include it.

1 · ESTIMATE

Use the most likely amount because the bonus is \$12,000 or \$0. The estimate is \$12,000.



2 · APPLY THE CONSTRAINT

The 39 of 40 record, ordinary site conditions, and schedule control reduce the likelihood of a significant reversal. Include \$12,000.



3 · CALCULATE

Fixed consideration \$120,000 + included bonus \$12,000 = transaction price \$132,000.

? Which fact supports a zero constraint?

Assume \$12,000 remains the most likely amount. Each choice replaces only the constraint evidence.

? iClicker · Question 3 of 5

Which alternative creates the greatest risk that recognized revenue will reverse?

- A A new permitting authority controls building access, and Granite Harbor has no comparable experience with that process.
- B Granite Harbor met 39 of 40 comparable deadlines and controls manufacturing, delivery, and installation scheduling.
- C The customer pays the fixed \$120,000 in three installments.
- D The invoice labels the earned bonus as equipment.

✓ Outside control raises reversal risk

Which fact changes the constraint conclusion?

✓ iClicker · Answer 3 of 5

- A** Constrain the estimate to zero.
Outside control and no relevant experience create substantial uncertainty about reversal.
- B** Include the estimate. Comparable experience and scheduling control reduce reversal risk.
- C** Irrelevant. Payment timing does not change the evidence about the bonus.
- D** Irrelevant. An invoice label does not change uncertainty about earning the bonus.



Payment timing may contain financing

Separate the price of the promised item from the effect of paying early or late.

DECISION

- Compare the payment date with the transfer date.
- Identify who receives the financing benefit.
- Assess the price difference, time interval, and market interest rates.
- If financing is significant, record revenue at the cash selling price and interest separately.

EQUIPMENT EXAMPLE

- Equipment transfers today.
- Cash selling price: \$100,000
- Payment in two years: \$121,000
- Revenue today: \$100,000
- Interest over two years: \$21,000

A DELAY MAY SERVE ANOTHER PURPOSE

Payment withheld until the other party completes its obligations protects against nonperformance. A proportional difference for that protection is not financing.

GAAP PRACTICAL EXPEDIENT

GAAP permits a company to skip the financing adjustment when it expects one year or less between transfer and payment.

ASC 606 · STEP 4

Allocate the transaction price

How much of the total transaction price belongs to each performance obligation?

💡 Step 4 divides one contract price

Standalone selling price (SSP) is the price for a promised good or service sold separately.

STEP 2 OUTPUT: THREE PERFORMANCE OBLIGATIONS

Performance obligation 1

Performance obligation 2

Performance obligation 3

STEP 3 OUTPUT: ONE TRANSACTION PRICE FOR THE CONTRACT

STEP 4 ALLOCATES BY RELATIVE SSP

Obligation 1 share

Obligation 2
share

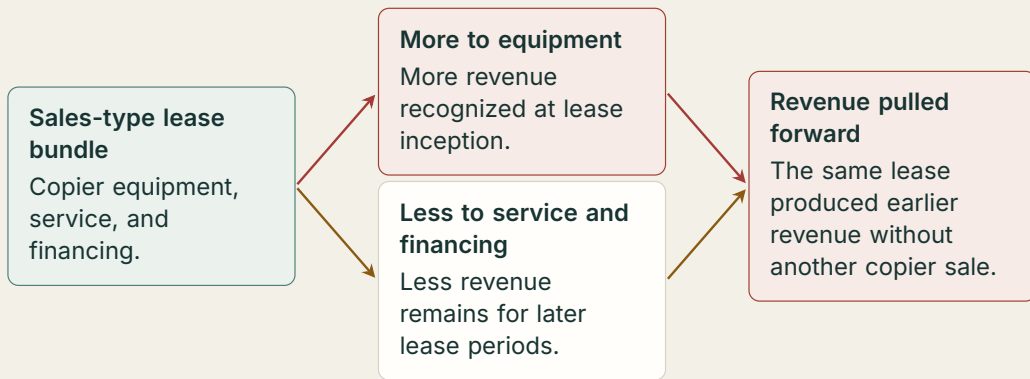
Obligation 3 share

THE ALLOCATED AMOUNTS ADD BACK TO THE TRANSACTION PRICE



Xerox shows why allocation matters

This predates ASC 606; today's rule allocates consideration to depict the amount expected for each obligation.



Source: SEC v. Xerox Corporation, Complaint paragraphs 37–43 (2002). The SEC alleged that one method pulled forward \$2.2 billion of equipment revenue and \$301 million of earnings from 1997 through 2000.



Allocate by relative standalone selling prices

The default method prevents invoice labels from deciding what each obligation earned.

$$\text{Allocation} = \left(\frac{\text{Obligation SSP}}{\text{Total SSP}} \right) \times \text{transaction price}$$

GRANITE HARBOR SSPS

- Storage system: \$100,000
- Installation: \$20,000
- Maintenance: \$30,000

DEFAULT METHOD

No case fact supports a specific-allocation exception. Granite Harbor therefore allocates the transaction price using relative standalone selling prices.



Rebuild the allocation

5 minutes · Show the ratios before using the answer.



Allocation

- Transaction price: \$132,000
- Storage system standalone selling price: \$100,000
- Installation standalone selling price: \$20,000
- Maintenance standalone selling price: \$30,000
- Allocate the transaction price, show each ratio, and verify the total.

✓ The allocations total \$132,000

Granite Harbor · US dollars

OBLIGATION	STANDALONE PRICE	SHARE	ALLOCATION
Storage system	100,000	66.6667%	88,000
Installation	20,000	13.3333%	17,600
Maintenance	30,000	20.0000%	26,400
Total	150,000	100%	132,000

⚠ Allocation only

This step only determines the relative amounts. The next step determines **when** revenue is recognized.

ASC 606 · STEP 5

Recognize revenue

When does each allocated amount become revenue?



Recognition timing for each performance obligation

Apply the over-time criteria first. If none applies, recognize revenue at a point in time.

OVER TIME

One or more over-time criteria applies. Recognize the allocated amount as performance occurs, using a measure that depicts progress.

POINT IN TIME

No over-time criterion applies. Recognize the allocated amount once, when the customer obtains control.

Keep the branches separate

A progress measure cannot make a point-in-time obligation qualify for over-time recognition.



Three criteria lead to over-time recognition

Meeting any one criterion places the obligation on the over-time branch.

Benefit as performed

The customer receives and consumes benefits as work occurs.

Example. Weekly advice is usable as delivered.

Controlled asset

The work creates or enhances an asset the customer controls.

Example. A contractor builds on the customer's land.

No alternative use

The asset has no alternative use, and a payment right covers completed work.

Example. Unique equipment cannot be redirected, and completed work must be paid for.

Result

If any criterion applies, recognize revenue over time and measure progress.

Cost-to-cost measures progress

Use this input method only after the performance obligation qualifies for over-time recognition.

PROGRESS TO DATE

Costs incurred to date $\div$ estimated total qualifying costs

CUMULATIVE REVENUE

Progress to date $\times$ allocated transaction price

When and why cost-to-cost fits

GAAP requires a progress measure for an over-time obligation, but it does not require cost-to-cost. A company uses cost-to-cost when qualifying costs faithfully depict the transfer to the customer. Exclude a cost that does not depict progress, such as a significant uninstalled material.



Keweenaw Systems uses cost-to-cost

US dollars

✓ Why over time?

Keweenaw Systems enhances software the customer already controls. The customer controls each enhancement as Keweenaw performs, so the customer-controlled-asset criterion applies.

CALCULATION

Progress to date
Cumulative revenue

WORK SHOWN

$64,000 \div 160,000$
 $40\% \times 240,000$

RESULT

40%
96,000



Why the costs work

The qualifying labor costs correspond to the software enhancements transferred to the customer.



Point-in-time recognition applies otherwise

Use this branch only when no over-time criterion applies.

📍 Different timing branch

Recognize the allocated amount once, on the date the customer obtains control.

POSSIBLE CONTROL INDICATORS

- Present right to payment
- Legal title and physical possession
- Significant risks and rewards
- Customer acceptance

REQUIRED CONCLUSION

Use the facts together to determine when the customer can direct use of and obtain substantially all remaining benefits from the asset. Shipment or an invoice alone does not establish control.

? Which consulting fact supports revenue over time?

Each choice independently replaces only the consulting-project fact.

? iClicker · Question 4 of 5

Which alternative meets an over-time criterion?

- ☐ A The customer receives weekly advice and can use it immediately.
- ☐ B The consultant has incurred 60% of expected labor cost.
- ☐ C The customer receives no benefit until a standard report is delivered; it can be redirected, and no payment is due upon cancellation.
- ☐ D The consultant bills the customer each month.

✓ Weekly advice transfers as work occurs

Which fact establishes an over-time path?

✓ iClicker · Answer 4 of 5

A

Recognize revenue over time.

The advice is usable as delivered, so the simultaneous-performance-and-benefit criterion applies.

B

Not enough. Cost may measure progress only after an over-time path is established.

C

Point in time. No benefit or controlled asset transfers during work, and the no-alternative-use-and-payment-right criterion is not met.

D

Not enough. Monthly billing alone does not show that the invoiced amount corresponds directly with value transferred.



Granite Harbor timing example

5 minutes · Determine the timing and Year 1 revenue for each obligation.

ALLOCATED AMOUNTS

- Storage system: \$88,000
- Installation: \$17,600
- Maintenance: \$26,400

TRANSFER FACTS

- On January 1, 2025, Fairmont accepts the system and installation, takes title and possession, assumes loss risk, and can use the installed system.
- From January 1, 2025 through December 31, 2027, Granite Harbor remains available to provide quarterly calibration and preventive maintenance. Fairmont receives equal service coverage each month.
- Reporting date: December 31, 2025

Your task

Classify each obligation as over time or at a point in time. Calculate revenue through December 31, 2025.

✓ Granite Harbor recognition

Year 1 · US dollars

OBLIGATION	TIMING AND CALCULATION	YEAR 1 REVENUE
Storage system	Point in time: January 1	88,000
Installation	Point in time: January 1	17,600
Maintenance	Over time: 26,400 × 12/36	8,800
Total		114,400

✓ Recognition result

Fairmont obtains control of the system and installation on January 1. Granite Harbor provides maintenance coverage evenly throughout the 36-month service period.



Billing and cash create separate balances

Compare recognized revenue, unconditional billings, and cash collected.

Receivable

Unconditional billings less cash collected.

Contract asset

- Recognized revenue > billings
- The right to the unbilled amount remains conditional

Contract liability

- Billings or cash > recognized revenue
- Performance is still owed

Do not net the balances

Present an unconditional receivable separately from a contract asset or contract liability.

? What remains when billing moves ahead?

All amounts below are for Granite Harbor at December 31, 2025.

? iClicker · Question 5 of 5

Granite Harbor recognized \$114,400 of revenue, issued \$120,000 of unconditional billings, and collected \$90,000. What balances remain?

- ☐ A Receivable \$30,000 and contract liability \$5,600
- ☐ B Receivable \$30,000 and contract asset \$24,400
- ☐ C One receivable of \$24,400
- ☐ D Cash \$90,000 and no customer-contract balance

✓ Billing leads performance, while cash trails billing

Reconcile each clock separately.

✓ iClicker · Answer 5 of 5

A

Receivable \$30,000 and contract liability \$5,600

Receivable: $\$120,000 \text{ billed} - \$90,000 \text{ collected} = \$30,000$. Contract liability: $\$120,000 \text{ billed} - \$114,400 \text{ recognized} = \$5,600$.

B

Wrong direction. A contract asset arises when performance leads billing.

C

Wrong netting. Present the unconditional receivable separately from the contract liability.

D

Wrong. Cash collected does not eliminate the remaining unconditional receivable or the excess billing.

Exam 1 is Tuesday, September 29

Taken in Desire2Learn through Respondus LockDown Browser and Respondus Monitor.

33

Multiple-choice questions

80

Minutes

100

Points

SCOPE

Units 1 and 2 (Chapters 1–8)

ORDER AND CHOICES

- Question order is fixed, so related parts stay with their data.
- Answer choices are shuffled.



Permitted exam materials

I will check note cards before anyone opens the browser.

- ✓ One handwritten 3x5 note card, both sides
- ✓ Charged laptop and charger
- ✓ Basic four-function calculator, not a phone or smart watch
- ✓ Michigan State University student identification
- ✓ Paper and a pencil for scratch work

No other outside sources are allowed

No other notes, textbooks, course materials, AI tools, or outside internet use is allowed. Open Respondus before Tuesday if you have not used it since week one.

EXAM 1

**Any exam
questions?**



A deposit before a qualifying contract

Use only if the required class path and exam questions finish early.

Bayfield Equipment

A customer in severe financial difficulty pays a \$5,000 nonrefundable deposit on a \$40,000 machine. At inception, Bayfield concludes that collection of substantially all expected consideration is not probable.

Your task

Choose the account credited for the \$5,000 and state whether Bayfield recognizes revenue. Identify what Bayfield must reassess. Then explain how the answer would differ if credit quality deteriorated only after a valid contract and receivable existed.



The deposit remains a liability

Bayfield has not established a qualifying ASC 606 contract.

Debit Cash \$5,000 = Credit Customer Deposit Liability \$5,000

WHY NO REVENUE

A nonrefundable label does not establish a qualifying contract or transferred performance. Bayfield keeps the liability until the contract qualifies or ASC 606's limited release conditions are met.

LATER DETERIORATION

Evaluate an existing receivable under Topic 326 and reassess whether the arrangement still qualifies after a significant change. Chapter 14, Receivables, covers the allowance.



Measure progress and reconcile billing

Use only if the required class path and exam questions finish early.



Roscommon Bridgeworks

A \$1,200,000 bridge obligation qualifies for over-time recognition. Costs incurred faithfully depict the transfer of control, and no costs require exclusion from the progress measure. Estimated total qualifying costs are \$900,000. Year 1 costs are \$360,000, unconditional billings are \$420,000, and collections are \$390,000.

Your task

Calculate progress, revenue, expense, gross profit, the receivable, and the contract asset or liability.



Performance exceeds billing by \$60,000

Roscommon Bridgeworks · Year 1 · US dollars

CALCULATION	BASIS	AMOUNT
Progress	$360,000 \div 900,000$	40%
Revenue	$40\% \times 1,200,000$	480,000
Expense	Costs incurred	360,000
Gross profit	Revenue – expense	120,000
Receivable	$420,000 - 390,000$	30,000
Contract asset	$480,000 - 420,000$	60,000

🔗 Why Billings offsets CIP

In this construction accounting system, Construction in Progress contains \$360,000 of costs plus \$120,000 of recognized profit. Billings on Construction is credited when Roscommon invoices the customer. It offsets CIP and is not revenue. Net CIP of \$480,000 less Billings of \$420,000 produces the \$60,000 contract asset.

NEXT MEETING · TUESDAY, SEPTEMBER 29

Exam 1: Units 1 and 2

Bring the permitted materials and open Respondus before exam day.
Check the course site for any final announcement.