
American Institute of Certified Public Accountants. Technical Information Division

Ronald Zulli

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Disclosure Supplement for Construction Contractors

A FINANCIAL REPORTING PRACTICE AID

To be used in conjunction with Disclosure Checklists for Corporations

Edited by:
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Technical Manager
Technical Information Division

The Disclosure Supplement for Construction Contractors has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants, or the Financial Accounting Standards Board and has no official or authoritative status.

American Institute of Certified Public Accountants
DISCLOSURE SUPPLEMENT
FOR CONSTRUCTION CONTRACTORS

This checklist is not designed to be applied to the financial statements of government contractors.

The checklist included in this booklet has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative technical practice aid. Readers should be aware of the following:

- The checklist is to be used in conjunction with the "Disclosure Checklists for Corporations," and has been updated to include relevant FASB Statements, Accounting Principles Board Opinions, AICPA Statements of Position, and the Audit and Accounting Guide entitled Construction Contractors. The checklist should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

- The checklist is a "tool" and in no way represents official positions or pronouncements of the AICPA.

- The checklist should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles and generally accepted auditing standards.

- The checklist does not represent minimum requirements and does not purport to be all-inclusive. The referenced standards should be reviewed if clarification is desired as to whether the disclosures indicated are required or suggested and to what extent each disclosure is relevant to the statements.

Users of this checklist are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline (see back cover).

John Graves
Director
Technical Information Division
DISCLOSURE SUPPLEMENT
FOR CONSTRUCTION CONTRACTORS

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Disclosure Supplement for Construction Contractors

This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid, and is to be used in conjunction with the "Disclosure Checklists for Corporations." Accordingly, the notice on page 3 is incorporated herein by reference.

Explanation of references:

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>APB</td>
<td>Accounting Principles Board Opinion</td>
</tr>
<tr>
<td>SFAS</td>
<td>Statement of Financial Accounting Standards</td>
</tr>
<tr>
<td>(AC)</td>
<td>Reference to section number in FASB Accounting Standards Current Text</td>
</tr>
<tr>
<td>SOP</td>
<td>AICPA Statement of Position</td>
</tr>
<tr>
<td>CC</td>
<td>AICPA Audit and Accounting Guide, Construction Contractors</td>
</tr>
</tbody>
</table>

Checklist Questionnaire

Financial Statements and Notes Checklist for Construction Contractors

Note: This checklist is to be used in conjunction with section 8400 of the "Disclosure Checklists for Corporations."

General

<table>
<thead>
<tr>
<th>A. Disclosure of Accounting Policies</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Is the method of reporting affiliates disclosed?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[CC, Ch. 6, p. 51]</td>
<td></td>
<td></td>
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<tr>
<td>2. Is the operating cycle disclosed?</td>
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<td></td>
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<tr>
<td>o If the operating cycle exceeds one year, is the range of contract durations disclosed?</td>
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<tr>
<td>[CC, Ch. 6, p. 51]</td>
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<tr>
<td>3. Disclosure of method of revenue recognition:</td>
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</tr>
<tr>
<td>a) If the percentage-of-completion method is used, is the method of computing percentage of completion (e.g., cost to cost, labor hours) disclosed?</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>b) If the completed-contract method is used:</td>
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</tbody>
</table>
(1) Is the basis of selecting that method disclosed?  

(2) Are the criteria employed to determine substantial completion disclosed?  

c) Where applicable, is the policy with respect to combining or segmenting contracts disclosed?  

d) In those instances where the basic accounting policy is percentage-of-completion and the completed-contract method is used for a single contract or group of contracts, because the criteria for the use of percentage-of-completion are not present, is such a departure from the basic policy disclosed?  

[CC, Ch. 6, pp. 51-52; SOP 81-1, pars. 21, 25, 39-42, 45, and 52]

4. Is the method of reporting investments in joint ventures disclosed?  

[CC, Ch. 6, p. 52]

5. Is the following contract cost information disclosed:

a) The aggregate amount included in contract costs representing unapproved change orders, claims, or similar items subject to uncertainty concerning their determination or ultimate realization, plus a description of the nature and status of the principal items comprising such aggregate amounts and the basis on which such items are recorded (for example, cost or realizable value)?  

b) The amount of progress payments netted against contract costs at the date of the balance sheet?  

c) The types of contract costs?  

d) Where there are fees recognized from construction management contracts where the contractor acts solely in the capacity of an agent, has disclosure of the volume of subcontracts and
materials contracts entered into been considered in the financial statements?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</tbody>
</table>

e) Where there is a provision for loss on a contract and it is material in amount or unusual or infrequent in nature, is the loss shown separately as a component of cost included in the computation of gross profit?

[CC, Ch. 6, p. 52; SOP 81-1, pars. 65-66, 69-72, and 88]

[ | | ]

6. For costs deferred either in anticipation of future sales (precontract costs) or as a result of an unapproved change order, are the policy of deferral and the amounts involved disclosed?

[CC, Ch. 6, p. 52]

B. Accounting Changes

o Are significant revisions in estimates of the percentage of completion disclosed if the effects are material?

[CC, Ch. 6, p. 52; SOP 81-1, pars. 82-84; APB 20, par. 33 (AC A06.132)]

C. Related Party Transactions and Economic Dependency

o If there are affiliated members of a group under common control whose operations are closely interrelated and economically interdependent, are combined financial statements presented, unless consolidated financial statements are appropriate under Accounting Research Bulletin 51?

[CC, Ch. 4, p. 38]

D. Contingencies and Commitments

1. Disclosure of backlog information is encouraged:

a) Is backlog information for signed contracts on hand whose cancellations are not anticipated, disclosed?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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b) Is backlog information for letters of intent disclosed?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</tbody>
</table>
2. If so, is it reported separately from (a) above?  
[CC, Ch. 6, pp. 52-53]  

2. Have state statutes affecting construction contractors been considered?  
[CC, Ch. 11, p. 100]  

**Balance Sheet**

**A. General**

1. Was a classified balance sheet considered if the operating cycle is one year or less?  
[CC, Ch. 6, p. 45]  

2. If the operating cycle exceeds one year an unclassified balance sheet is preferable. However, if in management's opinion an unclassified balance sheet would not result in a meaningful presentation, are the following contract-related items generally classified as current under the operating cycle concept:

   a. Contract-related assets:

   (1) Accounts receivable on contracts (including retentions)?  

   (2) Unbilled contract receivables?  

   (3) Cost in excess of billings and estimated earnings?  

   (4) Other deferred contract costs?  

   (5) Equipment and small tools specifically purchased for, or expected to be used solely on, an individual contract?  

   b. Contract-related liabilities:

   (1) Accounts payable on contracts (including retentions)?  

   (2) Accrued contract costs?  

   (3) Billings in excess of cost and estimated earnings?
(4) Deferred taxes resulting from the use of a method of income recognition for tax purposes different from the method used for financial reporting purposes?

(5) Advanced payments on contracts for mobilization or other purposes?

(6) Obligations for equipment specifically purchased for, or expected to be used solely on, an individual contract regardless of the payment terms of the obligations?

(7) Provisions for losses on contracts (except in circumstances in which related costs are accumulated on the balance sheet, in which case the provision may be deducted from the related accumulated costs)?

[CC, Ch. 6, pp. 45-48; SOP 81-1, par. 89]

B. Receivables

1. Are the nature and status of billed or unbilled amounts included in receivables representing unapproved change orders, claims, or similar items subject to uncertainty disclosed, including amounts to be collected after one year?

[CC, Ch. 6, p. 53; SOP 81-1, par. 65]

2. Are amounts in receivables representing the recognized sales value of performance under contracts in which the amounts have not been billed and are not billable to customers at the balance sheet date disclosed with a general description of the prerequisite for billing?

o Are the amounts to be collected after one year disclosed?

[CC, Ch. 6, p. 53]

3. If it is not probable that a claim will result in additional contract revenue, or if the amount cannot be reliably estimated, is disclosure of a contingent asset
considered? (When disclosing contingencies that may result in gains, care should be exercised to avoid misleading implications concerning the likelihood of realization.)
[CC, Ch. 6, p. 53; SOP 81-1, par. 67; SFAS 5, par. 17 (AC C59.118)]

4. If revenue from claims are recorded only when the amounts have been received or awarded, is the aggregated amount of such claims disclosed?
[SOP 81-1, par. 66]

5. If receivables include amounts maturing after one year, are the following disclosed:
   a) The amounts maturing after one year and, if practicable, the amounts maturing in each year?
   [CC, Ch. 6, pp. 53-54]
   b) Interest rates on major receivable items, or on classes of receivables, maturing after one year or an indication of the average interest rate or the range of rates on all receivables?

6. If receivables include amounts representing balances billed but not yet paid by customers under retainage provisions, is disclosure made of the amounts included, the amounts expected to be collected after one year and, if practicable, the years in which the amounts are expected to be collected?
[CC, Ch. 6, p. 54]

7. Is retentions receivable not due within the company's operating cycle classified as noncurrent in a classified balance sheet?
[CC, Ch. 6, p. 48]

C. Investments

1. Are the following disclosures relating to significant joint ventures considered:
   a) The name of each joint venture, the percentage of ownership, and any important provisions of the joint venture agreement?
b) If the joint venture's financial statements are not fully consolidated with those of the venturer, separate or combined financial statements of the ventures in summary form, including disclosure of accounting principles of the ventures that differ significantly from those of the venturer?

[CC, Ch. 3, p. 36]

2. Is an investment in a joint venture which is presented on the cost or equity method classified as noncurrent unless the venture is expected to be completed and liquidated during the current operating cycle?

[CC, Ch. 6, p. 48]

3. Are losses in excess of an investment in a joint venture presented as a liability?

[CC, Ch. 6, p. 49]

D. Property and Equipment

o Is equipment acquired for a specific contract that will be used only on that contract and will be consumed during the life of the contract or disposed of at the conclusion of the contract classified as a contract cost?

[CC, Ch. 6, p. 49]

E. Current Liabilities

1. Are the following disclosures made for billings in excess of cost and estimated earnings:

a) If costs exceed billings on some contracts, and billings exceed costs on others, are the contracts segregated so that figures on the asset
side include only those on which costs exceed billings, and those on the liability side include only those on which billings exceed costs?

b) Are billings and related costs presented separately either by short extension of the amounts on the balance sheet or in the notes to the financial statements?

c) Are billings in excess of costs and estimated earnings classified as a current liability, except to the extent billings exceed total estimated costs at completion of the contract plus contract profits earned to date, in which case are they classified as deferred income?

[CC, Ch. 6, pp. 49-51]

F. Other Liabilities and Deferred Credits

o Is retentions payable not due within the company's operating cycle classified as noncurrent in a classified balance sheet?

[CC, Ch. 6, p. 48]
Supplemental Disclosures for Construction Contractors

Has the following supplementary information been considered by contractors using the percentage-of-completion method:

a) Earnings from contracts?

b) Contracts completed?

c) Contracts in progress?
[CC, App. 7, pp. 196-198]
TECHNICAL HOTLINE

The AICPA Technical Information Service answers inquiries about specific audit or accounting problems.

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(800) 223-4158 (Except New York)
(800) 522-5430 (New York Only)

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