

Exercise 1
Income Recognition Example

Contract Value	\$10,000,000
Estimated Total Costs	9,500,000
Anticipated Gross Profit	<u>\$500,000</u>

	<u>YEAR 1</u>	<u>YEAR 2</u>
Amount Billed Gross	\$5,000,000	\$5,000,000
Retention	-500,000	500,000
	<u>\$4,500,000</u>	<u>\$5,500,000</u>
Cash Collected	<u>\$4,000,000</u>	<u>\$6,000,000</u>
Outstanding Receivables	<u>\$500,000</u>	<u>\$0</u>
Contract Costs Incurred	<u>\$4,250,000</u>	<u>\$5,250,000</u>
Cash Paid	<u>\$3,750,000</u>	<u>\$5,750,000</u>
Outstanding Payables	<u>\$500,000</u>	<u>\$0</u>

<u>CCM</u>	<u>YEAR 1</u>	<u>YEAR 2</u>
Contract Revenues	\$0	\$10,000,000
Contract Costs	<u>0</u>	<u>9,500,000</u>
Gross Profit	0	500,000
G&A	<u>100,000</u>	<u>100,000</u>
Income <loss>	<u>-\$100,000</u>	<u>\$400,000</u>

<u>PCM</u>		
Contract Revenues	\$4,474,000	\$5,526,000
Contract Costs	<u>4,250,000</u>	<u>5,250,000</u>
Gross Profit	224,000	276,000
G&A	<u>100,000</u>	<u>100,000</u>
Income <loss>	<u>\$124,000</u>	<u>\$176,000</u>

\$10,000,000	
<u>9,500,000</u>	
500,000	
<u>200,000</u>	
<u>\$300,000</u>	
\$10,000,000	44.74%
<u>9,500,000</u>	55.26%
500,000	
<u>200,000</u>	
<u>\$300,000</u>	