

Exercise 6-22

February 1, 2021 entered into 3-year construction contract for \$8,000,000.

2021: Costs incurred - \$2,000,000; Estimated future costs - \$4,000,000; Billings - \$2,500,000; Cash collections - \$2,250,000

2022: Costs incurred - \$2,200,000; Estimated future costs - \$3,600,000; Billings - \$2,750,000; Cash collections - \$2,475,000

Project completed in 2023; Additional Costs - \$3,800,000.

Company's fiscal year-end is December 31.

Project does not qualify for revenue recognition over time.

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Exercise 6-22 (continued)

Part 1: Calculate the amount of gross profit or loss to be recognized in each of the three years.

Year	Revenue	Gross Profit(Loss)
2021	-0-	-0- (estimated 8,000,000 – 6,000,000)
2022	-0-	\$(100,000) (8,000,000–8,100,000)
2023	\$8,000,000	\$(200,000) (8,000,000–8,300,000+100,000)

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Exercise 6-22 (continued)

Part 2: Prepare the journal entries for 2021 and 2022 to record the transactions described (credit "various accounts" for construction costs incurred).

2021

Construction in progress	2,000,000	
Various accounts		2,000,000
Accounts receivable	2,500,000	
Billings on construction contract		2,500,000
Cash	2,250,000	
Accounts receivable		2,250,000

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Exercise 6-22 (continued)

Part 2: Prepare the journal entries for 2021 and 2022 to record the transactions described (credit "various accounts" for construction costs incurred).

2022

Construction in progress	2,500,000	
Various accounts		2,500,000
Accounts receivable	2,750,000	
Billings on construction contract		2,750,000
Cash	2,475,000	
Accounts receivable		2,475,000
Loss on long-term contract	100,000	
Construction in progress		100,000

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Exercise 6-22 (continued)

Part 3: Prepare a partial balance sheet to show the presentation of the project as of December 31, 2021 and 2022. Indicate whether any of the amounts shown are contract assets or contract liabilities.

2021

Current assets:		
Accounts receivable (\$2,500,000 - \$2,250,000)		\$250,000
Current liabilities:		
Billings in excess of costs (\$2,500,000 - \$2,000,000)		\$500,000

2022

Current assets:		
Accounts receivable		
(\$250,000 + \$2,750,000 - \$2,475,000)		\$525,000
Current liabilities:		
Billings in excess of costs less loss		
[\$5,250,000 - (\$4,500,000 - \$100,000)]		\$850,000

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