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Implementation of Financial Accounting Standards Board  
**Accounting Standards Codification Topic 606**

# RETENTION RECEIVABLE GUIDANCE

**Sponsored by: Foundation Software**

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## Retention Receivable

The question many experts have regarding retainage under ASC606 is whether retention receivable is to be presented as an account receivable or a component of contract asset. ASC Section 606 requires retainage to be included in contract assets and liabilities until all of the **performance requirements** are completed by the entity. The final determination of classification is to be based on a careful review of the contract terms, the contractor's historical experience of collection, and that all costs related to the retention amount are included in the estimated costs to complete amount included in the work in progress schedule.

When determining the proper classification of a contract's retention receivable, the contractor must first understand ASC 606-10-45 paragraphs 1-4, which are noted below:

### 606-10-45-1

When either party to a contract has performed, an entity shall present the contract in the statement of financial position as a contract asset **or** a contract liability, depending on the relationship between the entity's performance and the customer's payment.

An entity shall present any **unconditional rights to consideration** separately as a receivable.

### 606-10-45-2

If a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (that is, a receivable), before the entity transfers a good or service to the customer, the entity shall present the contract as **a contract liability** when the payment is made or the payment is due (whichever is earlier).

**A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer.**

*Note paragraph -2 is similar to the concept of an overbilling under ASC 605*



## Topic ASC 606

### Retention Receivable Guidance

#### 606-10-45-3

If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a **contract asset**, excluding any amounts presented as a receivable.

**A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer.**

An entity shall assess a contract asset for impairment in accordance with Topic 310 on receivables. An impairment of a contract asset shall be measured, presented, and disclosed in accordance with Topic 310 (see also paragraph 606-10-504(b)).

*Note paragraph -3 is similar to the concept of an underbilling under ASC 605*

#### 606-10-45-4

A receivable is an entity's right to consideration that is unconditional.

**A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.**

For example, an entity would recognize a receivable if it has a present right to payment even though that amount may be subject to refund in the future. An entity shall account for a receivable in accordance with Topic 310. Upon initial recognition of a receivable from a contract with a customer, any difference between the measurement of the receivable in accordance with Topic 310 and the corresponding amount of revenue recognized shall be presented as an expense (for example, as an impairment loss).

### Retainage as a component of accounts receivable

When the contractor has the right to receive the retention billed to date with the only condition being the passage of time, the retention billed should be classified as a component of accounts receivable. That is, the entity's performance and billings to date are reflective of amounts actually owed by the customer and any claim for offset against the retention would properly be accounted for as an obligation of the contractor, if any, and not as a restraint on collectability of the receivable.



### **Retainage as a component of the contract asset**

When the condition to complete the job must be fulfilled before there is an unconditional right to receipt of retention and that the receivable is conditional on more than just the passage of time, then retention receivable is a component of the contract asset. Note that if the same contract has a contract asset and a contract liability, then the two items are netted as one for financial statement presentation.

At some point the retainage amount will become conditional only on the passage of time. At that point, the retainage amount will no longer be a component of contract asset and will be reclassified to a component of accounts receivable.

### **In Summary**

As of the issuance of this whitepaper, there are examples of published financial statements that are split relatively evenly between retention receivable being shown as a component of accounts receivable versus a contract asset. At some point in the future, it is believed the SEC and/or AICPA will provide further guidance on the classification of retention receivable. In the meantime, as you implement ASC 606, your interpretation of “unconditional” will dictate the presentation in financial statements.



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