3 criteria must be fulfilled:
1. Earnings process is substantially complete
2. Measurability is reasonably assured
3. Collectability is reasonably assured

Percentage-of-Completion Method

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Contract Price</td>
</tr>
<tr>
<td>Costs:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Opening Balance</td>
</tr>
<tr>
<td>+</td>
<td>Costs incurred this year</td>
</tr>
<tr>
<td>B</td>
<td>Costs to date</td>
</tr>
<tr>
<td>+</td>
<td>Estimated costs to complete</td>
</tr>
<tr>
<td>C</td>
<td>Estimated total cost</td>
</tr>
<tr>
<td>A-C=D</td>
<td>Estimated Profit</td>
</tr>
<tr>
<td>B/C=E</td>
<td>Percentage Complete</td>
</tr>
</tbody>
</table>

\[D \times E\]
\[\text{Gross profit recognized to date}\]
\[\text{- Gross profit recognized in previous years}\]
\[\text{Gross Profit recognized in current year}\]

\[A \times E\]
\[\text{Revenue recognized to date}\]
\[\text{- Revenue recognized in previous years}\]
\[\text{Revenue Recognized in current year}\]

Journal Entries

(1) To Record Cost of Construction
    Construction in Process
    Materials, Cash, Payables, etc.

(2) To Record Progress Billings
    Accounts Receivables
    Billings on Construction in Process
(3) To Record Collections
   Cash
   Accounts Receivables

(4) To Recognize Revenue (Gross Profit)
   Construction in Process (Gross Profit)
   Construction Expense
   Revenue from Long-Term Contract

(5) To Record Completion of the Contract
   Billings on Construction in Process
   Construction in Process

LOSS
On Interim or Unprofitable Contract
   Construction Expense
   Construction in Process (Loss)
   Revenue from Long-Term Contract

Balance Sheet Presentation

- If Construction in Process > Billings
  - Then put Construction in Process as Asset (Inventory)
- If Billings > Construction in Process
  - Then put Billings as Liability (Unearned)

Completed Contract Method

Journal Entries
Do not record revenue or gross profit until the contract is complete.
(1), (2) & (3) are the same as Percentage Completion

(4) To Record Revenue
   Billings on Construction in Process
   Revenue from Long-Term Contract

(5) To Record Costs
   Costs of Construction
   Construction in Process

LOSS
Recognized right away
   Loss from Long-Term Contract
   Construction in Process (Loss)
Installment Method

<table>
<thead>
<tr>
<th>Year</th>
<th>Installment Sales</th>
<th>Costs of Installment Sales</th>
<th>Gross Profit</th>
<th>Rate of Gross Profit on Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Journal Entries**

**2004**
- To Record Installment Sales made in 2004
  - Installment Accounts Receivables – 2004
  - Installment Sales

- To Record Collection of Installment Receivables
  - Cash
  - Installment Accounts Receivables – 2004

- To Record Cost of Goods Sold on Installment Sales in 2004
  - Cost of Installment Sales
  - Inventory

- To Defer Gross Profit Recognition for Unrealized Gross Profit
  - Deferred (Unrealized) Gross Profit Current Year (Income Statement)
  - Deferred Gross Profit (Balance Sheet)

  Calculation: \[\text{current rate} \times (\text{current sales} - \text{current cash receipts})\]

**2005**
- To Record Installment Sales made in 2005
  - Installment Accounts Receivables – 2005
  - Installment Sales

- To Record Cash Collections
  - Cash
  - Installment Accounts Receivables – 2004
  - Installment Accounts Receivables – 2005

- To Record Cost of Goods Sold in 2005
  - Cost of Installment Sales
  - Inventory
To Record 2004 Realized Gross Profit for Prior Year
Deferred Gross Profit (Balance Sheet)
Realized Gross Profit – Prior Years Sales (Income Statement)
Calculation: [Prior rate*current cash collections]

To Defer Gross Profit Recognition for unrealized Gross Profit
Deferred (Unrealized) Gross Profit Current Year (Income Statement)
Deferred Gross Profit (Balance Sheet)

REPOSSESSION
Repossessed Inventory
Deferred Gross Profit (Balance Sheet)
Installment Accounts Receivable – year in which inventory was sold

REPOSSESSION AT A LOSS
Repossessed Inventory
Deferred Gross Profit (Balance Sheet)
*Loss on Repossessed Inventory
Installment Accounts Receivable – year in which inventory was sold
* Loss on repossed inventory is a product of other accounts

Cost Recovery Method

Journal Entries

To Record Deferred Gross Profit on Sales
Deferred (Unrealized) Gross Profit (Income Statement)
Deferred Gross Profit (Balance Sheet)

To Recognize Gross Profit to the Extent that Cash Collections Exceed Costs
Deferred Gross Profit (Balance Sheet)
Realized Gross Profit (Income Statement)