

# Technical Factsheet 134

## Guidance on the Application of UITF 40 “Revenue Recognition and Service Contracts”



### BACKGROUND NOTE TO PUBLICATION OF THIS GUIDANCE NOTE

On 10 March 2005, the Urgent Issues Task Force (UITF) of the Accounting Standards Board published UITF 40 *Abstract 40 Revenue recognition and service contracts* (UITF 40). UITF 40 applies to accounting periods ending on or after 22 June 2005.

On 27 April 2006, the Institute of Chartered Accountants in England & Wales (ICAEW) published a three part guidance note on UITF 40. This was developed out of an earlier guidance note prepared by the Association of Tax Technicians and the Association of Accounting Technicians in conjunction with the ICAEW's Practice Society. This earlier guidance note was, with some amendments, adopted as Part 2 of the ICAEW's guidance on 27 April.

Although the guidance is designed primarily to assist small businesses, it applies to all service providers who are affected by UITF 40. The guidance applies to UITF 40 only and does not address the application of comparable requirements in either the FRSSE or in International Financial Reporting Standards.

Following discussions between some members of the CCAB bodies and HM Revenue and Customs about the impact of UITF 40, the importance of having consistent guidance on UITF 40 that received the general support of the accountancy profession was recognised. Accordingly, it was agreed that the ICAEW would approach its fellow members and seek their approval to adopting the guidance published on 27 April 2006, with the result that the guidance would be published under the auspices of the CCAB.

Following a ratification process, the guidance has been adopted by all the six members of the CCAB and is accordingly now published as CCAB guidance. For ease of reference the guidance note has been retained in the form published on 27 April 2006, including the reference in Part 2 to the Practice Society's guidance note. The CCAB bodies wish to emphasise, however, that although the guidance note is in three parts, the guidance must be read as a whole and each part is equally important: no one part of the note should be taken in isolation.

This statement was issued by the Consultative Committee of Accountancy Bodies in August 2006. This Statement is published by ACCA on behalf of the Consultative Committee of Accountancy Bodies.

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## PART 1

### Introduction

- 1 In understanding UITF 40, it is helpful first to consider SSAP 9 “Stocks and long-term contracts” and FRS 5 Application Note G “Revenue recognition” (“AN G”).
- 2 SSAP 9 deals with stock and work in progress. It deals with stock, including work in progress that is produced speculatively (i.e. without a contract). These are not relevant to this guidance. It also deals with contract work in progress and focuses on when contracts should be treated as “long-term contracts”. The focus of SSAP 9 is on profit recognition, using what is sometimes called the ‘percentage of completion’ method, i.e. recognising profit gradually. It also deals with recognition of turnover and ‘amounts recoverable on contracts’ in the balance sheet. By implication, others are short-term contracts, which are accounted for by recognising the profit (and, by inference, revenue) at the end of the contract, sometimes called the ‘completed contracts method’.
- 3 SSAP 9 defines a long-term contract as follows: “*A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or of a combination of assets or services which together constitute a single project) where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. A contract that is required to be accounted for as long-term by this accounting standard will usually extend for a period exceeding one year. However, a duration exceeding one year is not an essential feature of a long-term contract. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are*

*sufficiently material to the activity of the period that not to record turnover and attributable profit would lead to a distortion of the period's turnover and results such that the financial statements would not give a true and fair view, provided that the policy is applied consistently within the reporting entity and from year to year.” [emphasis added]*

- 4 The above definition includes contracts for services as well as contracts for goods. Despite this, SSAP 9 has probably been thought of in practice as applying to contracts for the construction of assets, i.e. goods rather than services.
- 5 SSAP 9 does not provide a rigid definition of gradual recognition of revenue as contract activity progresses. For example, revenue is not necessarily recognised on the basis of each hour booked to a contract. In this connection, SSAP 9, appendix, para 23 confirms the basic principle that: “Turnover ... should be reported in the profit and loss account as contract activity progresses.” It then adds that: “Turnover may sometimes be ascertained by reference to valuation of the work carried out to date. In other cases, there may be specific points during a contract at which individual elements of work done with separately ascertainable sales value and costs can be identified and appropriately recorded as turnover ...” This is referred to in Part 2 of this note as the achievement of certain ‘milestones’. But references to ‘milestones’ should not be read as a way of defaulting to completed contract accounting.
- 6 FRS 5 AN G introduced general rules for recognition of revenue. It introduced the notion that revenue should be recognised when the seller has a ‘right to consideration’. UITF 40 is an interpretation of AN G.

- 7 The combined effect of the above is that service contracts should be accounted for as follows:
- a Where a service contract occurs within a year, there is no issue, as the revenue and profit are fully recorded in the year
  - b Where a service contract straddles a year end, it should in principle be accounted for as a long-term contract. This means that revenue should be recognised “as contract activity progresses to reflect the seller’s partial performance of its contractual obligations” (UITF 40.26). So in a simple case, where a contract is for £10,000 and it is half performed at a year end, the seller should recognise revenue of £5,000.

In this respect service contracts are treated in the same way as long-term contracts for goods. Thus, a mixed contract – services and goods, eg a plumbing contract – is accounted for in the same way as a service contract.

- 8 Take the example of a contract to construct a building being accounted for under SSAP 9 and a contract for audit services being accounted for under UITF 40. Once the construction company has half completed the building, it would recognise half the revenue in accordance with SSAP 9. Similarly, once the audit firm has half completed the audit contract, it would recognise half the revenue in accordance with UITF 40.26.
- 9 However, circumstances will not always be as simple as this, and various scenarios are discussed below.
- a It is important to use judgement in determining the substance of each contract,

including the nature of the contractual relationship with the customer.

- b Generally, if there is uncertainty about the amount of revenue that will be earned, the seller should make a prudent estimate of the recognisable revenue. If in a rare case no reliable estimate can be made, revenue should not be recognised.
- c More specifically, if, taking the example in paragraph 8, the audit firm found complex issues and anticipated over-runs (without being able to bill extra), it would revise its estimate of the stage of completion of the work and thus recognise less revenue in accordance with UITF 40.26. This would be the same in principle for the construction company accounting under SSAP 9.
- d If a professional firm works on the basis of charge out rates that are not always fully recovered, revenue should be recorded based on likely (lower) recoveries rather than actual charge out rates.
- e If the revenue was not receivable in cash for an extended period, it would be appropriate to allow for this by discounting for the time value of money.
- f Materiality should be considered. A seller should consider the aggregate effect of UITF 40. However, it is not acceptable to argue that each contract is immaterial and not proceed further. Nevertheless, it may be that the aggregate effect of applying the percentage of completion method is not material, for example if individual contracts are short in duration (say a few days or perhaps weeks).
- g Each contract that is in progress at the year end should be considered. Determining the amount of revenue that should be recognised is often a matter of estimation (just as with

SSAP 9 long-term contracts, estimating the revenue and profit attributable to performance to date is an estimate that depends on assessment of future costs and revenues).

Similarly with service contracts, estimates will be needed. It is not necessary to apply spurious accuracy to these calculations and in many cases where little work has been done it is likely that there will be no material value to recognise in revenue. In such cases, any costs incurred should be considered as part of work in progress and accounted for at the lower of cost and net realisable value.

- h It is not appropriate to estimate and include revenues that relate to future activities. For example, royalty revenues receivable when a song is played on the radio in the future should be recognised when it is played, and not estimated and recognised at the time it is composed or delivered.

- 10 There is a concern about the effect of UITF 40 – even allowing for the points set out above – on the accounts of sole traders, sole practitioners and partnerships (generically: ‘proprietors’). It is sometimes argued that there is a principle of “one should not make a profit from oneself”. This manifests itself in the practice of carrying work in progress at staff cost and other costs as appropriate, but excluding the time of the proprietor. It has been argued that UITF 40 goes against this principle, as it involves accounting for revenue and hence profit in respect of work done by a proprietor before it is invoiced. However, the effect of UITF is simply one of timing. Even before UITF 40, when work was invoiced, it was recorded as revenue at full amount including the sales value of proprietor’s time. There is, as a result, accounting and taxable income in respect of proprietor time. Indeed far from there being a

principle of “one should not make a profit from oneself”, that is exactly what a proprietor does. UITF 40 clarifies and accelerates this by bringing in such revenue (broadly) when the work is done rather than at the later invoicing time.

- 11 In summary, UITF 40 applies the principles of AN G to service contracts and in doing so brings service contract accounting onto a similar basis to contracts for the supply of goods and services as set out in SSAP 9. Where service contracts have not been accounted for on this basis, UITF 40 does introduce a change (normally an acceleration) in the timing of recognising revenue.

## PART 2

### **Practice Society Guidance on the application of UITF 40 “Revenue recognition and service contracts”**

#### **Background**

The Practice Society of ICAEW has been liaising with the Accounting Standards Board (ASB), jointly with the Association of Accounting Technicians and the Association of Taxation Technicians, to provide further guidance for the benefit of Members and their clients on the accounting treatment of Work in Progress in service entities. The discussions have centred on those small businesses that would otherwise normally rely on the FRSSE exemptions.

The issue of AN G in November 2003 and the further guidance provided by UITF Abstract 40 issued 10 March 2005 is intended to assist in the interpretation of Financial Reporting Standard 5 (FRS 5) ‘Reporting the substance of transactions’. This relates to the accounting treatment of revenue arising from contracts to provide services with the main point at issue being when revenue from such contracts should be recognised.

It is understood from ASB that this is an area that has been inconsistently treated in practice giving rise to early or late reporting of revenue. We agree that the same standard should apply to all entities leading to consistent reporting on a valid basis by all entities.

AN G and Abstract 40 do not directly address the basis of valuation of stock and work in progress (WIP), nor the valuation of debtors. Their purpose is to provide a framework within which a decision can be made as to the time at which *revenue* should be recognised.

In producing AN G and Abstract 40 it was not possible for the ASB to give precise rules for every situation because of the wide variety of service contracts in use, both now and in the future. Instead, the documents set out a framework

within which a compiler can prepare accounts on a true and fair basis. The compiler is also required to apply materiality, practicality, common sense and professional judgement to the preparation of the accounts.

#### **Revenue v. Cost**

When considering the problem of when to recognise revenue for service entities, it will be necessary to review the contracts in existence at the year-end. Sometimes it will be appropriate to look at each individual contract, and sometimes it will be necessary to consider parts of a contract separately, such as when the contract has distinguishable phases. On other occasions it will be possible to review all contracts of a similar nature, or to take a common approach to all contracts, in determining when to recognise revenue at the year-end.

In order to recognise revenue from a contract, as compared with treating contract performance as part of WIP, it is necessary for the selling entity to have reached a point within the contract where there is a right to consideration in respect of the work done to date.

Under the general approach (basing the accounting on when ‘the seller obtains a right to consideration in exchange for its performance’), it will generally be the case that revenue is recognised as contract activity progresses.

However, this will not always be the case, and it will be necessary, in considering whether a right to consideration has been established, to consider:

- a the nature of the contract
- b whether there are any ‘milestones’ within the contract. For example, it might be clear that a right to consideration is established only when certain milestones are reached.
- c its materiality. For example, in the case of a task lasting a few hours or days it is most likely that the contract will not be sufficiently long that to apply the

percentage of completion method would materially change the numbers.

The issue of, or failure to issue, an invoice, or the date of payment, do not determine the timing of recognition of revenue.

### **Valuation**

The starting point in assessing quantum is the amount that could be charged for the work done. That will normally be the consideration due for the performance completed, but the value should be reduced to take into account the likely amount that the customer would accept for the work done, by the credit risk and by other uncertainties. The value should be recognised as a debtor, although it may be better practice to show the amount separately in current assets as 'Accrued Income'.

It follows from the above, that an entity that provides only services, and where the seller has a right to bill for actual time spent on completion of every time unit, will not have any WIP. All time spent under such contracts must be either billed debtors or accrued income (reduced to the value that the client will accept for the service provided).

However, in some cases there may be no right to receive consideration (see UITF 40, para 5) (note that we say above that invoicing date, as such, is not a sound basis) until the immediate task is complete. In those circumstances, the part completed work for which there is no right to receive consideration at the year-end will continue to be valued as WIP. This is important because under SSAP 9, stock (which includes WIP) should be valued at the lower of cost or its net realisable value. The principle here is to match that cost with the revenue it will generate when sold. Thus WIP is valued at cost, being the direct costs of the fee earners engaged on that work plus any attributable overheads. To the extent that a partner or proprietor's time is included in WIP, there would be no addition for their cost, as there is none. The situation will

be different in a limited company to the extent that there will be a cost of owner/manager's time.

All unbilled, completed work must be included as accrued income at a realisable invoice value.

For certain assignments, typically but not exclusively longer contracts, 'milestones' will occur at intervals. These must be identified and the right to consideration arising from the part performance quantified. Thus the work to the previous 'milestone' will be valued as accrued income at realisable value, and work since that 'milestone' (if there is no right to receive consideration in relation to it) as WIP at the lower of cost or its net realisable value.

If the right to consideration does not arise until the occurrence of a critical event then *revenue* is not recognised until that event occurs. The incomplete assignment is then valued as WIP at the lower of cost or its net realisable value.

### **Conclusion**

In all cases, the policy to be adopted must be applied consistently. The policy must be practical.

## PART 3

### Questions and answers – practical application

#### *Q1 – TV personality*

A TV personality does a show for a fee of £20,000. He is also entitled to a repeat fee of £10,000 if the show is rebroadcast and £5,000 for each subsequent broadcast, if any.

There are no costs other than the proprietor's own labour. In the past the monies were recognised as each became contractually due. Is it the case that under UITF 40 the personality has to assess the likelihood of the show being repeated, and recognise the probable repeat fees once he has completed filming the show? Would this not result in recognising fictional income?

#### *Answer*

The TV personality does not have any 'right to consideration' in respect of the rebroadcast until the rebroadcast occurs and should not recognise any rebroadcast fees until that time. So if he were to recognise an estimate of the rebroadcast fee and then it doesn't occur, he would have recognised fictional income, which would not be appropriate.

#### *Q2 – Songwriter*

A songwriter composes six compositions. He thinks it likely that at least one will be covered by a major artist and that will generate income of £100,000 some time during the next three years. This is a contingency that is outside his control, so no income need be recognised until a song is actually recorded. When it is recorded the songwriter will become entitled to several separate royalty flows (a recording royalty and a performance royalty). Is it the case that once the song has been recorded and the record containing it released, he has to estimate his likely income, which in this case could well arise over a 10-year period, and recognise the entire figure immediately? Again, the

songwriter has no costs other than his own labour and in the past would have recognised the royalties as and when they became contractually due.

#### *Answer*

It is agreed that no income should be recognised until a song is actually recorded. This service does not fall within the scope of SSAP 9, as there is no contract in place (had the songwriter written a bespoke song to order, the situation would be different). Prior to a contract being signed for the 'sale' of the song, although the songwriter had performed (the song is written) there is no right to consideration. When the song is recorded the recording royalty should be recognised. Performance royalties, however, should not be recognised until each performance occurs, as there is no 'right to consideration' until then. That is, revenue on future performances should not be anticipated.

#### *Q3 – Tax accountant*

John is half way through completing Sam's tax return at the end of June. Does he accrue the right to 50% of the consideration that Sam has agreed to pay for the tax return? Commonsense would suggest not. Sam has no use for half a tax return. Indeed, one could argue that it is worth less to him than no tax return as the penalties for submitting incorrect returns are greater than those for submitting no return at all.

#### *Answer*

It is true that a half-completed tax return is of little practical use. But the working assumption is that contracts will progress to completion. In general, John will complete the tax returns that he is working on. (If that is not the case for a significant number of John's assignments, the accounting treatment might well be different.)

From a technical perspective, UITF 40.11 pushes John into SSAP 9 for accounting for this contract, the completion of a tax return being a single project. SSAP

9.29 requires that, where the outcome of the contract can be determined revenue is ascertained in a manner appropriate to the stage of completion.

This is entirely consistent with FRS 5 AN G, which requires that revenue is recognised by reference to performance and the right to consideration. The only circumstance under which it would not be appropriate for John to recognise any revenue would be if his right to consideration was contingent on a specific trigger event, the outcome of which he cannot control (as outlined in UITF 40.19). The stage of completion is not necessarily determined on a straight-line, time incurred, basis but is influenced by the value to the client of the work done to date.

#### *Q4 – Accountant doing advisory work*

John very rarely works for an agreed fee. He tells clients his charge out rate and those of his staff and decides what to charge only when the job is complete.

Suppose that John is asked to advise on whether and how to merge two companies. At his year-end he has £4,000 of time on the clock of which £2,200 is staff time whose cost was £1,700 and £1,800 is his own time. He assesses that the client is likely to accept a fee of £20,000. He expects to incur a further £6,000 of time. However he has not yet considered stamp taxes and has a gut feeling that they could create a problem. If they do and he cannot find a solution, the merger idea will be dropped. In those circumstances he thinks it unlikely that he will be able to recover all of the time on the clock.

How much income should he recognise at his year-end?  
Past practice was to recognise nothing until he completed the job and was in a position to raise a fee note.

#### *Answer*

Again, UITF 40.11 directs us towards SSAP 9 and the "percentage of completion" method.

Given that there are no milestones in the contract, it may be appropriate to measure the stage of completion by reference to the costs incurred to date compared with the total estimated costs of completing the project. John has incurred 40% of the costs, so should recognise 40% of the revenue, or £8,000 of revenue.

SSAP 9.24 requires the application of a certain degree of prudence. It requires that no profit should be recognised "until the outcome of a contract can be reasonably foreseen" and that, of the profit that can, in light of all circumstances, be reasonably foreseen, the amount earned should reflect a prudent estimate of the work performed to date. SSAP 9.28 notes that the estimated outcome of a contract may vary over its life.

If, at the end of year 1, having incurred 40% of the costs, he is concerned about the stamp duty issue and is not "reasonably certain" of billing more than the amount on the clock when the merger is abandoned, he should recognise only £4,000 of revenue (or such lower figure as he estimates he will be able to recover) and no profit.

But if, at the outset, he is reasonably certain of receiving the full £20,000 and accumulates £4,000 of the £10,000 of costs in year 1, he would recognise £8,000 of revenue. If, however, in year 2, he incurred no further costs but noted that the stamp duty issue jeopardised the outcome of the contract (and making any profit is no longer reasonably certain), then the revenue recognised to date would be limited to £3,500 (being the cost of the time incurred) and he would debit revenue £4,500. This last entry – reversing revenue already recognised – would arise only in rare circumstances when he initially genuinely believed that full recovery was reasonably certain, but events later proved him wrong.

In practice, unless the accounts are finalised very quickly after the year end, one would have a good idea, when

finalising them, of the impact of adjusting post-balance sheet events.

If the fee arrangement is that the whole of John's fee is contingent on completion of the merger, UITF 40.27 precludes him from recognising any revenue whatsoever until the occurrence of this trigger event (which is outside his control).

#### Q5 – Accountancy work and resignation

Firm X starts to prepare accounts for a client. It has £1,000 on the clock at the year-end and expects it will take a further £2,000 to finish the job, when it will be able to bill £3,000. After the year-end Firm X discovers that the client has charged a large amount to the business that does not relate to the business. The client refuses to exclude the sum from the accounts. Firm X says it will resign if he does not do so. He says that if the firm does resign, it cannot expect to be paid for the work done so far. Firm X resigns and writes off the time.

It appears that the dispute with the client is a non-adjusting event under FRS 21. Accordingly under UITF 40 Firm X needs to recognise £1,000 of income that it knows is never going to be received and write it off next year. In a way that is logical, as the firm had done the work in year 1 and the result of the dispute in year 2 was to lose it the ability to recover the fee for that work. But is recognising 'fictional' income in year 1 true and fair?

#### Answer

Although the dispute was after the year end, it indicated that, of the amount receivable recognised at the year end (£1,000), none was recoverable. So although Firm X would recognise revenue of £1,000 (on the basis that, when the work was performed it was performed in good faith of being paid), it would recognise a specific bad debt provision as an adjusting post balance sheet event under FRS 21 para 9(b).

#### Q6 – Barrister – “no win, no fee”

A barrister works on a “no win, no fee” basis. How should this be accounted for?

#### Answer

Revenue should not be recognised until a case has been won. Only at that stage does the barrister have a right to consideration. (UITF 40, para 27)

#### Q7 – Barrister – “pay at end”

A barrister works on a “pay at end” basis. The fee is not agreed in advance, nor will the rate be fixed. The consideration is negotiated at the conclusion of the case. The difference from ‘no win, no fee’ is that a fee will always be due. Currently this is included as soon as the fee is negotiated.

#### Answer

There is significant uncertainty about the amount of the fee at an accounting date prior to the end of the case. Nevertheless, it is clear that the relevant fee is not nil. There are two possible arguments:

- Where there is some uncertainty about the fee but a reasonable estimate can be made, at least of the minimum that will be earned, then an estimate should be made of the part of the total fee that has been earned as a result of work done to the balance sheet date. This estimated amount should be included as revenue.
- Where there is genuinely so much uncertainty that no reliable estimate can be made of the total fee and of the part of that total that has been earned to date, no revenue should be recognised until such time as the uncertainty has reduced and a reliable estimate can be made. This might be at a later stage of the case or it might not be until the fee is negotiated at the end of the case, depending on the facts and circumstances. There is a general assumption that amounts can be estimated with

sufficient reliability to be included in financial statements. Non-recognition due to an amount not being reliably estimable should be very much the exception.

*Q8 – Barrister – fixed fee cases*

A barrister works on certain types of public funded cases (“cost assessed”, “graduated fee” and “prosecution”). These cases are done for a fixed fee. Currently, revenue is recognised on completion of the case. Is it right to say that UITF 40 can be read to give the same result? Another view appears to be that every case should be examined and part of the consideration accrued to the year-end date be included, even though there is no right to consideration. A further reason why one might argue that this is incorrect is that if the barrister who has prepared the case is unable to present the case in court then the presenting barrister receives the whole of the fee.

*Answer*

The appropriate accounting here is a matter of professional judgement depending on the facts of the situation. Where, for example, it is reasonably clear what a typical case involves (say two client meetings, one day’s preparation and one day in court for an aggregate fee of £5,000), it will be possible to assess, for each case, how far through the case one is at the year end. If the barrister is half way through the case, he would recognise half the fee, or perhaps somewhat less if there were genuine uncertainties about the time to complete. On the other hand, if the fee was agreed but the amount of remaining work and therefore time was open ended and therefore very difficult to predict, one would either (a) recognise some revenue but on the basis of a very conservative estimate or (b) argue that no reliable estimate can be made until the case is further progressed.

As to the point about potentially losing the fee if the barrister cannot appear in court, the effect of this point on the accounting depends on the substance. If losing the fee

due to being unable to present the case in court is rare, one would either disregard it or make an overall reduction of a few percentage points in the overall revenue figure to allow for the rare case in that category. On the other hand, if it is common that a barrister prepares a case and is not able to present it, thereby losing the fee, it may be that there is not sufficient certainty to justify recognition of revenue until the barrister does present the case in court and is thereby assured of earning the fee. Events after the balance sheet date (appearing or not being able to appear) may of course reduce the uncertainty in some cases.

*Q9 – Barrister – Legal aid cases*

Legal aid in some cases is not agreed until after the matter has been settled. In lengthy cases payments on accounts are made. This is a long and protracted procedure that can take many years. Often the payments on account will be for a greater amount than the eventually agreed fee and the barrister has to return the excess. It has been agreed with HMRC that the relevant tax point is payment, normally a payment on account, or the agreement of the fee, whichever comes first.

*Answer*

Again, professional judgement has to be applied here and the accounting treatment will depend on the degree of uncertainty. In principle, revenue should be recognised according to the work done to date, rather than according to progress payments received. If a reasonable estimate can be made of the revenue that has been earned as a result of the work done to date, then that should be recognised. Prudence should be built in to that estimate in response to uncertainty. It may be that the level of uncertainty is so high that no reliable estimate can be made until either later in the process or until the case is completed and the fee agreed. Finally, a barrister should not recognise all the progress payments received as revenue, even if they do bear a close relationship to the work done to date, if it is likely that some of the amounts received will have to be refunded.

*Q10 – Joiner*

A joiner contracts to create fitted bookcases in an office for a total price of £15,000. He purchases the timber (materials cost £6,000) and builds the doors in his workshop. He also prepares the timber for the rest of the structure in his workshop. He then builds the skeleton of the bookcases on the customer's premises and attaches thereto the timber that he has already prepared in his workshop. What is the accounts treatment if his year end occurs after he has prepared the timber and the doors but before he has gone to the customer's premises to build the skeleton and fit them?

*Answer*

The contract is a single contract and the joiner should recognise revenue according to the stage of completion of the work. It is not relevant whether the work is done at his workshop or at the client's premises. Neither is it relevant that part of the contract can be regarded as 'goods' and part as 'services': both are treated in the same way for accounting purposes.

Let us assume the joiner assesses that he has done 1/3 of the work by the year end and he has used half of the timber and other materials. The calculation would be: total price £15,000 less materials at cost (£6,000) leaves £9,000. Assuming the profit attaches only to the labour, accrued income is £3,000 (1/3 complete) plus materials at cost of £3,000 (a half used), a total of £6,000. The remaining half of the total cost of the materials (£3,000) is work in progress. These figures should then be adjusted to reflect any likely losses, discounts, delay in payment or cost of difficulties expected to arise in completing the contract. Any progress payments received should be treated as creditors in accordance with SSAP 9.