CONSTRUCTION ACCOUNTING BEST PRACTICES

GUIDE ON REVENUE RECOGNITION

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1.0 PURPOSE OF GUIDE

The primary purpose of this guide is to identify and promote a better understanding of the accounting principles relevant to the construction industry, in the areas of revenue recognition, future income taxes and debt financing. It also discusses differential reporting options available to private companies. This guide will provide guidance on when to use the percentage of completion and the completed contract methods of revenue recognition, and demonstrate the effect these methods have on a company's bottom line.

For the percentage of completion method, the guide will also discuss the use of billings as the basis for determining the extent of work accomplished versus using costs (or other rational bases) in that determination. It will demonstrate the effect that these bases will have on a company's bottom line, including the income tax effect.

The guide addresses current and future income taxes as they relate to holdbacks on construction contracts and other temporary differences resulting from amortizing assets for book purposes at different rates than the capital cost allowance rates stipulated by the Canada Revenue Agency ("CRA"). It provides guidance on the special GST/HST rules that apply to the construction industry.

The guide will introduce contractors to the new accounting rules surrounding "financial instruments" which will become mandatory for private companies in the first fiscal year beginning on or after October 1, 2007. Due to the complexity of the new rules and their application, contractors will need to consult with their professional accountants to decide on the alternatives that will best serve the needs of their financial statement users.

This guide is written primarily with a view to help contractors understand that their decision on recognizing revenue using one of the two methods discussed in this paper, may impact upon the informational needs of banks in determining debt capacity and covenants for companies in the construction industry and for credit rating agencies. It is also relevant to the needs of a surety company in determining the bonding capacity of a contractor, thereby increasing or decreasing a contractor's success in receiving a bond. For more information on the banking industry, contractors should also refer to the "Banking Guide for the Canadian Construction Industry" published on the Canadian Construction Association ("CCA") website at www.cca-acc.com.

This guide is targeted to small and medium sized contractors who may not have the resources to employ in-house expertise and to more sophisticated contractors who may find it useful as a training tool for new staff in their accounting and finance departments. The objective is to make small and medium sized contractors aware of the implications of alternative revenue recognition methods and the importance of adopting sound accounting principles that reflect a contractor's economic activities. This is critical to cementing positive business relationships with surety companies and banks.

The CCA believes that adopting sound accounting principles will increase a contractor's ability to receive bonding capacity through their surety company and improve their success in securing lines of credit and equipment loans. This guide also provides practical examples to assist contractors in implementing the percentage of completion method using costs and costs to complete as the basis for revenue recognition.

Many industry associations encourage their members to adopt similar principles and standards so that benchmarks can be compiled of use to the industry as a whole. Industry benchmarks are useful tools that members can use to compare themselves to their competitors without sacrificing the confidentiality of their own financial data. The CCA believes that the percentage of completion method, using cost as a method for determining extent of work accomplished (or another rational basis such as machine hours), is the appropriate standard for revenue recognition for contractors across Canada. This guide provides the rationale for the recommendation.

2.0 THE VALUE OF FINANCIAL STATEMENTS

2.1 ACCOUNTING PRINCIPLES AND REPORTING STANDARDS

The Canadian Institute of Chartered Accountants Handbook (the "CICA Handbook") sets out generally accepted accounting principles (commonly known as GAAP) and standards for financial reporting to guide management in the preparation of its financial statements. These principles and standards are critical as they increase the comparability of financial reporting within and across various industries. The adoption of these principles and standards, combined with a reliable accounting system (usually packaged software acquired through third party suppliers) and competent management and staff, also increase the accuracy and reliability of financial information. Comparability, reliability and accuracy are important to internal and external users of financial statements for a number of reasons, which will be discussed in Section 3.2 of this guide.

Under GAAP, management has some leeway in selecting accounting policies but once selected, management is expected to consistently follow the policy unless a change in the company's business dictates that a change is warranted or a change in GAAP is issued by the Accounting Standards Board (the "AcSB"). For the most part, it is important to select the alternative that will produce the most meaningful financial results and meet the needs of the primary users of the financial statements over time.

2.2 FINANCIAL STATEMENTS AND THEIR USERS

The basic objective of financial statements is to communicate useful and meaningful information that meets the needs of the users of the financial statements.

Qualitative characteristics of useful and meaningful financial statements include:

- Understandability – financial statements that are unduly complicated can send up a red flag to banks, surety companies and potential investors; transparency is key to success in today's business environment.
- Relevance – financial statements provide feedback on a company's performance (normally over 1 to 5 years) and are used by banks and surety companies to predict the future success of a company; timeliness of the preparation of financial statements is also important as outdated information may not be useful to users in assessing a bond or loan application.
- Reliability – financial statements are management's responsibility and to be reliable, *representational faithfulness* is key – the substance of a transaction must be consistent with how it is presented in the financial statements; the underlying transactions in financial statements must normally be *verifiable* to an economic event and neutral or free from bias; external users

also subscribe to the concept of *conservatism* in management judgments where uncertainty exists or estimates have to be made.

- Comparability – financial statements that are comparable allow users to compare a company to another similar company or to compare a company's performance over a period of time; both are techniques used by banks, surety companies and potential investors to evaluate a company's performance.

Financial statements provide financial information at a point in time and changes to assets, liabilities and equities covering a certain period of time. The following makes up a set of traditional financial statements:

- Balance sheet (a statement of financial position at a specific date, including assets, liabilities and equity);
- Income statement (a statement of operations covering a period such as a month, quarter or year, showing revenues, expenses, income taxes, gains/losses, net income/loss);
- Statement of changes in retained earnings (changes in retained earnings from the previous period, adding in net income/loss for the year and deducting dividends);
- Statement of changes in cash flow (changes in cash balances from the previous period, which shows sources and uses of cash); and
- Notes to the financial statements, which provide additional information for users for clarification purposes.

With the implementation of the new accounting standards for financial instruments, comprehensive income and its components, when applicable, are displayed with the same prominence as the other statements.

Internal users such as management, owners and shareholders of private companies rely on financial statements to:

- Assess the appropriateness of the company's policies (pricing, credit, payment) to improve profitability and evaluate success by comparing its financial benchmarks to those of its competitors; for example, gross profit comparisons to industry standard (note that these are more meaningful if everyone in the industry prepares their financial information in the same way).
- Determine net income after taxes, which results from recognizing revenue when it has been earned and matching the corresponding expenses against that revenue in the same period; this enables management to determine how profitable the company was in a given year and measure return on equity invested.
- Measure the company's true growth from year to year, avoiding fluctuations in net income due to the inconsistent application of accounting principles (i.e. changing from one to another in the following year) or the application of a principle that skews financial results in a particular industry.

External users such as potential partners, investors or shareholders rely on financial statements to:

- Assess the financial health of a company and its ability to generate long term returns on investment, including a risk premium reflecting the nature of the industry; for example, a private company may want to grow without adding debt by admitting another partner or shareholder, or an owner may want to sell the company as a going concern and retire.
- Assess the company's exposure to liability through lawsuits, commitments and contingent liabilities.

External users such as banks and surety companies rely on financial statements to:

- Assess the credit worthiness of the contractor, as well as ongoing credit worthiness once the initial position is established (i.e. credit risk);
- Determine the price for which lines of credit, long term debt and surety bonds will be offered (i.e. premiums, interest rates);
- Determine the terms and conditions (set out in covenants) and security requirements based on an overall assessment of risk (i.e. financial risk);
- Assess the company's exposure to foreign exchange fluctuations which may negatively impact net income (exchange risk); and
- Assess overall company liquidity and its ability to handle any difficult situations that may arise.
- Determine the debt load or bonding capacity that a potential customer can carry and ability to service debt and meet its obligations (i.e. liquidity risk);

For example, through an in-depth review of a contractor's financial statements, a bank assesses the company's ability to consistently maintain positive cash flow, collect its receivables, pay its employees and suppliers and meet its obligations to the government and other creditors. Surety companies do the same, as they want to ensure that a contractor can meet its obligations while waiting for progress payments to be made to them on a contract. Surety companies want to see that a contractor has adequate lines of credit to finance (multiple) contracts for which they are providing surety bonds. Surety companies and banks also assess a company's profitability as compared to others in the same industry, the stability of historical profits and the company's capacity to grow and be profitable.

Establishing and maintaining good supplier credit is also essential to a contractor. External users such as credit rating agencies rely on financial statements to assess the credit worthiness of a company, compiling this information and providing it to their subscribers. These subscribers use the agency's rating in determining supplier credit to be given to or withheld from a particular contractor. This can be very important to a contractor who is starting up and is trying to establish credit with various suppliers when it has no track record to demonstrate its credit worthiness. So although the financial statements are provided to these agencies by a contractor on a voluntary basis, it is normally in the contractor's best interests to do so.

External users such as the CRA rely on financial statements to collect tax that is owing by a company. In general, under the Income Tax Act, companies are expected to follow GAAP in the preparation of financial statements.

2.3 AUDIT, REVIEW AND COMPILATION ENGAGEMENTS

2.3.1 Audit Engagements

An audit engagement is conducted by a professionally accredited public accountant, who is required to be completely independent of the company's management, owners or shareholders and Board of Directors and hence be objective. The public accountant is required to follow auditing standards set out in the CICA Handbook. The auditor's objective is to express an opinion on whether the company's financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in accordance with GAAP. In performing audit procedures, the auditor seeks a high level of assurance that the financial statements are free of material misstatement, as a result of fraud or error.

Absolute assurance is not attainable in an audit because the auditor does not audit 100% of a company's transactions and there are also limitations in the quality of audit evidence, a need to place some reliance on management representations and a need to make professional judgments pertaining to management's estimates.

Audit procedures however, are rigorous and are targeted to areas of risk, and the auditor keeps management's biases in mind. Audit procedures include physical inspection of assets to confirm existence, observation and documentation of client procedures, confirmation from external parties and examination of documents supporting various assets and liabilities on the balance sheet. Audited financial statements, therefore, have the highest degree of credibility among surety companies, banks and other external users of the financial statements.

A bank in its debt covenants may set the requirement for an audit of a company's financial statements. Many companies, unless they are required to do so, do not have an audit performed on their financial statements as audit engagements are more costly than non-audit engagements. Instead, if they are able to do so, most companies opt for a less expensive review of their financial statements by a public accountant.

2.3.2 Review Engagements

Review engagements are distinguishable from audits in that the level of assurance provided by the professionally accredited public accountant is lower. Review procedures consist primarily of enquiry, analytical procedures and discussion related to information supplied by the company. The objective of a review engagement is to assess whether the information being reported on is plausible. "Plausible information" is generally that which appears to be worthy of belief based on the information obtained by the public accountant from company's management.

Financial statements, which have been "reviewed" by a public accountant normally, have some credibility among the external users of the financial statements. This however, is based primarily on the credibility of the public accountant and the perceived independence from the company subject to the review. Therefore, contractors are encouraged to utilize the services of professionally accredited public accountants. Contractors should discuss the need for an audit versus a review with their bank and surety company.

2.3.3 Compilation Engagements

A compilation engagement provides the lowest level of assurance to users of the financial statements. The public accountant simply compiles the financial statements of a company from information provided by the company's management and attaches a "notice to reader" outlining the scope of the work conducted. They may or may not meet GAAP and the accountant is not required to be independent of the company. Compilation engagements are often used by companies who do not have any in house expertise to maintain accounting records and/or prepare financial statements and are doing so for tax purposes only.

Regardless of whether a company chooses an audit, a review or a compilation, there is an expectation by external users such as banks and surety companies that the contractor will follow GAAP. A compilation engagement might not meet the needs of these external users.

3.0 REVENUE RECOGNITION

Under GAAP, the general rules associated with revenue recognition are:

- Revenue from the sale of goods or provision of services should be recorded in the financial statements when a seller has transferred to a buyer, the significant risk and rewards of ownership and when the consideration (i.e. the selling price) can be reasonably determined.
- Revenue from the sale of goods or provision of services should be recorded when ultimate collection is reasonably assured.

GAAP currently provides additional guidance allowing contractors to use either the completed contract or the percentage of completion method of revenue recognition, depending on their situation. When a contractor's contracts typically extend past two years, the CRA requires that the contractor use the percentage of completion method. A contractor can currently select the completed contract method for tax purposes (i.e. if contracts are less than two years in duration) and the percentage of completion method for financial statement purposes.

3.1 COMPLETED CONTRACT METHOD

Under the completed contract method, revenue is recognized when the sale of goods or the provision of services is complete or substantially complete. The CICA Handbook permits the use of this method only when performance of a contract consists of the execution of a single act or when company's management cannot reasonably estimate the extent of progress toward completion of the contract.

Since most construction contracts involve the execution of many acts by a contractor, the completed contract method is not appropriate under GAAP. And it is likely only in exceptional circumstances that the stage of completion of a contract cannot be reasonably estimated. Nonetheless, some small contractors have adopted this method for the following reasons:

- It is simple and it is easy to determine when a contract is virtually complete;
- There is no need to estimate costs to complete a project (i.e. costs are all known when the profit is booked); and
- Assuming that the contractor is profitable, the income tax is deferred to the end of the contract.

For very small contractors, where the contract duration is relatively short (less than one year), this method is acceptable, provided it meets one of the two criteria. The contractor (small or otherwise) however has to weigh the benefits against the potential costs in terms of satisfying its financial statement users' needs. Contracts, by their nature, tend to fluctuate from year to year, depending on the size, length and number of projects undertaken, and can produce wide fluctuations in net income. Gross profit percentages also fluctuate from year to year under this method, all of which can be misinterpreted by users as volatility. With volatility, there is normally an assumption of risk.

In reviewing a contractor's financial statements, surety companies and banks look at stability of operations and growth. The misapplication of the completed contract method to contracts involving the execution of a number of acts could produce unfavourable financial results in some years and very positive results in others. This can negatively impact on the contractor's bonding capacity and on the small contractor's ability to grow. And, under the completed contract method, if management becomes aware that a contract will end in a loss, under GAAP the loss is to be recorded immediately (i.e. not at the end of the contract).

Appendix A-1 provides an example of the completed contract method as compared to the percentage of completion method for a construction company, spanning a period of four years. The completed contract method produces a balance sheet with inventory and work in progress relating to costs incurred and deferred revenue, which reflects over-billings to owners for work accomplished. The costs and the corresponding revenue do not appear on the contractor's income statement until the contract is complete. Net income and gross profit percentages therefore are skewed from year to year. For financial statement presentation purposes, under and over billings on multiple contracts may not be netted on the balance sheet. Since contractors often must complete monthly progress applications/billings in advance of the actual end of the period covered by the invoice/application, (i.e. submit on the 27th of the month and invoice for work completed to the 31st), it is not uncommon for the amount invoiced to be more than the actual work performed.

This Appendix also provides the journal entries to record revenue under both methods. The percentage of completion method clearly is superior, resulting in steady growth in revenues and net income. As mentioned earlier in this guide, CRA currently allows contractors to use the completed contract method for tax purposes although the contractor's financial statements are prepared using the percentage of completion method. As a result, the contractor can, with the additional effort have the best of both worlds.

It should be noted that the AcSB has approved the adoption of International Financial Reporting Standards ("IFRSs") in Canada with a targeted transition date of 2011. IFRSs do not permit the use of the completed contract method. The AcSB has not determined whether IFRSs will be required for private companies but it is unlikely that the standards applicable to private companies will be significantly different from those for publicly accountable entities. Contractors can expect to have to adopt the percentage of completion method. As a result, given that surety companies and banks are interested in historical profitability as a measure of the future success, contractors should seriously consider early adoption of the percentage of completion method.

3.2 PERCENTAGE OF COMPLETION METHOD

The percentage of completion method is used when the contract involves the completion of more than one act. Under the percentage of completion method, revenue is recognized proportionately with "the extent of work accomplished" by the contractor, by reference to the performance of each act.

Many contractors have adopted what they believe to be the percentage of completion method using billings or periodic payment certificates as a basis for recognizing revenue. This is only appropriate under GAAP if the amount billed is representative of the extent of work accomplished. For the reasons stated above, the amount billed can be greater than the work actually completed. This is a practical bias as it can be up to two months or more before the contractor is paid and under billing, from a cash flow perspective, can be hazardous to a contractor's health. Using billings as a base also distorts revenue recognition, causing more revenue to be earned at the front end and a mismatch with costs incurred. This has implications for tax purposes, as income tax may be paid prematurely. Contractors should use deferred or accrued revenue to report incomplete jobs at the expected final profit percentage.

Included in Appendix A-2 is an example of the percentage of completion method, using billings as a basis for measuring the extent of work accomplished versus the cost based method.

In the construction industry, the most reliable measurement of the extent of work accomplished tends to be cost based, in particular when materials, labour and equipment costs/rentals are inputs to the "production" process. Other bases that would be considered appropriate are labour hours or machine hours, where material costs in a contract are negligible (i.e. site work for road construction). The percentage of completion is then derived from a simple formula, "actual costs incurred (or hours spent) to date" divided by "total costs (or hours) to complete the contract". The total cost to complete a project is equal to actual costs incurred to date for a project plus estimated costs to complete the project.

Since the initial costing of a contract in the bidding phase is based on estimated total costs, actual total costs to complete a contract will change as the project progresses. As a result, it is necessary for management to make its best estimate of costs to complete a project to determine the expected total cost of the project. So while the formula is simple, there is effort required on the part of management to estimate costs to complete contracts that are in process.

The frequency with which a contractor is required to provide financial statements to its bank or surety company will determine how frequently these estimates will need to be made. Most contractors are required to report on an interim basis (monthly or quarterly) and on an annual basis with a complete set of GAAP compliant financial statements each reporting period; some small or mid sized contractors may only be required to provide a complete set of GAAP compliant financial statements on an annual basis.

The intent of the recommendation to use costs as a basis for determining work completed (or another rational base such as labour hours or machine hours), is not to change the way in which contractors bill for work performed on contracts. Current practices involving owner sign off and certifications by architects and/or engineers are industry practice and are not affected by these recommendations. These recommendations are targeted to revenue recognition in a contractor's financial statements <u>not</u> changing the contractor's billing practices.

The most compelling reason for adopting the cost based (or machine or labour hours, as appropriate) percentage of completion method, is that the contractor's financial statements will meet the needs of important external users such as banks and surety companies. This method most closely reflects the economic activities of companies in the construction industry. The consistent adoption of this method by contractors will enhance comparability and allow these important users to make meaningful and fair assessments of contractor financial statements.

4.0 LINES OF CREDIT, BANK LOANS AND LONG TERM DEBT

Under GAAP, liabilities are classified as current when they are payable within one year or within the normal operating cycle of the business when that is longer. Current liabilities normally include:

- a line of credit with a bank or financial institution;
- a demand bank loan;
- the current portion of long term debt; and
- the current portion of capital leases.

The current portion is equal to the principal due within one year of the balance sheet date.

Examples of long term debt include a bond, debenture, an equipment loan or a mortgage against real property. Bank debt may also be classified as long term, when a maturity date beyond one year is set by a banking agreement.

The general disclosure requirements for debt include:

- the interest rate, whether it is fixed (7%, for example) or floating (prime + 3%, for example);
- the currency;
- the maturity date of the debt (due March 31, 2017, for example) or if it is payable on demand;
- the amount and timing of any scheduled principal repayments;
- if the loan is secured and type of security (for example, a personal guarantee by a shareholder, pledging of cash or accounts receivable, a mortgage against real property or a chattel against equipment); and
- any conditions which if breached would change the terms of the debt.

Where an asset is pledged as security against liabilities, the nature and carrying amount of the asset needs to be disclosed. This information will be of interest to the surety company.

Interest on short term and long term debt also needs to be disclosed separately on the income statement. In addition, principal repayments over the next five years, following the balance sheet date are disclosed in the notes to the financial statements.

Because loan agreements with a contractor's bank can impact on bonding capacity, it is critical that the contractor ensure that both the bank and surety company are aware of a contractor's bonding needs. Since the bank's security interests will normally place above that of the surety company's interests, in negotiations with the bank, the pledging of assets as collateral needs to be carefully considered.

5.0 DIFFERENTIAL REPORTING

Differential reporting was introduced to the CICA Handbook in 2002, in recognition that in contrast to publicly accountable companies, privately held companies tend to have fewer financial statement users. In addition, those users are generally known to the company and often have an intimate knowledge of the company. Further, most of the external users of a private company's financial statements likely have access to additional information from management as part of a contractual obligation.

To qualify for differential reporting, a company must meet the following two criteria:

- It must be privately held (i.e. the company is a non-publicly accountable enterprise); and
- Its owners must unanimously consent, in writing, to the application of each differential reporting option chosen, prior to the date of completion of the company's financial statements.

Differential reporting options available to private companies who qualify include:

- Accounting for subsidiaries (a company may choose to prepare non-consolidated financial statements and account for its subsidiaries using the cost or equity methods);
- Investments (a company may choose to account for its investment in other companies in which it has significant influence using the cost method as opposed to the equity method);
- Interests in joint ventures (a company may choose to account for its interest in a joint venture using either the cost or equity method, rather than a proportionate consolidation);
- Share capital (a company may choose to disclose details only on authorized share capital that has actually been issued);
- Income taxes (a company may choose to account for income taxes on a current taxes payable basis, as opposed to reporting on current and future income taxes);
- Financial instruments (a company may choose to measure available for sale financial assets at cost or amortized cost, under certain conditions, and present preferred shares as equity, as opposed to a liability on the balance sheet); and
- Goodwill and intangibles (a company may choose to test for an impairment in value of goodwill only when an event or circumstance suggests that the fair value is lower than the carrying value, as opposed to annually).

There are a number of choices to be made between accounting principles and a number of disclosures that will need to be made, including the fact that the company has chosen to report using differential reporting. As a result, contractors are encouraged to seek the advice of a professionally accredited public accountant. Contractors should also discuss their intent to use differential reporting with their bank and surety company.

6.0 FUTURE INCOME TAXES

GAAP requires that companies, other than those who may opt to report using the differential reporting options set out in Section 6, set up a provision for future taxes, which reflect temporary differences between the carrying value and tax values of a company's assets and liabilities.

Future income tax assets and liabilities may result from:

- temporary deductible differences between capital cost allowance and amortization of capital assets, resulting in the net book value differing from the unamortized capital cost, as calculated following the CRA's rules;
- construction holdbacks as a result of provincial construction/builder's lien legislation;
- unused tax losses from prior years; and
- income tax reductions implemented by federal and provincial governments.

Differences between the unamortized capital cost of capital assets and the net book value typically have been managed by adopting amortization rates equal to those specified by the CRA. Contractors, however, should be cautious in adopting this approach since using the CRA's rates may not reflect the useful life of the assets and hence, the value of capital assets may be under or over stated on a contractor's financial statements.

Under GAAP, future tax assets are recognized in the financial statements to the extent that they are more likely to be realized than not. Future tax liabilities, on the other hand, are to be recognized immediately. The calculation of future tax assets and liabilities are based on the tax rates and laws that are expected to apply when the asset is realized or the liability is settled. On the income statement, future income tax provisions (recoveries), combined with current tax provisions (i.e. taxes based on the company's tax return with the CRA) have the effect of smoothing taxes, and hence net income. The use of future taxes better matches tax obligations with the economic activities of a company.

The taxes payable basis is the method of accounting which is allowed under the differential reporting options. Under this method, a company reports as an expense (income) of the period only the cost (recovery) of current income taxes for that period, determined in accordance with CRA's rules. Contractors should discuss their intent to use the taxes payable method with their bank and surety company.

7.0 GST/HST AND THE CONSTRUCTION INDUSTRY

Contractors, who are GST/HST registrants, collect GST/HST on behalf of the applicable government entity. A contractor, carrying on business in Canada, must register for GST/HST and obtain a "business number" if its revenues **exceed $30,000 in a single** calendar quarter **or** in **four consecutive** calendar quarters.

From an accounting perspective, GST and HST collected on a contractor's sales are not revenues of the contractor, but liabilities. Contractors who are GST/HST registrants are also eligible to claim, for refund, the GST/HST paid on all of their purchases in the form of input tax credits. The net payable (receivable) is remitted to (refunded by) CRA on a periodic basis (monthly, quarterly, annually).

7.1 GENERAL TIMING RULES

Generally, GST/HST becomes payable on the date payment is made or the date payment becomes due, whichever is the earlier date. For GST/HST purposes, payment becomes due the earliest of the day: (i) the invoice is first issued; (ii) the contractor would have issued an invoice, except for an undue delay; and (iii) the recipient (client) is required to pay an amount to the contractor under a written agreement. However, it is important to remember that there are special timing rules that apply to certain types of construction payments.

7.2 SPECIAL TIMING RULES FOR CERTIFIED PROGRESS PAYMENTS

It is very common in the construction industry for the contract to provide for monthly or other periodic payments to the contractor based upon the value of work completed as certified by someone other than the contractor. When the scheduled work is completed, an application for payment is issued. Subsequently, the payment certifier, usually an engineer or architect, issues a certificate stating the value of work completed and the value of materials delivered to the site as of the date of the application. The client/owner is then required by the contract to pay the amount certified within a certain period of time after the engineer, or architect has issued the certificate.

In this situation, the application for payment is NOT considered to be an invoice for GST/HST purposes, since it is only a request that a certificate for payment be issued. Therefore, GST/HST does not become payable when the application is issued.

Where an invoice is not issued in respect of the certified amount, GST/HST becomes payable on the amount certified on the day the client pays the amount, or on the day the client has to pay the amount under the terms of the contract, whichever day is earlier.

<u>Example:</u> A contractor submits a monthly progress application on June 30th for work performed in the previous 30-day period. That amount is certified on July 8th and is due and payable under the contract on July 18th. No invoice is issued in respect of the certified amount. The GST is payable on the certified amount on July 18th, unless payment is made earlier.

The same timing situation would apply in the case of progress payments made under subcontract agreements where such agreements state that payments to the subcontractor are dependant upon the amount being certified.

7.3 COMPLETED CONSTRUCTION CONTRACTS

A special GST/HST provision applies to written construction contracts when the billing or invoice has been unduly delayed. Where the construction work has been substantially completed, (90% or more) and the owner has not paid for the work, or the payment has not become due, GST/HST becomes payable on the last day of the month following the month in which the work was substantially completed.

Example: The contractor substantially completes a project on October 20th but has not billed the owner and the owner has not paid the contractor. GST/HST is payable on November 30th.

7.4 SPECIAL TIMING RULES FOR HOLDBACKS

Payments on construction contracts are normally subject to statutory holdbacks under applicable provincial lien legislation. GST/HST payable on the holdback amount does not become payable until the day the holdback amount is paid or the day on which the holdback period expires under the written agreement or applicable legislation, whichever is earlier.

Example: A contractor submits a monthly progress draw on June 30th for work performed in the previous 30-day period. That amount is subject to a statutory holdback of 10%. The statutory holdback period does not expire until September. The GST/HST on the holdback amount would not be payable until September unless payment of the holdback amount is made earlier.

7.5 BUILDER LIEN HOLDBACKS

GST/HST is payable on a builder lien holdback only when the holdback is released. When a lien is filed, the portion of the holdback that is withheld to satisfy the lien is not released. Often this amount is paid into court. GST/HST is payable on that amount on the day the holdback amount is paid out or the day it becomes payable, whichever is earlier.

8.0 FINANCIAL INSTRUMENTS

As defined by the CICA, a financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. They include cash, trade accounts receivable and accounts payable, loans and notes receivable and payable, investments in equities and debt instruments as well as derivative contracts such as forward contracts, swaps and options. Construction contracts create financial instruments, including holdbacks receivable and payable.

Under GAAP, contractors must disclose information for each type of risk arising from its financial instruments:

- Credit risk (the amount that best represents a contractor's maximum exposure to credit risk at the balance sheet date without taking any collateral held or other credit enhancements into consideration, a description of collateral held as security and other credit enhancements and information about the credit quality of its financial assets);
- Liquidity risk (a maturity analysis for financial liabilities that shows remaining contractual maturities and a description of how it manages liquidity risk); and

- Market risk (a sensitivity analysis for each type of market risk which the contractor is exposed to, which may reflect interdependencies between risk variables such as interest rates and exchange rates).

Disclosures on risk enable banks and surety companies to evaluate the nature and extent of risks arising from financial instruments to which the contractor is exposed at the balance sheet date. Hence, these disclosures are an important source of information for these users when evaluating a contractor's management strength and financial stability.

In 2005, the AcSB introduced new GAAP for "financial instruments" to be applied in fiscal years commencing on or after October 1, 2006 (2007 for private companies).

If a contractor doesn't have any financial instruments other than cash, accounts receivable and payable and arm's length debt (i.e. debt with an unrelated third party such as a bank), there will be little change from current accounting under GAAP. However, if a contractor has investments in common shares or debt securities, uses derivatives or hedges interest rate and foreign exchange risk, there will be a significant impact. Loans that are not at market rates may also need to be adjusted to ensure the appropriate amount of interest expense is recognized. There are also policy choices that must be made for costs associated with loans and investments.

With the introduction of new GAAP for financial instruments, came the creation of the concept of "comprehensive income". Comprehensive income is the change in equity from non-owner sources. It includes net income plus all other changes in equity except those resulting from investments by or distributions to owners. Some standards require certain revenues, expenses, gains, or losses to be recognized in comprehensive income but not in net income. Those "other comprehensive income" items include foreign currency translation gains and losses on investments in self-sustain foreign operations, unrecognized gains and losses (including foreign currency translation) on assets classified as available for sale and gains or losses on qualified cash flow hedging items.

Because of the complexity of these standards, contractors are encouraged to seek the advice of a professionally accredited public accountant.

9.0 APPENDICES

APPENDIX A-1

XYZ Construction
Balance Sheet % of Completion
Years 1 to 4

Page 1

		Year 1		Year 2		Year 3		Year 4
Cash/Receivables	$	30,000.00	$	145,555.60	$	371,532.00	$	581,228.20
WIP/Inventory				27,340.00				
	$	30,000.00	$	172,895.60	$	371,532.00	$	581,228.20
Taxes Payable	$	4,444.40	$	31,023.60	$	37,303.80	$	35,028.20
Deferred Revenue		7,778.00				43,141.00		115,000.00
Retained Earnings		17,777.60		141,872.00		291,087.20		431,200.00
	$	30,000.00	$	172,895.60	$	371,532.00	$	581,228.20

XYZ Construction
Income Statement % of Completion
Years 1 to 4

Revenue	$	222,222.00	$	855,118.00	$	1,229,519.00	$	1,403,141.00
Wages, Benefits & Materials		200,000.00		700,000.00		1,043,000.00		1,228,000.00
Net Income Before Taxes		22,222.00		155,118.00		186,519.00		175,141.00
Income Taxes (20%)		4,444.40		31,023.60		37,303.80		35,028.20
Net Income	$	17,777.60	$	124,094.40	$	149,215.20	$	140,112.80
Retained Earnings, Beginning of Year				17,777.60		141,872.00		291,087.20
Retained Earnings, End of Year	$	17,777.60	$	141,872.00	$	291,087.20	$	431,200.00
Profit %		10.0%		18.1%		15.2%		12.5%

Pros.
1. Stability in operation.
3. Billings based on understanding of total expected cost of project.
4. More stable gross profit %.
5. More closely reflects economic activities of XYZ.
6. Accounting not significantly more difficult than completed contract.

Cons:
1. Tax disadvantage (mitigated by CRA, allows completed contract for tax only).
2. Need for management to estimate cost to complete.

APPENDIX A-1

XYZ Construction
Balance Sheet Completed Contract
Years 1 to 4

Page 2

	Year 1	Year 2	Year 3	Year 4
Cash/Receivables	$ 30,000.00	$ 150,000.00	$ 400,000.00	$ 588,771.00
WIP/Inventory	200,000.00	585,000.00	268,000.00	1,255,000.00
	$ 230,000.00	$ 735,000.00	$ 668,000.00	$ 1,843,771.00
Taxes Payable	$ -	$ 7,000.00	$ 58,229.00	$ 1,571.00
Deferred Revenue	230,000.00	700,000.00	348,855.00	1,575,000.00
Retained Earnings		28,000.00	260,916.00	267,200.00
	$ 230,000.00	$ 735,000.00	$ 668,000.00	$ 1,843,771.00

XYZ Construction
Income Statement Completed Contract
Years 1 to 4

Revenue	$ -	$ 350,000.00	$ 1,651,145.00	$ 248,855.00
Wages, Benefits & Materials		315,000.00	1,360,000.00	241,000.00
Net Income Before Taxes	0.00	35,000.00	291,145.00	7,855.00
Income Taxes (20%)	0.00	7,000.00	58,229.00	1,571.00
Net Income	$ -	$ 28,000.00	$ 232,916.00	$ 6,284.00
Retained Earnings, Beginning of Year		0.00	28,000.00	260,916.00
Retained Earnings, End of Year	$ -	$ 28,000.00	$ 260,916.00	$ 267,200.00
Gross Profit %	0.0%	10.0%	17.6%	3.2%

Pros:
1. Simplicity.
2. Tax deferral opportunities.

Cons:
1. Justifying this method under GAAP.
2. Volatility in sales and net income.
3. High inventory and deferred revenue values.
4. Billings based on costs to date, ignores overall picture.
5. Skewed gross profit %.
6. Determining/justifying projects as virtually complete (judgement required).

APPENDIX A-1-1

XYZ Construction
Completed Contract vs Percentage of Completion
Year 1 to 4

Projects Year 1	Total Contract Amount	Estimated Costs as per Quote	Estimated Profit	Costs Incurred During the Year	Customer Billings	Management's Estimate of Cost to Complete	Revenue Recognized Completed Contract	Revenue Recognized % Completion
Word Pharmacy (63.5% complete)	350,000.00	297,500.00	52,500.00	200,000.00	230,000.00	115,000.00	-	222,222.00
	350,000.00	297,500.00	52,500.00	200,000.00	230,000.00	115,000.00	-	222,222.00

Projects Year 1	Total Contract Amount	Estimated Costs as per Quote	Estimated Profit	Costs Incurred During the Year	Customer Billings	Management's Estimate of Cost to Complete	Revenue Recognized Completed Contract	Revenue Recognized % Completion
Word Pharmacy (100% complete)	350,000.00	297,500.00	52,500.00	115,000.00	120,000.00	-	350,000.00	127,778.00
Excel Manufacturing (40.9% complete)	1,600,000.00	1,300,000.00	300,000.00	520,000.00	625,000.00	750,000.00	-	655,118.00
Time Foods (72.2% complete)	100,000.00	90,000.00	10,000.00	65,000.00	75,000.00	25,000.00	-	72,222.00
	2,050,000.00	1,687,500.00	362,500.00	700,000.00	820,000.00	775,000.00	350,000.00	855,118.00

Projects Year 3	Total Contract Amount	Estimated **(Actual)** Costs as per Quote	Estimated **(Actual)** Profit	Costs Incurred During the Year	Customer Billings	Management's Estimate of Cost to Complete	Revenue Recognized Completed Contract	Revenue Recognized % Completion
Word Pharmacy (Project Closed)	**350,000.00**	**315,000.00**	**35,000.00**					
Excel Manufacturing (96.9% complete)	1,600,000.00	1,300,000.00	300,000.00	750,000.00	925,000.00	40,000.00	1,551,145.00	896,027.00
Time Foods (100% complete)	100,000.00	90,000.00	10,000.00	25,000.00	25,000.00	-	100,000.00	27,778.00
Web Design (10% complete)	200,000.00	180,000.00	20,000.00	18,000.00	25,000.00	162,000.00	-	20,000.00
Outlook Manufacturing (35.7% complete)	800,000.00	700,000.00	100,000.00	250,000.00	325,000.00	450,000.00	-	285,714.00
	3,050,000.00	2,585,000.00	465,000.00	1,043,000.00	1,300,000.00	652,000.00	1,651,145.00	1,229,519.00

Projects Year 4	Total Contract Amount	Estimated **(Actual)** Costs as per Quote	Estimated **(Actual)** Profit	Costs Incurred During the Year	Customer Billings	Management's Estimate of Cost to Complete	Revenue Recognized Completed Contract	Revenue Recognized % Completion
Word Pharmacy (Project Closed)	**350,000.00**	**315,000.00**	**35,000.00**					
Excel Manufacturing (100% complete)	1,600,000.00	1,300,000.00	300,000.00	40,000.00	50,000.00	-	48,855.00	48,855.00
Time Foods (Project Closed)	**100,000.00**	**90,000.00**	**10,000.00**			-		
Web Design (100% complete)	200,000.00	180,000.00	20,000.00	183,000.00	175,000.00	-	200,000.00	180,000.00
Outlook Manufacturing (70% complete)	800,000.00	700,000.00	100,000.00	240,000.00	250,000.00	210,000.00	-	274,286.00
AdWare Enterprises (60% complete)	1,500,000.00	1,275,000.00	225,000.00	765,000.00	1,000,000.00	510,000.00	-	900,000.00
	4,550,000.00	3,860,000.00	690,000.00	1,228,000.00	1,475,000.00	720,000.00	248,855.00	1,403,141.00

APPENDIX A-1-2

XYZ Construction
Completed Contract vs Percentage of Completion
Journal Entries Year 1 to 4

Year 1

Entries Required (Completed Contract):

Dr. Direct Wages, Benefits & Materials	200,000.00	
Cr. Cash/Accounts Payable		**200,000.00**

To record the payment of wages, benefits and material cost of sales for the Word Pharmacy contract during the year.

Dr Work in Process (Inventory)	200,000.00	
Cr. Direct Wages, Benefits & Materials		200,000.00

To reallocate direct costs for the Word Pharmacy contract to Inventory.

Dr. Cash	230,000.00	
Cr. Deferred Revenue		230,000.00

To record progress billing re Word Pharmacy.

Entries Required (% Completion):

Dr. Direct Wages, Benefits & Materials	200,000.00	
Cr. Cash/Accounts Payable		**200,000.00**

To record the payment of wages, benefits and material cost of sales for the Word Pharmacy contract during the year.

Dr. Cash	230,000.00	
Cr. Deferred Revenue		230,000.00

To record progress billing re Word Pharmacy.

Dr. Deferred Revenue	222,222.00	
Cr. Sales		222,222.00

To record sales based on the Word Pharmacy contract which is 63.5% complete at year end.

Dr. Income Taxes	4,444.40	
Cr. Income Tax Payable		4,444.40

To record current income taxes payable at 20%.

Year 2

Entries Required (Completed Contract):

Dr. Direct Wages, Benefits & Materials	200,000.00	
Cr. Work in Process (Inventory)		200,000.00

To reallocate first year costs to cost of sales for Word Pharmacy contract.

Dr. Direct Wages, Benefits & Materials	115,000.00	
Cr. Cash/Accounts Payable		115,000.00

To record second year costs in cost of sales for Word Pharmacy contract; project 100% complete.

Dr. Cash/Accounts Receivable	120,000.00	
Dr. Deferred Revenue	230,000.00	
Cr. Sales		350,000.00

To reallocate first year Deferred Revenue to sales and record second years sale re Word Pharmacy contract.

Dr. Direct Wages, Benefits & Materials	585,000.00	
Cr. Cash/Accounts Payable		**585,000.00**

To record the payment of wages, benefits and material cost of sales for the Excel & Time contracts.

Dr Work in Process (Inventory)	585,000.00	
Cr. Direct Wages, Benefits & Materials		585,000.00

To reallocate direct costs for the Excel & Time contracts to Inventory in first year of these contracts.

Dr. Cash	700,000.00	
Cr. Deferred Revenue		700,000.00

To record progress billing re Excel and Time contracts in the first year of these contracts.

Dr. Income Taxes	7,000.00	
Cr. Income Tax Payable		7,000.00

To record current income taxes payable at 20%.

Entries Required (% Completion):

Dr. Direct Wages, Benefits & Materials	115,000.00	
Cr. Cash/Accounts Payable		115,000.00

To record second year costs in cost of sales for Word Pharmacy contract; project 100% complete.

Dr. Cash/Accounts Receivable	120,000.00	
Dr. Deferred Revenue	7,778.00	
Cr. Sales		127,778.00

To reallocate first year Deferred Revenue to sales and record the second year's sale re Word Pharmacy contract.

Dr. Direct Wages, Benefits & Materials	585,000.00	
Cr. Cash/Accounts Payable		**585,000.00**

To record the payment of wages, benefits and material cost of sales for the Excel & Time contracts.

Dr. Cash/Accounts Receivable	700,000.00	
Cr. Deferred Revenue		700,000.00

To record progress billings re Excel and Time contracts in the first year of these contracts.

Dr. Deferred Revenue	727,340.00	
Cr. Sales		727,340.00

To record sales for the Excel and Time contracts which iare 40.9% and 72.2% complete.

Dr. Income Taxes Payable	4,444.40	
Cr. Cash		4,444.40

To record income taxes paid.

Dr. Income Taxes	31,023.60	
Cr. Income Tax Payable		31,023.60

To record current income taxes payable at 20%.

continued on next page

APPENDIX A-1-2 continued

Year 3
Entries Required (Completed Contract):

Dr. Direct Wages, Benefits & Materials	585,000.00	
Cr. Work in Process (Inventory)		585,000.00

To reallocate first year costs to cost of sales for Excel and Time contracts, projects complete or virtually complete.

Dr. Direct Wages, Benefits & Materials	775,000.00	
Cr. Cash/Accounts Payable		775,000.00

To record second year costs in cost of sales for Excel and Time contracts; project 100% complete or virtually complete

Dr. Cash/Accounts Receivable	950,000.00	
Dr. Deferred Revenue	700,000.00	
Cr. Sales		1,650,000.00

To reallocate first year deferred revenue to sales and record second years sale re Excel & Time contracts.

Dr. Deferred Revenue	1,145.00	
Cr. Sales		1,145.00

To adjust sales for Excel contract that is virtually complete (96.9%) at year end.

Dr. Direct Wages, Benefits & Materials	268,000.00	
Cr. Cash/Accounts Payable		**268,000.00**

To record the payment of wages, benefits & material cost of sales for the Web & Outlook contracts.

Dr Work in Process (Inventory)	268,000.00	
Cr. Direct Wages, Benefits & Materials		268,000.00

To reallocate direct costs for the Web & Outlook contracts to Inventory in first year of contracts.

Dr. Cash/Accounts Receivable	350,000.00	
Cr. Deferred Revenue		350,000.00

To record progress billing re Web & Outlook contracts in the first year of these contracts.

Dr. Income Taxes Payable	7,000.00	
Cr. Cash		7,000.00

To record income taxes paid.

Dr. Income Taxes	58,229.00	
Cr. Income Tax Payable		58,229.00

To record current income taxes payable at 20%.

Entries Required (% Completion):

Dr. Direct Wages, Benefits & Materials	775,000.00	
Cr. Cash/Accounts Payable		775,000.00

To record second year costs in cost of sales for Excel and Time contracts.

Dr. Cash/Accounts Receivable	950,000.00	
Cr. Deferred Revenue		26,195.00
Cr. Sales		923,805.00

To reallocate first year deferred revenue to sales and record second year sale re Excel and Time contracts.

Dr. Direct Wages, Benefits & Materials	268,000.00	
Cr. Cash/Accounts Payable		**268,000.00**

To record the payment of wages, benefits & material cost of sales for the Web & Outlook contracts.

Dr. Cash/Accounts Receivable	350,000.00	
Cr. Deferred Revenue		350,000.00

To record progress billings re Web and Outlook contracts in the first year of these contracts.

Dr. Deferred Revenue	305,714.00	
Cr. Sales		305,714.00

To record sales for the Web and Outlook contracts which are 10% and 35.7% complete (respectively) at year end.

Dr. Income Taxes Payable	31,023.60	
Cr. Cash		31,023.60

To record income taxes paid.

Dr. Income Taxes	37,303.80	
Cr. Income Tax Payable		37,303.80

To record current income taxes payable at 20%.

Year 4
Entries Required (Completed Contract):

Dr. Direct Wages, Benefits & Materials	18,000.00	
Cr. Work in Process (Inventory)		18,000.00

To reallocate first year costs to cost of sales for Web contract, projects complete.

Dr. Direct Wages, Benefits & Materials	223,000.00	
Cr. Cash/Accounts Payable		223,000.00

To record second year costs in cost of sales for Excel and Web contracts; projects 100% complete.

Dr. Cash/Accounts Receivable	225,000.00	
Dr. Deferred Revenue	23,855.00	
Cr. Sales		248,855.00

To reallocate first year deferred revenue to sales and record second years sale re Excel and Web contracts.

Dr. Direct Wages, Benefits & Materials	1,005,000.00	
Cr. Cash/Accounts Payable		1,005,000.00

To record the payment of wages, benefits and material cost of sales for the Outlook and AdWare contracts.

Dr Work in Process (Inventory)	1,005,000.00	
Cr. Direct Wages, Benefits & Materials		1,005,000.00

To reallocate direct costs for the Outlook and AdWaAre contracts to Inventory in first and second years of these contracts.

Dr. Cash/Accounts Receivable	1,250,000.00	
Cr. Deferred Revenue		1,250,000.00

To record progress billing re Outlook & AdWare contracts in the first year of these contracts.

Dr. Income Taxes Payable	58,229.00	
Cr. Cash		58,229.00

To record income taxes paid.

Dr. Income Taxes	1,571.00	
Cr. Income Tax Payable		1,571.00

To record current income taxes payable at 20%.

Entries Required (% Completion):

Dr. Direct Wages, Benefits & Materials	223,000.00	
Cr. Cash/Accounts Payable		223,000.00

To record third/second year costs in cost of sales for Excel and Web contracts.

Dr. Cash/Accounts Receivable	225,000.00	
Dr. Deferred Revenue	3,855.00	
Cr. Sales		228,855.00

To reallocate first year Deferred Revenue to sales and record second year sale re Excel and Web contracts.

Dr. Direct Wages, Benefits & Materials	1,005,000.00	
Cr. Cash/Accounts Payable		**1,005,000.00**

To record the payment of wages, benefits and material cost of sales for the Outlook and AdWare contracts.

Dr. Cash/Accounts Receivable	1,250,000.00	
Cr. Deferred Revenue		1,250,000.00

To record progress billings re Outlook and AdWare contracts in the second/first year of these contracts.

Dr. Deferred Revenue	1,174,286.00	
Cr. Sales		1,174,286.00

To record sales for the Outlook and Adware contracts which are 70% and 60% complete (respectively) at year end.

Dr. Income Taxes Payable	37,303.80	
Cr. Cash		37,303.80

To record income taxes paid.

Dr. Income Taxes	35,028.20	
Cr. Income Tax Payable		35,028.20

To record current income taxes payable at 20%.

APPENDIX A-2

XYZ Construction
Balance Sheet % of Completion

	Billings Basis	Cost Basis
Cash/Receivables	$ 627,000.00	$ 627,000.00
	$ 627,000.00	$ 627,000.00
Taxes Payable	$ 125,400.00	$ 92,811.34
Deferred Revenue		162,943.29
Retained Earnings	501,600.00	371,245.37
	$ 627,000.00	$ 627,000.00

XYZ Construction
Income Statement % of Completion

Revenue	$ 3,130,000.00	$ 2,967,056.71
Wages, Benefits & Materials	2,503,000.00	2,503,000.00
Net Income Before Taxes	627,000.00	464,056.71
Income Taxes	125,400.00	92,811.34
Net Income	$ 501,600.00	$ 371,245.37
Gross Profit %	20.0%	15.6%

Although the cost basis requires that management estimate the cost to complete it imposes a discipline for management to revisit the profitability around its contracts, providing the opportunity to take remedial action to avoid losses. There are, however, other serious shortfalls of using billings as basis for recording revenue:

1. Not acceptable under GAAP as it does not reflect "extent of accomplishment".
2. Overstates revenue.
3. Distorts the true gross profit that will be earned on the contracts - misleading.
4. Results in the prepayment of income taxes.

With regard to distorting the true gross profit, the billings basis suggests a gross profit of 20%, when in fact management estimates the overall gross profit for these projects at 14.3% (see Appendix A-2-1) when they are all completed. The 15.6% above, using the cost basis is closer, to reality.

Note that the cash balance under the billings and cost basis are the same. The intent is not to change how management progress bills its contracts. The practice of billing to ensure good cash flow would continue.

APPENDIX A-2-1

XYZ Construction
Percentage of Completion
Billings Base vs Cost Base

Projects	Total Contract Amount **(1)**	Estimated Costs as per Quote	Estimated Profit	Costs Incurred Contract Inception to Date **(2)**	Customer Billings Contract Inception to Date	Management's Estimate of Cost to Complete **(3)**	Total Revised Costs at Completion **(2)+(3)=(4)**	% Complete **(2)/(4)=(5)**	Revenue Recognized % Completion Billings Basis	Revenue Recognized % Completion Cost Basis **(1)x(5)=(6)**	(Under) Over Billing
Word Pharmacy	350,000.00	297,500.00	52,500.00	200,000.00	230,000.00	115,000.00	315,000.00	63.5%	230,000.00	222,222.22	7,777.78
Excel Manufacturing	1,600,000.00	1,300,000.00	300,000.00	1,270,000.00	1,550,000.00	40,000.00	1,310,000.00	96.9%	1,550,000.00	1,551,145.04	(1,145.04)
Web Design	200,000.00	180,000.00	20,000.00	18,000.00	25,000.00	185,000.00	203,000.00	8.9%	25,000.00	17,733.99	7,266.01
Outlook Manufacturing	800,000.00	700,000.00	100,000.00	250,000.00	325,000.00	440,000.00	690,000.00	36.2%	325,000.00	289,855.07	35,144.93
AdWare Enterprises	1,500,000.00	1,275,000.00	225,000.00	765,000.00	1,000,000.00	530,000.00	1,295,000.00	59.1%	1,000,000.00	886,100.39	113,899.61
	4,450,000.00	3,752,500.00	697,500.00	2,503,000.00	3,130,000.00	1,310,000.00	3,813,000.00		3,130,000.00	2,967,056.71	162,943.29