

Financial Statement Reporting Methods

	Cash Basis		Accrual Basis	
	COMPLETED CONTRACT	ALLOCATION OF OVERHEAD	DIRECT RECOGNITION	PERCENTAGE COMPLETION
Sales	Reported only on completed and final-bill jobs	Reported on completed and final-bill jobs	Reported on all billings	Sales value assigned to each job based on its % completion
Cost of Sales	Reported only on costs associated with jobs	Reported on costs associated with <i>billed</i> jobs	Reported on all job costs	Costs are related to the sales
Gross Margin	Accurate	Accurate	Inaccurate— billings don't necessarily relate to job costs	Accurate
Overhead	Some overhead is due to incomplete jobs	Reports only overhead associated with completed jobs	Some overhead may be due to jobs that haven't billed out yet	True overhead related to sales
Net Profit	Inaccurate due to overhead error	Accurate	Inaccurate due to billing cycle's treatment of overhead	Accurate
Taxable Profit	Moderate	High	Low	High
Management Accuracy	Low	Fair	Low	Very High
<i>Example</i>				
SALES	\$707,000	\$707,000	\$747,000	\$817,000
COST OF SALES	\$535,000	\$535,000	\$619,000	\$619,000
GROSS MARGIN	\$172,000	\$172,000	\$128,000	\$198,000
OVERHEAD	\$119,000	\$96,000	\$119,000	\$119,000
PROFIT	\$53,000	\$76,000	\$9,000	\$79,000
PROFIT %	7.5%	10.7%	1.2%	9.7%