

ACCOUNTANCY 422
LONG TERM CONSTRUCTION CONTRACT
SUPPLEMENTAL PROBLEM

Abiline Navel Yard is building a large cruise ship for a contract price of \$50,000,000. This is estimated to be a three-year project with an original estimated cost of \$42,000,000. Abiline uses the percentage-of-completion method of revenue recognition. The following information is available:

	Year 1	Year 2	Year 3
Costs incurred during year	\$10,500,000	\$22,500,000	\$11,000,000
Estimated completion costs	\$31,500,000	\$11,000,000	\$0
Billings to customer	\$10,000,000	\$20,000,000	\$20,000,000
Cash collected	\$5,000,000	\$20,000,000	\$25,000,000

Required:

- a. Compute the amount of revenue to be recognized in Year 1, Year 2 and Year 3. Show calculations in good form.
- b. Compute the balance in the Cost and Profits in Excess of Billings account or the Billings in Excess of Costs and Profits account for Year 1 and Year 2.
- c. Record all the journal entries required for Year 2.
- d. Record the journal entry that adjusts revenue for Year 3.