

XYZ Contracting Corporation

Notes to Financial Statements

1. **Summary of Significant accounting policies:**

Business activity: XYZ Contracting Corporation was formed on February 1, 19XX. The Company serves as a general contractor for government, institutional and commercial projects in the New York/New Jersey metropolitan area. Construction work is generally performed under fixed-price contracts.

Cash and cash equivalents: Cash and cash equivalents include cash on hand, cash balances and all highly liquid investments with a maturity of three months or less at the time of purchase. The Company maintains cash balances at several financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to \$100,000 (temporarily increased to \$250,000 per institution through December 31, 2013) and may exceed the federally insured limits.

Accounts receivable: Trade receivables are recorded when invoices are issued and are presented in the Balance Sheet net of allowance for doubtful accounts. Trade receivables are written off when they are deemed uncollectible. The allowance for doubtful accounts is estimated

Revenue recognition: The Company uses the accrual method of accounting for all income. The percentage of completion method is used for construction contracts. Deferred revenue is for the income received for service agreements, which were not expired at year end.

Inventory: Inventory is stated at lower of cost or market. Cost is determined by the last-in, last-out method.

Long-term construction contracts: The Company recognizes revenues from fixed-price and modified fixed price construction contracts on the percentage-of-completion method, measured by the percentage of cost incurred to date to estimated total cost for each contract. Contract costs include all direct material and labor costs.....

The asset "costs and estimated earnings in excess of billings on uncompleted contracts" represents revenue recognized in excess of amounts billed. The liability "billings in excess of costs and estimated earnings on uncompleted contracts" represents billings in excess of revenues recognized.

Property and equipment: Property and equipment are stated at cost. The costs of additions and improvements are capitalized and repairs and maintenance are expensed as incurred.

Depreciation: Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets, which are generally from 5 to 7 years.

Income Taxes: The stockholders have elected to have the Company treated as an “S” corporation for income tax purposes as provided in Section XXXX of the Internal Revenue Code, etc. An S corporation is generally not subject to federal income tax and is subject to ____ state tax on entire net income

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

2. Short-term notes payable:	20XX	200X
The Company has an available \$100,000 line of credit with ____ Bank, due on demand with an Interest rate of 5.5%, expiring July 20XX	\$ 63,928	\$ 61,985
The Company has an available line of credit in the amount of \$500,000 with ____ Bank, due on demand at the interest rate of 5%	\$ 389,100	\$ 390,849
The Company has an available line of credit with ____ Bank in the amount of \$1,000,000. The interest rate is Prime plus 1%	<u>\$ 660,236</u>	<u>\$ 988,684</u>
	\$1,113,264	\$1,441,518

3. **Long-term notes payable:**

As of December 31, annual maturities of long-term notes payable outstanding are as follows:

Year Ended December 31:	Amount
20XX	\$ 14,847
201X	\$540,124
201X	\$ 25,137
201X	<u>\$ 1,117</u>
Total	<u>\$581,225</u>

4. **Costs and estimated earnings on uncompleted contracts:**

	20XX	200X
Costs incurred on uncompleted contracts	\$5,753,187	\$5,004,049
Estimated earnings	<u>1,775,277</u>	<u>1,529,307</u>
Cost of work performed	7,528,464	6,533,356
Less billings	<u>7,048,250</u>	<u>5,495,282</u>
Excess billings (costs)	<u>\$ 480,214</u>	<u>\$ 1,038,074</u>