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Credit loss reporting for contractors in 2026

In 2023, the Financial Accounting Standards Board's (FASB's) new credit loss reporting rules kicked in for private companies that follow Generally Accepted Accounting Principles (GAAP). Since then, many construction businesses have struggled with their complexity.

In 2025, the FASB issued Accounting Standards Update (ASU) No. 2025-05, Topic 326, *Financial Instruments—Credit Losses, Measurement of Credit Losses for Accounts Receivable and Contract Assets*. This latest update, which generally takes effect in 2026 for calendar-year private companies, provides some relief.

Setting the ground rules

In construction, a credit loss is typically the estimated amount of a receivable or contract asset that a contractor doesn't expect to collect. In previous guidance, the FASB's ASU 2016-13, Topic 326, *Financial Instruments—Credit Losses, Measurement of Credit Losses on Financial Instruments*, introduced significant changes to how such losses had previously been reported on financial statements.

More specifically, ASU 2016-3 applies to various financial instrument assets arising from contracts. This includes, most relevant to contractors, trade receivables — amounts a business is owed

for services it's already delivered but hasn't been paid for yet. Also included are loans and held-to-maturity debt securities in an investment portfolio.



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Before ASU 2016-13 took effect, credit losses were reported using a backward-looking “incurred loss” standard under which losses were recognized only after loss events had occurred or were probable. Up to that point, you'd record an allowance for doubtful accounts based on historical events, such as receivables you were unlikely to receive.

As of 2023, though, GAAP required private businesses to adopt the “current expected credit loss” (CECL) model. It measures and reports expected losses over an asset's contractual life, starting with its initial recognition. To estimate expected credit losses, you consider backward-looking information about past events as well as current conditions and “reasonable and supportable” forecasts that affect the net amount you expect to collect over the contract's life. And you must update the credit loss allowance for each reporting period.

In addition, you're required to recognize an allowance even if the likelihood of a loss is remote. As a result, some receivables that previously didn't require an allowance now do — even if they're current or not due.



Reporting retainage under ASC-606

Retainage is common in construction, but how does it affect revenue recognition? Under the Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, you must record retainage as contract assets and contract liabilities on a contract-by-contract basis. So, if you had a job with an overbilling of \$100 and retainage of \$25, it would be reported as a contract liability of \$75. Recent guidance on ASC-606 expresses it as follows:

... when an entity enters into a contract with a customer, the remaining rights and performance obligations of that contract should be accounted for and presented on a net basis as either a contract asset or contract liability. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has already transferred to a customer when the right is conditioned on something other than the passage of time (for example, the entity's future performance). A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.

Contact your accounting professional for further information.

Adjusting to the update

In September 2024, the FASB launched a project to examine the challenges faced by private companies under the CECL model. Stakeholders reported that estimating expected credit losses for current accounts receivable and current contract assets on an ongoing basis was overly burdensome because of the short-term nature of these assets. In addition, stakeholders indicated that applying the CECL standard to these short-term assets generally doesn't result in a materially different estimate than would be derived from historical loss information.

The FASB responded by releasing ASU 2025-05 in July 2025. It provides a "practical expedient" for all entities and an "accounting policy election" for entities that aren't public companies. Both apply only to current accounts receivable and current contract assets arising from transactions accounted for under the FASB's revenue recognition guidance in Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. (See "Reporting retainage under ASC-606" above.)

When estimating expected credit losses, the practical expedient allows entities to elect to assume that current conditions as of the balance sheet date will remain unchanged for the rest of the asset's life. This reduces the need to develop

and support forward-looking macroeconomic forecasts for these short-term assets.

However, entities must still adjust historical loss information to reflect current conditions when those conditions differ from historical experience. So, when estimating their anticipated credit losses, private companies that elect the practical expedient may make an accounting policy election to consider collection activity after the balance sheet date — but before financial statements are issued.

According to the FASB, ASU 2025-05 should still provide "decision-useful" information for financial statement users, including lenders and investors. But its changes should reduce the time and effort required for construction businesses to analyze and estimate their credit losses on current accounts receivable and current contract assets.

Navigating the nuances

ASU 2025-05 requires companies that make the elections to apply them to all current accounts receivable and current contract assets. You aren't allowed to pick and choose project owners or contracts. Moreover, entities must adjust historical loss information to reflect current conditions if that data doesn't reflect such conditions. Work closely with your accounting professional to navigate these and other nuances of GAAP. ■

Expanding your construction company's benefits

As construction businesses grow, expectations rise in various ways. One of them is that job candidates and employees anticipate a wider range of benefits. If your company is headed in this direction, don't panic. There are many options to consider and, when carefully researched and chosen, they may not be as expensive as you might think. Let's explore some examples.

Health insurance

When looking to sponsor a health insurance plan, there are many roads to take. One particularly popular approach is to sponsor a high-deductible health plan (HDHP) and provide participants with Health Savings Accounts (HSAs).



When used effectively, EAPs can provide a return on investment for your business in reduced medical, disability and workers' compensation costs as well as higher levels of productivity.



HDHPs generally feature lower premiums than traditional plans. This helps reduce your construction business's upfront costs while giving employees a tax-advantaged way to pay for current expenses or save for future care. The model offers a flexible, predictable approach to benefits spending that may help you better manage the cash flow fluctuations common to construction while providing workers with valuable coverage.

Bear in mind that you can offer HSAs only in conjunction with an HDHP, which is defined in 2026 as a plan with a deductible of at least \$1,700 for

self-only coverage, or \$3,400 for family coverage. In addition, the plan's maximum out-of-pocket costs can't exceed \$8,500 for self-only coverage, or \$17,000 for family coverage. The 2026 HSA contribution limit is \$4,400 for self-only coverage, and \$8,750 for family coverage. These dollar amounts are indexed annually for inflation.

Employee assistance plans

Construction workers are widely considered to be at higher risk for mental health and substance abuse issues. An employee assistance plan (EAP) is a type of benefit that helps workers and their dependents connect with professional counselors for short-term support and referrals.

Generally, EAPs are offered on a per-employee, per-month basis. The cost of basic coverage roughly averages around \$20 to \$50 per employee per year, but the exact amount depends on the level of services included. When used effectively, EAPs can provide a return on investment for your business in reduced medical, disability and workers' compensation costs as well as higher levels of productivity. Plan services are generally free to employees, though workers who choose to continue certain long-term treatments (such as therapy) may incur costs.

Qualified retirement plans

Many contractors don't sponsor retirement plans for every employee because of the cost and complexity involved. But don't count your company out. For example, smaller construction businesses should consider a Simplified Employee Pension (SEP) plan to set aside retirement dollars for owners and employees.

A SEP plan allows you to make larger contributions in profitable years and reduce the contribution



rate — down to zero, if necessary — during tough times. It can also shrink your construction business's tax bill because contributions are generally 100% tax deductible up to certain limits. Other plan types to consider include SIMPLEs, safe harbor 401(k)s and pooled employer plans.

Variations on paid time off

Traditionally, paid time off (PTO) is divided into vacation days, sick time and jury duty. But there are alternative approaches to this fringe benefit that may improve employee morale and productivity.

For instance, "unlimited" PTO pools vacation, sick and personal time under one category. This can save administrative time by reducing the number of pay codes that need to be processed. In many

cases, there's no year-end rush to use vacation days, and employers may reduce or eliminate payouts from accrued balances depending on state rules and policy terms.

Another idea is to set up a bank where employees can donate some of their PTO for co-workers to use. Employees who have exhausted their PTO can apply to the bank, typically administered by HR, to obtain more.

A strategy that works

Expanding employee benefits doesn't have to strain your construction company's budget. By focusing on flexible, scalable options, you may be able to devise a strategy that controls costs while meeting your hiring and retention goals. ■

Address labor challenges by upskilling your workforce

Finding and keeping skilled workers is among the biggest challenges for today's small and midsize construction businesses. Like many contractors, you may feel caught between a multitude of project opportunities and a stingy

labor market that doesn't readily yield the job-ready talent you need.

Upskilling your existing workforce can help close that gap. When done successfully, it elevates your



employees' proficiency, strengthens their loyalty and positions your company to take on more profitable work — without having to rely on new hires.

Start with a strategic plan

Effective upskilling begins with clarity of purpose. Rather than invest in training without a clear plan, identify your company's strategic objectives for the next several years. Are you planning to bid on larger jobs? Do you intend to expand into different project types? Is upgrading your technology a competitive necessity? The most successful upskilling programs focus on practical skills that support carefully developed strategic plans.

Ask employees for their input, too. Your project managers and field supervisors likely know which skills are lacking on jobsites and which employees are ready to take the next step. You might also survey workers to gauge where they'd like to go professionally.

Blend hands-on with homework

Construction is a hands-on industry, and upskilling works best when it reflects that reality. Providing on-the-job mentoring, having workers shadow skilled laborers and rotating crew members through different roles can be more valuable than classroom instruction. That said, traditional training methods have their place. Consider online courses, manufacturer-led equipment training and official safety certifications to give employees structured learning opportunities.

Balance and moderation are key. Don't overload workers with upskilling during peak season or busy periods. Doing so may lead to frustration and pushback. Spread learning over time to keep it manageable and effective.

Use technology wisely

Like many construction businesses, yours has probably implemented various systems and digital tools to manage jobs, track labor and equipment use, and improve communication. Upskilling employees' technological expertise is a fairly common and attainable goal.

But be careful. Technology should support your team, not overwhelm it. Introduce new systems and tools methodically, clearly communicating the associated purposes and expectations. Allow users an appropriate learning curve and position new tech as assets rather than disruptions.

Make the retention connection

Employees are more likely to buy into upskilling when they can see how it benefits them personally. Tie each activity to a realistic career path. This could mean moving into a leadership role, transitioning to bidding or estimating responsibilities, or just earning higher pay. When workers understand that professional development is an investment in their future — as well as your business's success — engagement and retention will likely improve.

This approach also sends a strong message to job candidates. Implementing an effective upskilling program and sharing its details during the hiring process can strengthen your employer brand.

Consider the financial impact

Of course, upskilling has its risks — and a big one is financial. Program development costs, training expenses and wage increases all affect your company's cash flow and bottom line. Work closely with your financial advisor to ensure your upskilling strategy supports both your workforce and your construction business. ■

6 ways to improve materials management

Materials prices are a constant concern for contractors, and a particularly notable one recently. Here are six ways you may be able to improve materials management for your construction company:

1. Engage with current providers and explore alternatives. If you're less than thrilled with a current supplier, schedule a meeting to discuss improving the situation. For example, can you renegotiate pricing or payment terms? Although no one likes paying interest, agreeing to longer payment terms may improve cash flow. And don't hesitate to shop around: Perhaps a different supplier can make you a better offer.

2. Place orders ahead of time. Many contractors adhere to a "just in time" approach to ordering materials and having them delivered. But that risks project delays if those items don't arrive at the jobsite on time. It may be better to schedule deliveries so materials arrive before they're required, assuming you can store them safely and securely. Be careful: Ensure materials don't arrive *too* early. In the event too much time passes or storage becomes compromised, deterioration, damage or theft could occur. If this has been a common problem, investigate why.

3. Expand and refine preconstruction. Planning and communication are key to efficient materials management. Therefore, preconstruction plays a big role. Unfortunately, many contractors underemphasize it. Establish realistic costs and timelines with project owners and subcontractors before boots hit the ground. Do the same with suppliers so materials arrive when and where they're needed.

4. Explore the feasibility of "kitting." Many suppliers now offer customized product kits containing just what's needed for a room, floor

or other construction area. Check with an appropriate provider to see whether kitting could cost-effectively reduce waste, enhance efficiency and increase productivity.

5. Get more from today's tech. Errors in identifying, ordering, obtaining and storing materials cost construction companies big bucks every year. Carefully chosen and implemented technology can improve the accuracy and efficiency of the procurement process, as well as the delivery and use of materials on jobsites. Options to explore include automated systems with bar codes, QR codes and radio-frequency identification tags. Drones, remote-access cameras and onboard vehicle GPS systems can also tighten materials security.

6. Ask for an objective assessment. If you feel stuck in your efforts to improve materials management, consider an external, data-driven review. Your financial advisor can help identify inefficiencies that may be difficult to see from the inside and recommend practical improvements that support stronger margins, improved cash flow and more predictable project outcomes. ■





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