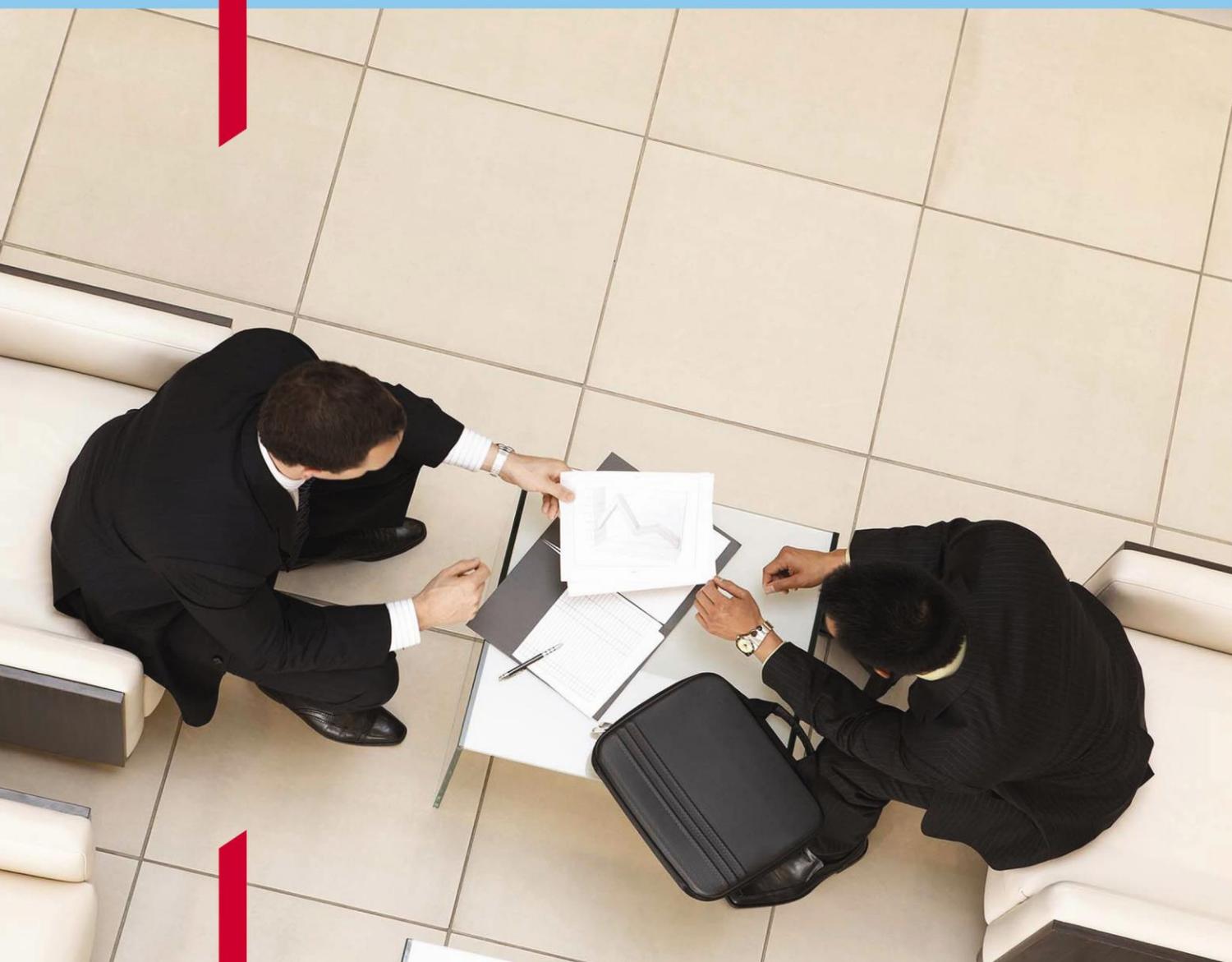


IFRS AT A GLANCE

IAS 11 *Construction Contracts*



IAS 11 Construction Contracts

Also refer:
IFRIC 15 *Agreements for the Construction of Real Estate*

Effective Date
Periods beginning on or after 1 January 1995

DEFINITIONS

A construction contract is a contract specifically negotiated for the construction of an asset, (or combination of assets), that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

A **fixed price contract** is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A **cost plus contract** is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a percentage of these costs or a fixed fee.

CONTRACT REVENUE

- Comprises the initial amount agreed in the contract, plus revenue from variations in the original work, plus claims and incentive payments that:
 - It is probable that they will result in revenue
 - Can be measured reliably.
- Measure revenue at the fair value of the consideration received or receivable.

CONTRACT COSTS

Comprises:

- Costs directly related to the specific contract
- Costs attributable to general contract activity that can be allocated to the contract
- Such other costs that are specifically chargeable to the customer under the contract terms
 - Refer to paragraphs 17-21 for included and excluded costs.

ACCOUNTING

CONTRACT REVENUE

Two or more contracts (same or different customers) should be accounted for as a **single contract**, if: i) negotiated together, ii) work is interrelated, and iii) performed concurrently.

SEPARATING CONTRACTS

- If the contract covers multiple assets, the assets should be accounted for separately if:
 - Separate proposals were submitted for each asset;
 - The contract for each asset were negotiated separately; and
 - The costs and revenues of each asset can be identified.
 Otherwise the contract should be accounted for in its entirety.
- If the contract provides an option to the customer to order additional assets, the additional assets can be accounted for separately if:
 - The additional asset differs significantly from the original asset; and
 - The price of the additional asset is negotiated separately.

ESTIMATION OF OUTCOME

<p><u>Can be estimated reliably</u></p> <ul style="list-style-type: none"> Outcome can be reliably estimated if the entity can make an assessment of the revenue, the stage of completion and the costs to complete the contract If the outcome can be measured reliably - revenue and costs on the contract should be measured with reference to stage of completion basis. Under this basis, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed When it is probable that the total contract costs will exceed contract revenue, the expected loss is recognised as an expense immediately. 	<p><u>Cannot be estimated reliably</u></p> <ul style="list-style-type: none"> No profit recognised Revenue recognised only to the extent costs are recoverable Costs are recognised as an expense when incurred Expected losses are required to be recognised as an expense as soon as a loss is probable.
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DISCLOSURE

- The amount of contract revenue recognised as revenue in the period
- Methods used to determine the contract revenue recognised in the period
- The methods used to determine the stage of completion of contracts in progress
- The gross amount due from customers for contract work as an asset (WIP that has not been expensed)
- The gross amount due to customers for contract work as a liability (prepayment from customers)
- An entity is required disclose each of the following for contracts in progress at the end of the reporting period:
 - The aggregate amount of costs and profits (less recognised losses) to date
 - The amount of advances received
 - The amount of retentions.

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