

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

COMBINING CONTRACTS

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.

ESTIMATION OF OUTCOME

<p><u>Can</u> be estimated reliably</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</u> be estimated reliably</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.
---	--

SEGMENTING 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 will be accounted for separately if:
 - The additional asset differs significantly from the original asset; and
 - The price of the additional asset is negotiated separately.

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.

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below. Alternatively, please visit [www.bdointernational.com/Services/Audit/IFRS/IFRS Country Leaders](http://www.bdointernational.com/Services/Audit/IFRS/IFRS_Country_Leaders) where you can find full lists of regional and country contacts.

Europe

Caroline Allouët	France	caroline.allouet@bdo.fr
Jens Freiberg	Germany	jens.freiberg@bdo.de
Teresa Morahan	Ireland	tmorahan@bdo.ie
Ehud Greenberg	Israel	ehudg@bdo.co.il
Ruud Vergoossen	Netherlands	ruud.vergoossen@bdo.nl
Reidar Jensen	Norway	reidar.jensen@bdo.no
María Sukonkina	Russia	m.sukonkina@bdo.ru
René Krügel	Switzerland	rene.kruegel@bdo.ch
Brian Creighton	United Kingdom	brian.creighton@bdo.co.uk

Asia Pacific

Wayne Basford	Australia	wayne.basford@bdo.com.au
Zheng Xian Hong	China	zheng.xianhong@bdo.com.cn
Fanny Hsiang	Hong Kong	fannyhsiang@bdo.com.hk
Khoon Yeow Tan	Malaysia	tanky@bdo.my

Latin America

Marcelo Canetti	Argentina	mcanetti@bdoargentina.com
Luis Pierrend	Peru	lpierrend@bdo.com.pe
Ernesto Bartesaghi	Uruguay	ebartesaghi@bdo.com.uy

North America & Caribbean

Armand Capisciolto	Canada	acapisciolto@bdo.ca
Wendy Hambleton	USA	whambleton@bdo.com

Middle East

Arshad Gadit	Bahrain	arshad.gadit@bdo.bh
Antoine Gholam	Lebanon	agholam@bdo-lb.com

Sub Saharan Africa

Nigel Griffith	South Africa	ngriffith@bdo.co.za
----------------	--------------	---------------------

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact your respective BDO member firm to discuss these matters in the context of your particular circumstances. Neither BDO IFR Advisory Limited, Brussels Worldwide Services BVBA, BDO International Limited and/or BDO member firms, nor their respective partners, employees and/or agents accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board, is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Brussels.

Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and/or the member firms of the BDO network.

BDO is the brand name for the BDO network and for each of the BDO member firms.

© 2016 BDO IFR Advisory Limited, a UK registered company limited by guarantee. All rights reserved.

www.bdointernational.com