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IAS 11 — Construction Contracts

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Overview

IAS 11 *Construction Contracts* provides requirements on the allocation of contract revenue and contract costs to accounting periods in which construction work is performed. Contract revenues and expenses are recognised by reference to the stage of completion of contract activity where the outcome of the construction contract can be estimated reliably, otherwise revenue is recognised only to the extent of recoverable contract costs incurred.

IAS 11 was reissued in December 1993 and is applicable for periods beginning on or after 1 January 1995.

History of IAS 11

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|----------------|--|
| December 1977 | Exposure Draft E11 <i>Accounting for Construction Contracts</i> |
| March 1979 | IAS 11 <i>Accounting for Construction Contracts</i> |
| 1 January 1980 | Effective date of IAS 11 |
| May 1992 | Exposure Draft E42 <i>Construction Contracts</i> |
| December 1993 | IAS 11 (1993) <i>Construction Contracts</i> (revised as part of the 'Comparability of Financial Statements' project) |
| 1 January 1995 | Effective date of IAS 11 (1993) |
| 1 January 2017 | IAS 11 will be superseded by IFRS 15 Revenue from Contracts with Customers |

Related Interpretations

- [IFRIC 15](#) *Agreements for the Construction of Real Estate*
- [IFRIC 12](#) *Service Concession Arrangements*

Summary of IAS 11

Objective of IAS 11

The objective of IAS 11 is to prescribe the accounting treatment of revenue and costs associated with construction contracts.

What is a construction contract?

A construction contract is a contract specifically negotiated for the construction of an asset or a group of interrelated assets. [IAS 11.3]

Under IAS 11, if a contract covers two or more assets, the construction of each asset should be accounted for separately if (a) separate proposals were submitted for each asset, (b) portions of the contract relating to each asset were negotiated separately, and (c) costs and revenues of each asset can be measured. Otherwise, the contract should be accounted for in its entirety. [IAS 11.8]

Two or more contracts should be accounted for as a single contract if they were negotiated together and the work is interrelated. [IAS 11.9]

If a contract gives the customer an option to order one or more additional assets, construction of each additional asset should be accounted for as a separate contract if either (a) the additional asset differs significantly from the original asset(s) or (b) the price of the additional asset is separately negotiated. [IAS 11.10]

What is included in contract revenue and costs?

Contract revenue should include the amount agreed in the initial contract, plus revenue from alternations in the original contract work, plus claims and incentive payments that (a) are expected to be collected and (b) that can be measured reliably. [IAS 11.11]

Contract costs should include costs that relate directly to the specific contract, plus costs that are attributable to the contractor's general contracting activity to the extent that they can be reasonably allocated to the contract, plus such other costs that can be specifically charged to the customer under the terms of the contract. [IAS 11.16]

Accounting

If the outcome of a construction contract can be estimated reliably, revenue and costs should be recognised in proportion to the stage of completion of contract activity. This is known as the percentage of completion method of accounting. [IAS 11.22]

To be able to estimate the outcome of a contract reliably, the entity must be able to make a reliable estimate of total contract revenue, the stage of completion, and the costs to complete the contract. [IAS 11.23-24]

If the outcome cannot be estimated reliably, no profit should be recognised. Instead, contract revenue should be recognised only to the extent that contract costs incurred are expected to be recoverable and contract costs should be expensed as incurred. [IAS 11.32]

The stage of completion of a contract can be determined in a variety of ways - including the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, surveys of work performed, or completion of a physical proportion of the contract work. [IAS 11.30]

An expected loss on a construction contract should be recognised as an expense as soon as such loss is probable. [IAS 11.22 and 11.36]

Disclosure

- amount of contract revenue recognised; [IAS 11.39(a)]
- method used to determine revenue; [IAS 11.39(b)]
- method used to determine stage of completion; [IAS 11.39(c)] and
- for contracts in progress at balance sheet date: [IAS 11.40]
 - aggregate costs incurred and recognised profit
 - amount of advances received
 - amount of retentions

Presentation

The gross amount due from customers for contract work should be shown as an asset. [IAS 11.42]

The gross amount due to customers for contract work should be shown as a liability. [IAS 11.42]

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