Accounting Standard

AASB 1009
December 1997

Construction Contracts

Issued by the
Australian Accounting Standards Board

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Defined words appear in *italics* the first time they appear in a section. The definitions are in Section 13. Standards are printed in **bold** type and commentary in light type.

MAIN FEATURES OF THE STANDARD

The Standard requires:

(a) the substance of a contract or a group of contracts to be considered when determining the composition of a construction contract

(b) revenue and expenses to be recognised by applying the stage of completion method where the outcome of a construction contract can be estimated reliably

(c) the excess of total costs over total revenue to be recognised as an expense immediately where the outcome of a construction contract can be estimated reliably and it is probable that total contract costs will exceed total contract revenue

(d) costs incurred to be recognised as expenses immediately and revenue to be recognised only to the extent that the costs incurred are recoverable where the outcome of a construction contract cannot be estimated reliably

(e) specific information to be disclosed about construction contracts, such as the method adopted for determining the stage of completion and the method adopted for recognising revenue.

ACCOUNTING STANDARD AASB 1009

The Australian Accounting Standards Board makes Accounting Standard AASB 1009 "Construction Contracts" under section 32 of the *Corporations Act 1989*.

Dated 15 December 1997

K H Spencer
Director – AASB

ACCOUNTING STANDARD

AASB 1009 "CONSTRUCTION CONTRACTS"

1 Application

1.1 This Standard applies to each *entity* that is a *contractor* which is required to prepare financial statements in accordance with Part 3.6 of the Corporations Law and which:

(a) is a *reporting entity*; or

(b) holds those financial statements out to be, or form part of, a *general purpose financial report*.

1.1.1 The standards specified in this Standard apply to the *financial report* where information resulting from their application is material, in accordance with Accounting Standard AASB 1031 "Materiality".

2 Operative Date

2.1 This Standard applies to *financial years* ending on or after 31 December 1998.

2.2 This Standard may be applied to financial years ending before 31 December 1998 where an election has been made in accordance with subsection 285(3) of the Corporations Law.

2.3 When operative, this Standard supersedes Accounting Standard AASB 1009 "Accounting for Construction Contracts" as approved by notice published in *Gazette* No S 591 on 14 November 1986 and amended by Accounting Standard AASB 1025 "Application of the Reporting Entity Concept and Other Amendments".

2.3.1 Notice of this Standard was published in *the Commonwealth of Australia Gazette* on 16 December 1997.

3 Purpose of Standard

3.1 The purpose of this Standard is to:

(a) prescribe the accounting treatment of *construction contracts* by *contractors*; and

(b) require specific disclosures to be made about construction contracts by contractors.

4 Combining and Segmenting Construction Contracts

4.1 Where a contract covers the construction of a number of items, the *contractor* must treat the construction of each item as a separate *construction contract* when:

(a) separate proposals have been submitted for the construction of each item; and

(b) the construction of each item has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to the construction of each item; and

(c) the costs of, and the *revenue* from, the construction of each item can be separately identified.

4.2 The contractor must treat a group of contracts for the construction of an item or a number of items, whether with a single customer or with several customers as a single

construction contract when:

(a) **the group of contracts is negotiated as a single package; and**

(b) **the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and**

(c) **the contracts are performed concurrently or in a continuous sequence.**

4.3 **Where a construction contract is varied to include the construction of an additional item, the construction of the additional item must be treated as a separate construction contract when:**

(a) **the item differs significantly in design, technology or function from the item or items covered by the original contract; or**

(b) **the price of the construction of the item is negotiated without regard to the original contract price.**

4.3.1 The requirements of this Standard are usually applied separately to each contract. However, in certain circumstances, it is necessary to apply the Standard to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

5 Contract Revenue

5.1 **Total contract revenue arising from a *construction contract* comprises the amount determined in accordance with the contract and amounts arising from variations, claims and incentive payments.**

5.1.1 Contract revenue is measured at the *fair value* of the consideration received or receivable by the *contractor*. The measurement of total contract revenue is affected by a variety of uncertainties that depend on the outcome of future events. The estimates often need to be revised as events occur and uncertainties are resolved. Therefore, the amount of total contract revenue relating to a construction contract may increase or decrease from one *financial year* to the next. For example:

(a) the contractor and a customer may agree on variations or claims that increase or decrease total contract revenue in a financial year subsequent to that in which the contract was initially agreed; or

(b) the amount of total contract revenue agreed in a *fixed price contract* may increase as a result of cost escalation clauses; or

(c) the amount of total contract revenue may decrease as a result of penalties arising from delays caused by the contractor in completing the contract; or

(d) the amount of total contract revenue agreed in a fixed price contract, which involves a fixed price per unit of output, may increase as the number of units is increased.

5.1.2 A variation is an instruction by a customer for a change in the scope of the activities to be performed under a construction contract. A variation may lead to an increase or a decrease in total contract revenue. Examples of variations are changes in specifications or design, and changes in the duration of the contract. The amount arising from a variation is included as part of total contract revenue when, and only when:

(a) it is *probable* that the customer will approve the amount of revenue arising from the variation; and

(b) the amount of revenue can be measured reliably.

5.1.3 A claim is an amount that the contractor seeks to collect from a customer or another party as reimbursement for costs not included in the contract price. A claim may arise from, for example, customer caused delays, errors in specifications or design, and disputed variations. The measurement of the amounts of revenue arising from claims is subject to a high level of uncertainty and often depends on the outcome of negotiations. Therefore, claims are included as part of total contract revenue when, and only when:

(a) negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and

(b) the amount of revenue can be measured reliably.

5.1.4 Incentive payments are additional amounts paid to the contractor if specified performance standards are met or exceeded. For example, a construction contract may allow for an incentive payment to the contractor for early completion of the contract. Incentive payments are included as part of total contract revenue when, and only when:

(a) the construction is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and

(b) the amount of the incentive payment can be measured reliably.

6 Contract Costs

6.1 The total contract costs arising from a *construction contract* comprise:

(a) costs that relate directly to the contract; and

(b) costs that are related to construction activities in general and can be allocated to the contract on a reasonable basis; and

(c) other costs that are specifically chargeable to the customer under the terms of the contract.

6.1.1 Costs that relate directly to a construction contract include:

(a) costs of securing the contract (see paragraph 6.1.2)

(b) costs of design and technical assistance that is directly related to the contract

(c) site labour costs, including site supervision

(d) costs of materials used in the construction activity

(e) depreciation of plant and equipment used in the construction activity

(f) costs of moving plant, equipment and materials to, and from, a central location

(g) costs of hiring plant and equipment used in the construction activity

(h) costs of rectification and guarantee work, including expected warranty costs

(i) claims from third parties.

These costs may be reduced by incidental *revenue* that is not included in total contract revenue, for example, proceeds from the sale of surplus materials and the disposal of plant and equipment at the end of the contract.

6.1.2 Costs that relate directly to a construction contract and which are incurred in securing the contract are included as part of the contract costs if they can be separately identified and measured reliably and it is *probable* that the contract will be obtained. Costs incurred in securing a construction contract that have been *recognised* as an *expense* in the *financial year* in which they are incurred are not included in total contract costs when the contract is obtained in a subsequent financial year.

6.1.3 Costs that are related to construction activity in general and can be allocated to specific contracts on a reasonable basis may include:

(a) insurance

(b) costs of design and technical assistance that is not directly related to a specific contract

(c) costs of preparing and processing construction personnel payroll.

These costs are allocated using methods that are systematic and rational. The methods for allocating costs are applied consistently to costs having similar characteristics. The allocation is based on the normal level of construction activity.

6.1.4 Costs that are specifically chargeable to a customer under the terms of the contract may include some general administration costs and development costs for which reimbursement is specified in the terms of the contract.

6.1.5 Costs that do not form part of total contract costs include:

(a) general administration costs for which reimbursement is not specified in the contract

(b) selling costs

(c) research and development costs that are not directly related to the contract

(d) depreciation of idle plant and equipment that is not used in a particular contract.

7 Contract Outcome Can Be Reliably Estimated

7.1 Subject to paragraph 7.4, where the outcome of a *construction contract* can be estimated reliably, *revenue* and *expenses* arising from the contract must be *recognised* in the *profit and loss account* by reference to the stage of completion of the contract as at *reporting date.*

7.2 The outcome of a *fixed price contract* can be estimated reliably when, and only when, all of the following conditions are satisfied:

(a) total contract revenue can be measured reliably

(b) it is *probable* that the economic benefits arising from the contract will flow to the *contractor*

(c) both the contract costs to complete the contract and the stage of contract completion as at the reporting date can be measured reliably

(d) costs related to the contract can be clearly identified and measured reliably so that actual costs arising from the contract can be compared with prior estimates.

7.3 The outcome of a *cost plus contract* can be estimated reliably when, and only when, both of the following conditions are satisfied:

(a) it is probable that the economic benefits arising from the contract will flow to the contractor

(b) costs related to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

7.3.1 The recognition of revenue and expenses by reference to the stage of completion of a contract is often referred to as the percentage of completion method. Under this method, revenue and expenses arising from a construction contract are recognised in the *financial years* in which the construction activities are performed. However, where it is probable that total contract costs will exceed total contract revenue for a contract, the excess of costs over revenue is recognised as an expense immediately in accordance with paragraph 7.4. The percentage of completion method provides useful information on the extent of construction activity and performance during a financial year.

7.3.2 Contract costs that relate to future activity of a contract are recognised as an *asset* by the contractor where it is probable that the contract costs will be recovered. Such costs represent an amount due from the customer and are often described as contract work in progress.

7.3.3 When the recovery of an amount that has been recognised as revenue ceases to be probable because the customer is unable to pay, the uncollectable amount is recognised as an expense, rather than as an adjustment of the amount of revenue arising from the construction contract.

7.3.4 The contractor is generally able to make reliable estimates of the outcome of a construction contract after it has agreed to a contract which establishes:

(a) each party's enforceable rights regarding the item or items to be constructed; and

(b) the consideration to be exchanged; and

(c) the manner and terms of settlement.

It is also usually necessary for the contractor to have an effective internal budgeting and reporting system for it to make reliable estimates of the outcome of a construction contract. The contractor reviews and, when necessary, revises the estimates of total contract revenue and total contract costs as the contract progresses. The need for such revisions does not necessarily indicate that the outcome of the contract cannot be estimated reliably.

7.3.5 The stage of completion of a construction contract may be determined in a variety of ways. The contractor uses the method that measures reliably the work performed. Depending on the nature of the contract, the methods may include:

(a) determining the proportion that contract costs for work performed to date bear to the estimated total contract costs; or

(b) surveying work performed; or

(c) determining the proportion that physical contract work completed to date bears to the estimated total physical contract work.

Progress payments and advances received from customers often do not reflect the work performed.

7.3.6 When the stage of completion is determined by reference to the contract costs incurred to date, only those contract costs that reflect work performed are included in costs incurred to date. Contract costs that do not reflect work performed include:

(a) costs that relate to future activity on the contract, such as costs of materials that have been delivered to a contract site or set aside for use in a contract but not yet installed, used or applied during contract performance, unless the materials have been made specifically for the contract

(b) payments made to subcontractors in advance of work performed under the subcontract.

Recognition of Expected Losses

7.4 Where it is probable that total contract costs will exceed total contract revenue arising from a construction contract, the excess of total contract costs over total contract revenue, to the extent that it has not been recognised, must be recognised as an expense immediately.

7.4.1 An expected loss, which is the excess of total contract costs over total contract revenue, arising from a construction contract is recognised as an expense irrespective of:

(a) whether work has commenced on the contract; or

(b) the stage of completion of construction activity; or

(c) the difference between total contract costs and total contract revenue expected to arise from other construction contracts.

8 Contract Outcome Cannot Be Reliably Estimated

8.1 Where the outcome of a *construction contract* cannot be reliably estimated:

(a) contract costs must be *recognised* as an *expense* in the *financial year* in which they are incurred; and

(b) where it is *probable* that the costs will be recovered, *revenue* must be recognised only to the extent of costs incurred.

8.1.1 During the early stages of a construction contract it may be difficult to estimate reliably the outcome of the contract. Nevertheless, it may be probable that the *contractor* will recover the contract costs incurred. Therefore, where it is probable that the costs will be recovered, contract revenue is recognised only to the extent of contract costs incurred. As the outcome of the contract cannot be estimated reliably, revenue in excess of expenses is not recognised.

8.1.2 Examples of circumstances where the outcome of a construction contract cannot be reliably estimated include contracts:

(a) which are not fully enforceable (their validity is in question); or

(b) the completion of which is subject to the outcome of pending litigation or legislation; or

(c) relating to properties that are likely to be condemned or expropriated; or

(d) where the customer is unable to meet its obligations; or

(e) where the contractor is unable to complete the contract or otherwise meet its obligations under the contract.

8.2 Where uncertainties about the outcome of a construction contract no longer exist, revenue and expenses associated with the contract must be recognised in accordance with paragraph 7.1.

9 Changes in Estimates

9.1 Where estimates of total contract revenue and total contract costs arising from a *construction contract* are revised, the changed estimates must be applied in determining the amounts of *revenue* and *expenses recognised* in the *financial year* of the change and subsequent financial years. In accordance with paragraph 7.1, revenue and expenses recognised in the *profit and loss account* must be determined by reference to the stage of completion of the construction contract as at *reporting date*.

9.1.1 The percentage of completion method is applied on a cumulative basis in each financial year to the current estimates of total contract revenue and total contract costs. This is illustrated in Example 2 in the Appendix.

10 Disclosures

10.1 The following information must be separately disclosed:

(a) the aggregate amount of *revenue* arising from *construction contracts recognised* during the *financial year*;

(b) the method or methods used to determine the contract revenue recognised during the financial year;

(c) the method or methods used to determine the stage of completion of construction contracts in progress, if applicable;

(d) the amount due from customers for contract work, as an *asset*;

(e) the amount due to customers for contract work, as a *liability*.

10.1.1 The amount due from customers for contract work is determined as:

(a) the aggregate of contract costs incurred and recognised profits; less

(b) the aggregate of recognised losses and progress billings

for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings.

10.1.2 The amount due to customers for contract work is determined as:

(a) the aggregate of contract costs incurred and recognised profits; less

(b) the aggregate of recognised losses and progress billings

for all contracts in progress for which progress billings exceed the aggregate of costs incurred plus recognised profits (less recognised losses).

10.1.3 The amount due from customers is not set off against the amount due to customers unless there exists a right of set-off as set out in Accounting Standard AASB 1014 "Set-off and Extinguishment of Debt".

10.2 The aggregate amounts of the following items must be separately disclosed for construction contracts in progress as at the *reporting date*:

(a) the aggregate of contract costs incurred and recognised profits (less recognised losses) to date

(b) advances received

(c) retentions

(d) the aggregate of consideration received and receivable as progress billings (including retentions) and advances received.

10.2.1 Retentions are amounts of progress billings which are not paid until the conditions specified in the construction contract for the payment of such amounts are satisfied or until defects have been rectified. Progress billings are amounts billed for work performed on a construction contract whether or not they have been paid by the customer. Advances are amounts received by the contractor before the related work is performed.

11 Comparative Information

11.1 Information for the preceding corresponding *financial year* which corresponds to the disclosures specified for the current financial year in this Standard must be disclosed, except where, in respect of the financial year to which this Standard is first applied, the superseded Standard did not require corresponding information.

11.1.1 Disclosure of comparative information for the financial year to which this Standard is first applied is encouraged where the superseded Standard did not require corresponding information.

12 Transitional Provisions

12.1 Where the accounting policies required by this Standard are not already being applied by the *contractor* as at the beginning of the *financial year* to which this Standard is first applied, they must be applied as at that date. Where this gives rise to initial adjustments, the net amount of these adjustments, including any adjustments to deferred income tax balances, must, in accordance with Accounting Standard AASB 1018 "Profit and Loss Accounts", be adjusted against retained profits (surplus) or accumulated losses (deficiency) as at the beginning of the financial year to which this Standard is first applied.

13 Definitions

13.1 In this Standard:

***accounts* is defined in the Corporations Law**

***assets* means future economic benefits controlled by the *entity* as a result of past transactions or other past events**

***borrowing corporation* is defined in the Corporations Law**

***company* is defined in the Corporations Law**

consolidated accounts **is defined in the Corporations Law**

construction contract **means a contract relating to the construction of an item or a combination of items that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use, and includes:**

(a) a contract to design, build, construct or produce; and

(b) a contract relating to the supervision and coordination of the construction activity on a project, including the negotiation of contracts with others for the construction activity; and

(c) a contract for architectural, engineering and other services relating to construction activity

contractor **means an entity that performs construction work pursuant to a** ***construction contract***

cost plus contract **means 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**

economic entity **means a group of entities comprising the** ***parent entity*** **and each of its** ***subsidiaries***

entity **means any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) having the capacity to deploy scarce resources in order to achieve objectives**

equity **means the residual interest in the** ***assets*** **of the entity after deduction of its** ***liabilities***

expenses **means consumptions or losses of future economic benefits in the form of reductions in assets or increases in liabilities of the entity, other than those relating to distributions to owners, that result in a decrease in** ***equity*** **during the** ***financial year***

fair value **means the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction, and is determined as follows:**

(a) the quoted market price in an active and liquid market; or

(b) when there is infrequent activity in a market, the market is not well established, small volumes are traded relative to the asset or liability to be valued, or a quoted market price is not available – an estimate of a price for the asset or liability in an active and liquid market

***financial report* means *accounts* or *consolidated accounts* or both**

***financial year* is defined in the Corporations Law**

***fixed price contract* means a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which maybe subject to rise and fall clauses**

***general purpose financial report* means a *financial report* intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs**

***holding company* is defined in the Corporations Law**

***liabilities* means future sacrifices of economic benefits that the entity is presently obliged to make to other entities as a result of past transactions or other past events**

***listed corporation* is defined in the Corporations Law**

***parent entity* means an entity which controls another entity**

***probable* means, in relation to a future event, that it is more likely than less likely that the event will occur**

***profit and loss account* is defined in the Corporations Law**

***recognised* means reported on, or incorporated in amounts reported on, the face of the *profit and loss account* or of the balance sheet (whether or not further disclosure of the item is made in notes)**

***reporting date* means the end of the financial year to which the financial report relates**

***reporting entity* means an entity (including an *economic entity*) in respect of which it is reasonable to expect the existence of users dependent on *general purpose financial reports* for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources, and includes but is not limited to the following:**

(a) a *listed corporation*

(b) a *borrowing corporation*

(c) a *company* which is not a subsidiary of a *holding company* incorporated in Australia and which is a subsidiary of a foreign company where that foreign company has its securities listed for quotation on a *stock market* or those securities are traded on a stock market

***revenues* means inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners, that result in an increase in equity during the financial year**

***stock market* is defined in the Corporations Law**

***subsidiary* means an entity which is controlled by a parent entity.**

Construction Contract

13.1.1 A construction contract may be negotiated for the construction of an item such as a bridge, building, dam, pipeline, road, ship or tunnel. A construction contract may also deal with the construction of a number of items which are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. Examples of such contracts include those for the construction of refineries and other complex pieces of plant or equipment.

13.1.2 Construction contracts include:

(a) contracts for the rendering of services which are directly related to the construction of an item, for example, a contract for the contractor to provide project management and architectural services; and

(b) contracts for the destruction or restoration of items, and the restoration of the environment following the demolition of items.

13.1.3 Whilst construction contracts are formulated in a number of ways, for the purposes of this Standard, they are classified as either *fixed price contract*s or *cost plus contracts.* Some construction contracts may contain characteristics of both a fixed price contract and a cost plus contract, for example, a cost plus contract may have an agreed maximum price. In such circumstances, the contractor considers all the conditions in paragraphs 7.2 and 7.3 in determining when to *recognise revenue* and *expenses* arising from a construction contract.

Contractor

13.1.4 A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity. The term "contractor" includes a general or prime contractor, a subcontractor to a general contractor or a construction manager.

CONFORMITY WITH INTERNATIONAL AND NEW ZEALAND ACCOUNTING STANDARDS

Conformity with International Accounting Standards

As at the date of issue of this Standard, compliance with this Standard will ensure conformity with International Accounting Standard IAS 11 "Construction Contracts".

Conformity with New Zealand Accounting Standards

As at the date of issue of this Standard, compliance with this Standard will ensure conformity with Financial Reporting Standard FRS-14 "Accounting for Construction Contracts".

APPENDIX

EXAMPLES OF THE APPLICATION OF THE STANDARD

This Appendix forms part of the commentary and is illustrative only. The purpose of the Appendix is to illustrate the application of the standards to assist in clarifying their meaning.

Example 1: Disclosure of Accounting Policies

The following are examples of accounting policy disclosures:

Revenue from fixed price contracts is recognised in accordance with the percentage of completion method. Stage of completion is measured by reference to labour hours incurred to date as a percentage of estimated total labour hours for each contract.

Revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the financial year plus the percentage of fee earned. Percentage of fee earned is measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

Example 2: The Determination of Contract Revenue and Expenses

The following example illustrates one method of determining the stage of completion of a contract and the timing of the recognition of contract revenue and expenses where the outcome can be estimated reliably (see paragraphs 7.1 to 7.3.6 of the Standard).

A contractor has a fixed price contract to build a bridge. The initial amount of revenue agreed in the contract is $9,000. The contractor's initial estimate of total contract costs is $8,000. It will take 3 years to build the bridge.

By the end of year 1, the contractor's estimate of total contract costs has increased to $8,050 (see paragraph 9.1).

In year 2, the customer approves a variation resulting in an increase in contract revenue of $200 and involving estimated additional contract costs of $150 (see paragraph 9.1). At the end of year 2, costs incurred include $100 for standard materials stored at the site to be used in year 3 to complete the project.

The contractor determines the stage of completion of the contract by calculating the proportion that contract costs incurred for work performed to date bear to the latest estimated total contract costs. A summary of the financial data during the construction period as at the end of each year is as follows:

	Year 1	Year 2	Year 3
	$	$	$
Initial amount of revenue agreed in contract	9,000	9,000	9,000
Variation	-	200	200
Total contract revenue	9,000	9,200	9,200
Contract costs incurred to date	2,093	6,168	8,200
Contract costs to complete	5,957	2,032	-
Total estimated contract costs	8,050	8,200	8,200
Estimated profit	950	1,000	1,000
Stage of completion	26%	74%	100%

The stage of completion for year 2 (74%) is determined by excluding from contract costs incurred for work performed to date, the $100 of standard materials stored at the site for use in year 3. (In accordance with paragraph 7.3.2, the $100 of standard materials stored at the site is recognised as an asset where it is probable that they will be recovered.)

The amounts of revenue and expenses (and therefore profit) recognised in the profit and loss account in the three years are as follows:

	To date	Recognised in prior years	Recognised in current year
	$	$	$
Year 1			
Revenue (9,000 x .26)	2,340		2,340
Expenses (8,050 x .26)	2,093		2,093
Profit	247		247
Year 2			
Revenue (9,200 x .74)	6,808	2,340	4,468
Expenses (8,200 x .74)	6,068	2,093	3,975
Profit	740	247	493

	To date	Recognised in prior years	Recognised in current year
	$	$	$
Year 3			
Revenue (9,200 x 1.00)	9,200	6,808	2,392
Expenses (8,200 x 1.00)	8,200	6,068	2,132
Profit	1,000	740	260

Example 3: Construction Contract Disclosures

The disclosures illustrated in this Appendix are based on the following example.

A contractor has reached the end of its first year of operations. All its contract costs incurred have been paid for in cash and all its progress billings and advances have been received in cash. Contract costs incurred for contracts B, C and E include the cost of materials that have been purchased for the contract but which have not been used in construction to date. For contracts B, C and E, the customers have made advances to the contractor for work not yet performed.

The status of its five contracts in progress at the end of year 1 is as follows:

	A	B	C	D	E	Total
	$	$	$	$	$	$
Contract revenue recognised in accordance with paragraph 7.1	145	520	380	200	55	1,300
Contract expenses recognised in accordance with paragraph 7.1	110	450	350	250	55	1,215
Expected losses recognised in accordance with paragraph 7.4	-	-	-	40	30	70
Recognised profits less recognised losses	35	70	30	(90)	(30)	15

	A $	B $	C $	D $	E $	Total $
Contract costs incurred in the period	110	510	450	250	100	1,420
Contract costs incurred recognised as contract expenses in the period (see above)	110	450	350	250	55	1,215
Contract costs that relate to future activity recognised as an asset in accordance with paragraph 7.3.2	-	60	100	-	45	205
Contract revenue (see above)	145	520	380	200	55	1,300
Progress billings (paragraph 10.2.1)	100	520	380	180	55	1,235
Unbilled contract revenue	45	-	-	20	-	65
Advances (paragraph 10.2.1)	-	80	20	-	25	125

The amounts to be disclosed in accordance with paragraphs 10.2(a), 10.1(d) and 10.1(e) are calculated as follows:

	A $	B $	C $	D $	E $	Total $
Contract costs incurred	110	510	450	250	100	1,420
Recognised profits less recognised losses	35	70	30	(90)	(30)	15
	145	580	480	160	70	1,435
Progress billings	100	520	380	180	55	1,235
Due from customers	45	60	100	-	15	220
Due to customers	-	-	-	(20)	-	(20)

The following are examples of disclosures made in accordance with the Standard:

Aggregate amount of contract revenue recognised during the financial year (paragraph 10.1(a))	$1,300
Aggregate of contract costs incurred and profits recognised (including losses recognised) to date (paragraph 10.2(a))	$1,435
Advances received (paragraph 10.2(b))	$125
Amount due from customers for contract work – presented as an asset in accordance with paragraph 10.1(d)	$220
Amount due to customers for contract work – presented as a liability in accordance with paragraph 10.1(e)	$(20)
Progress billings and advances received (paragraph 10.2(d))	$1,360

BACKGROUND TO REVISION

This section does not form part of the Standard. It is a summary of the reasons for the current revision to the superseded Standard.

1 The reissue of the Standard is part of a program being undertaken by the Australian Accounting Standards Board (AASB) and the Public Sector Accounting Standards Board (PSASB) of the Australian Accounting Research Foundation to achieve greater harmony between Australian accounting standards and those of the International Accounting Standards Committee.

2 The issue of the Standard follows consideration of the responses received on Exposure Draft ED 78 "Construction Contracts", which was prepared by the AASB and the PSASB and released in March 1997. ED 78 contained proposals aimed at harmonising this Standard with International Accounting Standard IAS 11 "Construction Contracts".

Principal Features of ED 78 Included in the Revised Standard

3 The Standard retains the basic structure and content of the proposals in ED 78. Certain requirements have been clarified following consideration of the responses received on ED 78.