

## IND-AS 11/ IAS 11 – CONSTRUCTION CONTRACTS

- Anand Banka

*talati & talati*

### FACTS

#### IAS 11

- Issued 1979 – Accounting for Construction Contracts
- Revised 1993 – Construction Contracts

#### AS 7

- Issued 1983 – Accounting for Construction Contracts
- Revised 2002 – Construction Contracts
- Ind-AS 11 (Near Final)



*talati & talati*

## APPLICABLE TO

- Construction of
  - Buildings / residential colonies
  - Machines / plants
  - Bridge
  - Dam
  - Pipeline
  - Road
  - Ship
- In the books of CONTRACTORS

*talati & talati*

## SEGMENTING CONSTRUCTION CONTRACTS

Separate proposal for each asset

Separate negotiation/  
acceptance for each asset

Cost and revenue  
identifiable for each asset

*talati & talati*

## COMBINING CONSTRUCTION CONTRACTS

Negotiated as a single package?

Inter-related overall profit margin

Performed concurrently or in continuous sequence?

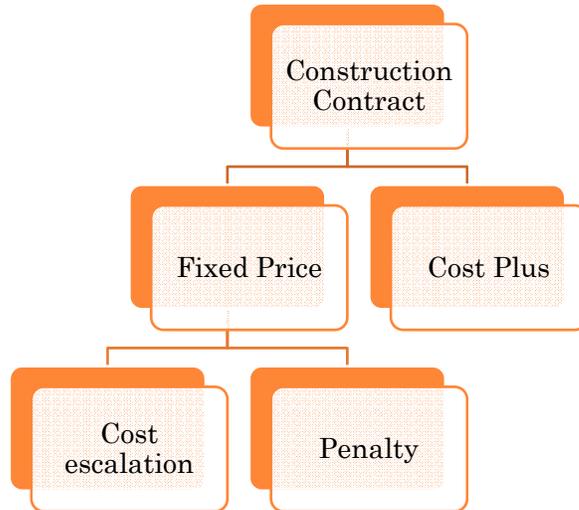
*talati & talati*

## CASE STUDY

- PQR invited tenders for construction of
  - factory and
  - township that includes residential complex, school and hospital
- Tender requires cost estimates for each of these components to be separately provided
- However, the whole tender will be given to a single contractor only
- XYZ wins the tender and enters into separate contracts for each component with PQR
- Whether XYZ should account each component as a separate contract or all components as a single contract?

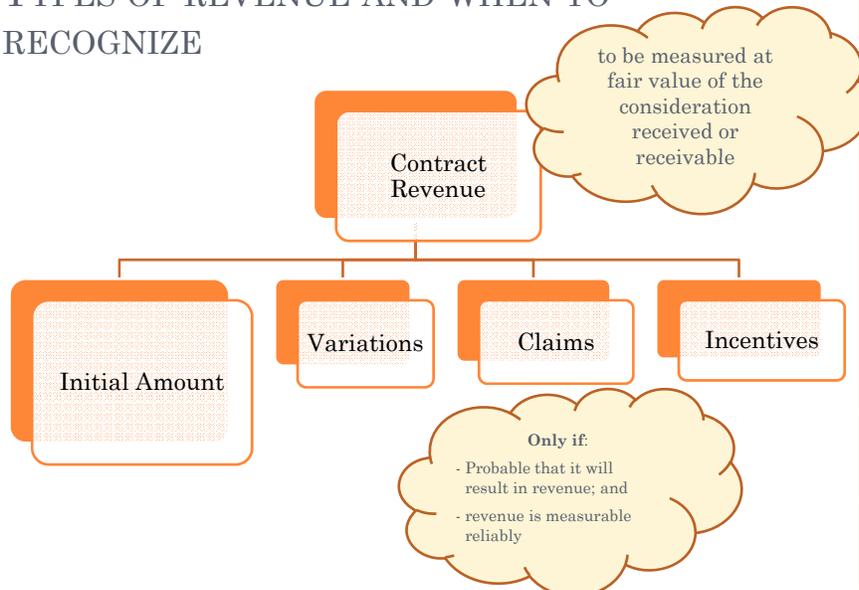
*talati & talati*

## TYPES OF CONTRACTS



*talati & talati*

## TYPES OF REVENUE AND WHEN TO RECOGNIZE



*talati & talati*

## RECOGNITION

- Expected Revenue
  - When outcome estimated reliably
  - On the basis of stage of Completion
- Expected Loss
  - Immediately
- Formula:

Revenue = incurred cost + (incurred cost x expected profit /  
expected total cost)

*talati & talati*

## RECOGNITION

- Outcome not reliably estimated
  - Contract cost expensed out immediately
  - Recoverable, revenue = incurred costs
  - Not recoverable, revenue = nil

*talati & talati*

## CASE STUDY

- Contractor XYZ claims reimbursement from its customer for cost overruns due to clear site not provided on time
- Customer refuses to accept the claim on grounds that XYZ did not perform work as per specifications and to satisfaction
- XYZ still wants to recognise its claim

*talati & talati*

## CASE STUDY

Particulars	Amount
Estimated Revenue	20,000
Estimate Costs	16,000
Actual so far	9,000
Cost includes materials not yet installed	1,000

- As per survey, 60% of work is completed
- As per physical proportion, 70% of work is completed
- Revenue Recognition as per
  - cost completion method
  - survey method
  - physical proportion method

*talati & talati*

<b>Cost Completion Method</b>	
Cost incurred (9,000-1,000)	8,000
Revenue to be recognised (8,000/16,000*20,000)	10,000
<b>Survey Method</b>	
Cost incurred	8,000
Revenue to be recognised (60% of 20,000)	12,000
<b>Physical Proportion Method</b>	
Cost incurred	8,000
Revenue to be recognised (70% of 20,000)	14,000

*talati & talati*

# ThanQ?

Anand Banka  
 Partner,  
 Talati & Talati  
 Chartered Accountants

Email: [anand.bank@talatiandtlati.com](mailto:anand.bank@talatiandtlati.com)  
 Mob: 98673 53743

CONTACT US!



*talati & talati*