



IND-AS 11/ IAS 11 – CONSTRUCTION CONTRACTS

- Anand Banka

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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)



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APPLICABLE TO

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

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SEGMENTING CONSTRUCTION CONTRACTS

Separate proposal for each asset

Separate negotiation/
acceptance for each asset

Cost and revenue
identifiable for each asset

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COMBINING CONSTRUCTION CONTRACTS

Negotiated as a single package?

Inter-related overall profit margin

Performed concurrently or in continuous sequence?

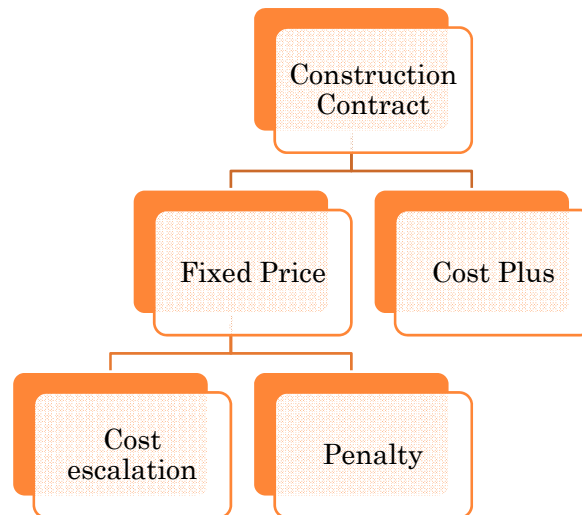
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CASE STUDY

- 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?

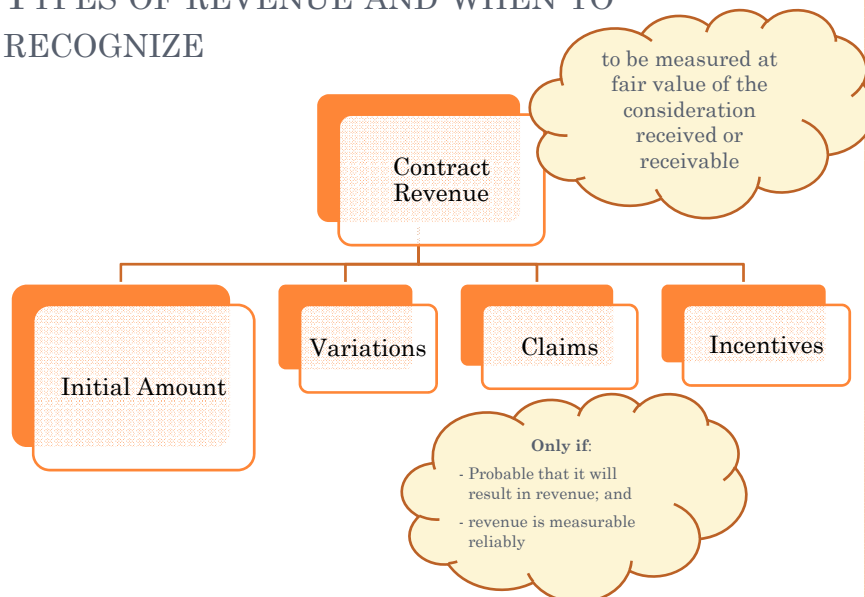
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TYPES OF CONTRACTS



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TYPES OF REVENUE AND WHEN TO RECOGNIZE



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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)

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RECOGNITION

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

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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

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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

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

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ThanQ?

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