

AS 7 Construction Contracts

(Accounting in financial statements of Contractor)

Meaning: Contract specifically negotiated for construction of asset or combination of interrelated assets. Include service contracts for asset construction e.g. architect & destruction or restoration contract.

Types:

- Fixed Price contract: Fixed price or rate (may be with or without escalation clause)
- Cost Plus contract: Defined costs + % of costs / Fixed fee.

Contract Revenue		Contract Costs		
Initial contract Revenue	XX	Direct costs	Allocated costs	Specific costs
+/- Variations	XX	Material consumed (net of closing stock)	Supervisor salary ↓ Allocated	Specifically chargeable costs for which reimbursement is specified
+ Incentive Payments	XX	Labour charges (incl. closing O/S)		
+ Price escalation	XX	Dep./Hire charges of P&M		
+ Claims	XX			
- Penalty	(XX)			
	XX			

Combining & Segmenting Construction Contract

Separate/Segmenting

- * Separate Proposals
- * Separate Negotiations
- * Identifiable costs & revenue

Combine

- * Negotiation as single package
- * Closely Interrelated
- * Performed concurrently (ie. in sequence)

Recognition of Contract Revenue & Costs

Outcome of contract can be estimated reliably

Yes

Conditions:

- * Probable future benefits
- * Revenue & costs can be measured reliably

Stage of completion:

- 1) % of completion = $\frac{\text{Costs till date}}{\text{Total estimated costs}} \times 100$
- 2) Survey of work performed
- 3) Completion of Physical Proportion (e.g. Tiles)

Computation of Profit

Contract Revenue x % of completion	xx
Costs till date	(xx)
Profits till date	xx
Profits recognised till last year	(xx)
Current Year Profit	xx

NOTE: If costs till date not directly given, then it will be (work certified + work to be certified)
(By ICAI)

No

Recognise Revenue to the extent of costs of which recovery probable and

Recognise contract costs as expense in period in which incurred

Recognition of Expected losses

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When Total Contract Cost

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Total Contract Revenue

Recognise expected loss immediately

Provision for Loss

⇒ Total Expected loss - loss already recognised

Such loss is determined irrespective:

- * Whether work commenced or not
- * Stage of completion
- * Profits expected on other contracts

Disclosure Requirements

- * Contract Revenue Recognised
- * Method to determine Revenue
- * Method to determine Stage of completion
- * Costs, Profits, Retention
- * Progress Billings (ie. Invoice Raised)
(Amount Received + To be Received)
- * Amount due from/(to) customers
(Contract costs + Profit/(Loss) - Progress Billings)