Applicability : Contractors → YES
(construct asset owned by someone else)

SELF OWNED PROPERTY CONSTRUCTED – NO

Construction Contract :- Contract for :-

1) Construction of 1 asset or multiple assets.
2) Services directly related to construction activity.
3) Contracts for destruction/restoration of assets.
4) Contract for restoration of environment.

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Segmenting v/s Combining :-

Segmenting	Combining
1. Separate proposal for each asset.	1. Negotiation as a single package.
2. Individual basis – accept/reject each proposal.	2. Asset constructed in a continuous sequence.
3. For each asset – cost/revenue can be individually identified.	3. Profit margin – overall basis
↓ Legally 1 contract, but for accounting purpose separate/individual contract for each asset. ↓ Cost/Revenues of each asset will be separately recog.	↓ Legally multiple contracts, but for accounting purpose consider it as 1 contract. ↓ Overall cost/revenues will be calculated and recognised.

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Construction of Additional Asset
↓
Cost/Revenue related to additional asset separately recognised if ;

1. Additional asset significantly differs in design, technology, function from original asset. **OR**
2. Negotiation for additional asset done without regard to original asset.

AS-7: SUMMARY CHART

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TYPES OF CONSTRUCTION CONTRACTS

Fixed Price	Cost Plus	Hybrid
Contract gets a fixed price for work done.	Contracts gets his remuneration as a percentage of cost incurred.	Contracts gets his remuneration as a percentage of cost incurred subject to a maximum cap (limit)

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CONTRACT REVENUE

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Revenue Originally Agreed :- & Includes

Claim	Variation Payment	Incentive Payment
Additional cost incurred by contractor for work not specified in the contract.	Change in scope of contract work.	Payment for meeting certain performance standards.
Recog. Criteria	Recog. Criteria	Recog. Criteria
→ Approved by customer → Measurement – certain	→ Approved by customer → Measurement – certain	→ Contract should reach sufficiently advanced stage that it is probable that incentive payment will be realised. → Measurement – certain

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CONTRACT COSTS

→ Directly related costs.
→ Costs that can be allocated on a proportionate basis.
→ Costs specifically chargeable from a customer.
→ Cost of acquiring the contract.

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REVENUE RECOGNITION

Whether outcome of the contract is reliably measurable.

YES	NO
1. Calculate stage of completion 2. Recognise revenue and cost in proportion to the stage of completion.	1. Recognise revenue only to the extent of cost incurred i.e. no profit can be recognised.

Stage of completion :-

= Cost incurred till date / Total cost

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Important Note :-

If at any stage it is probable that contracts costs will exceed contract revenue total loss (full/entire) will be recognised immediately.

DISCLOSURES :-

Read from book.