

DEFINITIONS

A construction contract is a **contract** or a similar binding arrangement, specifically negotiated for the construction of an asset, (or combination of assets), that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

A **fixed price contract** is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A **cost plus (or cost-based) contract** is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus in the case of a commercially based contract, an additional percentage of these costs or a fixed fee.

CONTRACT REVENUE

- Comprises the initial amount agreed in the contract, plus revenue from variations in the original work, plus claims and incentive payments to the extent that:
 - It is probable that they will result in revenue, and
 - They can be measured reliably.
- Measured at the fair value of the consideration received or receivable.

CONTRACT COSTS

- Comprises:
- Costs directly related to the specific contract.
 - Costs attributable to general contract activity that can be allocated to the contract on a systematic and rational basis; and
 - Such other costs that are specifically chargeable to the customer under the contract terms.
 - Refer to paragraphs 24 - 29 for included and excluded costs.

ACCOUNTING

CONTRACT REVENUE

- Contract revenue is recognised by reference to the stage of completion of the contract activity at the reporting date when the outcome of the contract can be estimated reliably.

CONTRACT EXPENSES

- Contract expenses are recognised by reference to the stage of completion of the contract at the reporting date; when the outcome of the construction contract can be estimated reliably; which is when:

FOR A FIXED PRICE CONTRACT:

- When all of the following conditions are satisfied:
- Total contract revenue (if any) can be measured reliably;
 - It is probable that the economic benefits or service potential associated with the contract will flow to the entity;
 - Both the contract costs to complete the contract and the stage of contract completion at the reporting date can be measured reliably; and
 - The contract costs attributable to the contract can be clearly identified and measured reliably, so that actual contract costs incurred can be compared with prior estimates.

FOR A COST PLUS CONTRACT:

- When all of the following conditions are satisfied:
- It is probable that the economic benefits or service potential associated with the contract will flow to the entity; and
 - The contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

COMBINING AND SEGMENTING CONSTRUCTION CONTRACTS

- If the contract covers multiple assets, the assets should be accounted for separately if:
 - Separate proposals were submitted for each asset;
 - The contracts for each asset were negotiated separately; and
 - The costs and revenues of each asset can be identified.

Otherwise the contract should be accounted for in its entirety.

- If the contract provides an option to the customer to order additional assets, the additional assets can be accounted for separately if:
 - The additional asset differs significantly from the original asset; and
 - The price of the additional asset is negotiated separately.

IF OUTCOME CANNOT BE ESTIMATED RELIABLY

- Revenue recognised only to the extent costs are recoverable.
- Costs recognised as an expense when incurred.
- An expected deficit should be recognised as an expense immediately (see paragraph 44).

TIER 2 RDR REPORTERS

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