

ACCOUNTING FOR CONSTRUCTION CONTRACT – AS7 (Revised-2002)

1) Applicability of the Standard


- Applied in accounting for construction contracts in the financial statements of contractors.
- Where a Construction Contract
 - is a contract 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.

and includes:

1) Contract for rendering of services which are directly related to the construction of asset(e.g. Architect).

2) Contract for destruction or restoration of assets, and the restoration of environment following the demolition if asset.

- Construction Contract can be fixed price contract or a cost plus contract.

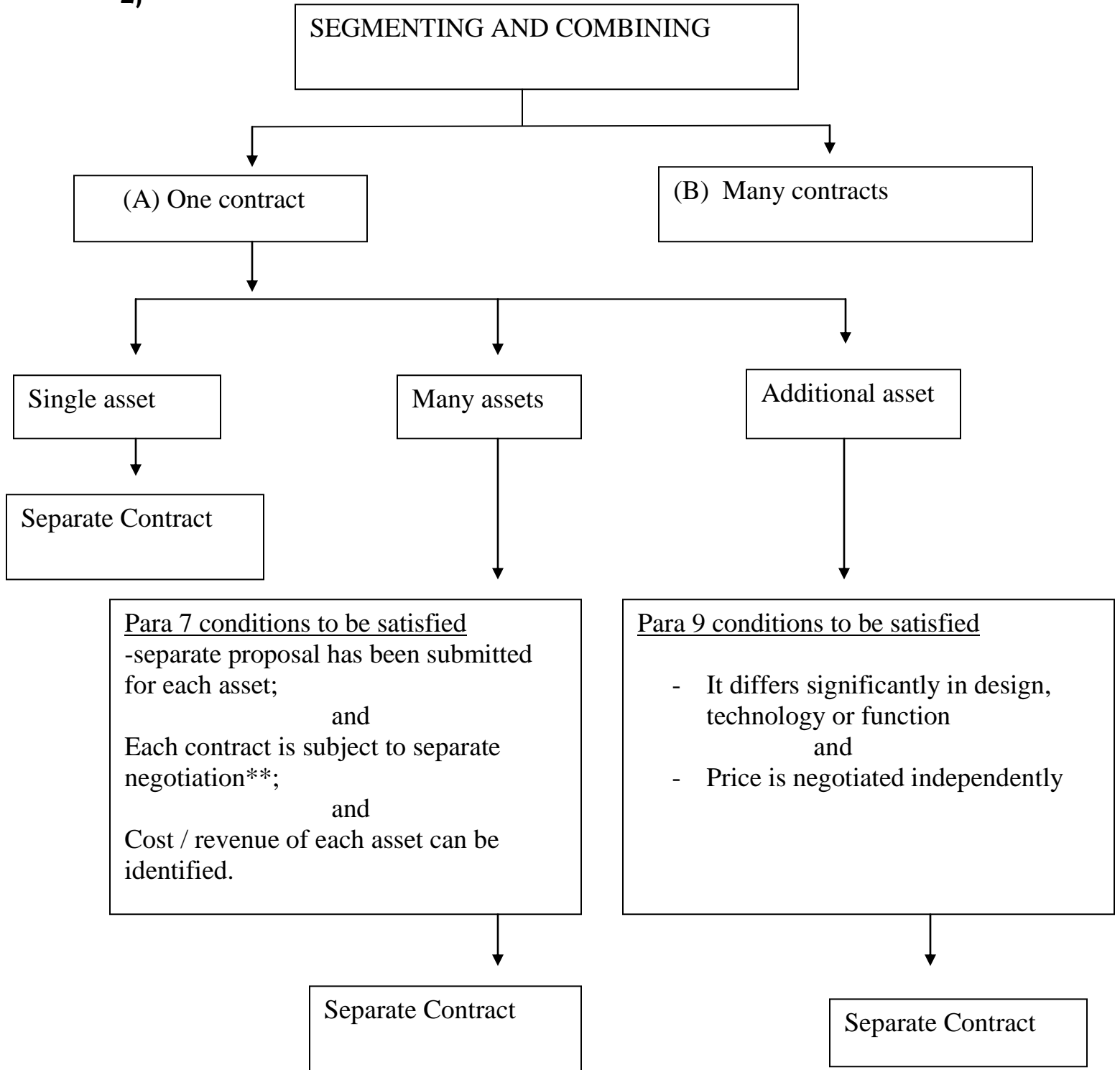


Contractor Agrees to a fixed Contract Price or fixed rate per unit of output, Which in some cases is subject cost Escalation.

The Contractor is re-imbursed for allowable or otherwise defined cost, plus % of these Cost or a fixed rates.

Notes:

2)



(B) Many contracts

Para 8 conditions

- Group of contracts is negotiated as a single package
and
- The contracts are closely interrelated.
and
- Contracts are performed concurrently or **continuously**.

Satisfied

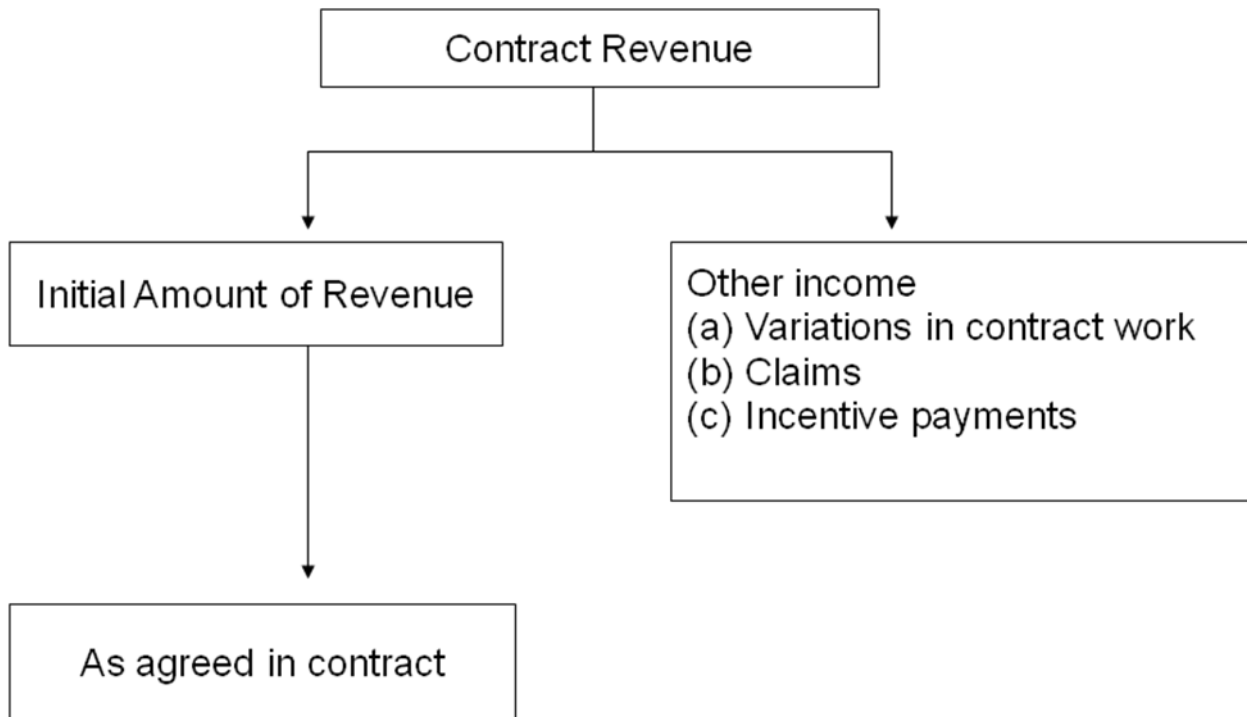
Not satisfied

Single contract

Separate contracts

Notes:

3) Contract Revenue



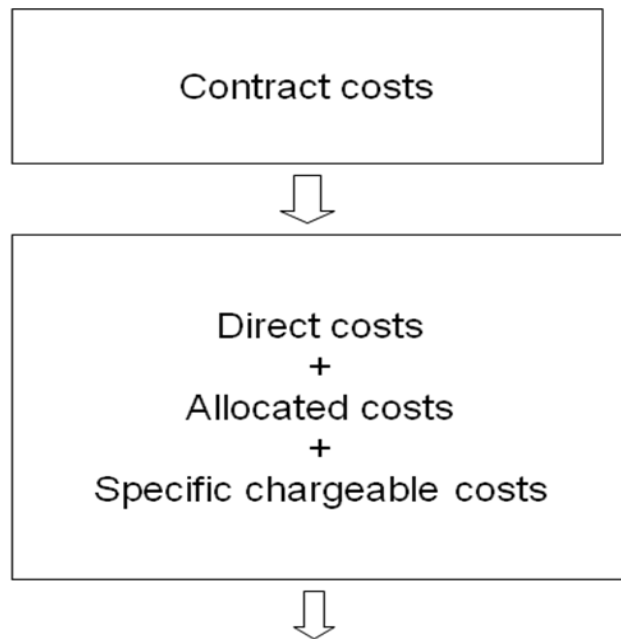
Variation is an Instructions by the customer for a change in the scope or work to be performed under contract.

Claim is an amount that the contractor seeks to collect from the customer or another party as re-imburements for the cost not included in the contract price.

Incentive payments are additional amounts payable to the contractor if specified performance , standards are met or exceeded.

Notes:

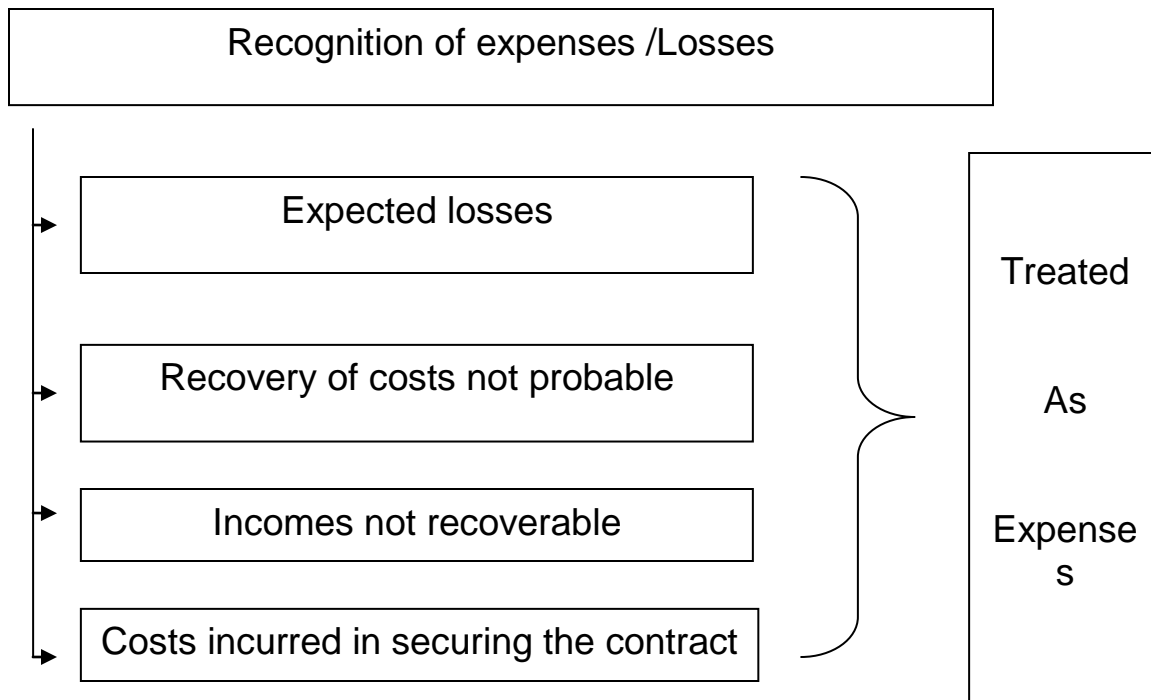
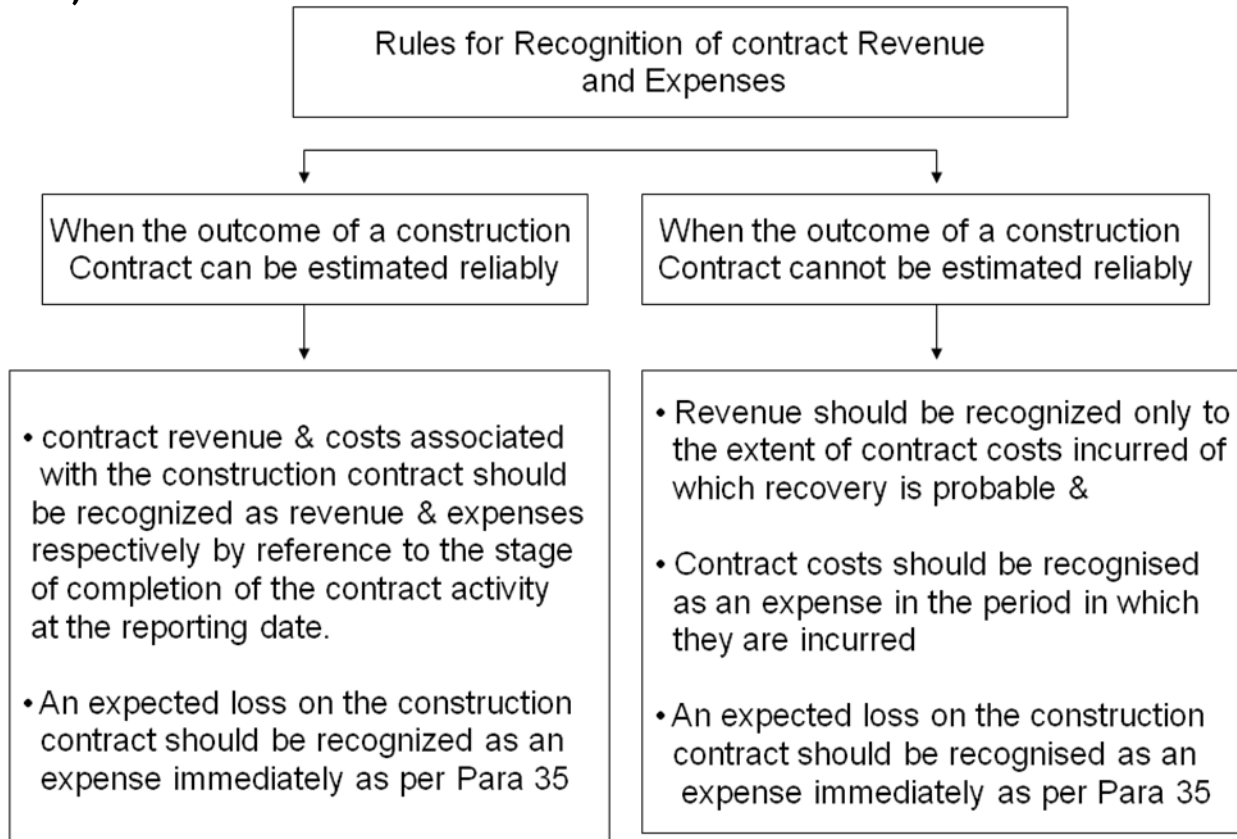
4) Contract Cost:



Note : AOH,SOH,R&D costs and depreciation of idle assets are excluded from contract costs.

Notes:

5)



Disclosure Requirements

<ul style="list-style-type: none"> • Amount of contract revenue recognised as Revenue in the period. 	P & L
<ul style="list-style-type: none"> • Methods used to determine the contract Revenue recognised in the period. 	Notes
<ul style="list-style-type: none"> • Methods used to determine the stage of completion of contracts in progress. 	Notes
<ul style="list-style-type: none"> • for contracts in Progress <ul style="list-style-type: none"> a) Aggregate amount of costs incurred and recognised profits (less recognised losses) upto the reporting date, b) Amount of advances received, and c) Amount of retentions 	B/sheet Notes
<ul style="list-style-type: none"> • Gross Amount due from (or) due to customers for contract work - as an asset (or) liability 	B/sheet
<ul style="list-style-type: none"> • contingencies in relation to warranty costs, penalties or possible losses, as per as -29 	B/sheet &

NOTES :

Recognition of Revenue by Real estate developers AS-7 or AS-9

Guidance Note on recognition of revenue by Real Estate Developers recommends principles for recognition of revenue arising from real estate sales by the enterprises engaged in such activities (commonly referred to as 'real estate developers', 'builders' or 'property developers').

The term 'real estate' refers to land as well as building.

As per AS 9 : Revenue in case of real estate sales should be recognised when all the following conditions are to be satisfied:

- (i) The seller has transferred to the buyer all significant risks and rewards of ownership and the seller retains no effective control of the real estate to a degree usually associated with ownership;
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the real estate sales; and
- (iii) it is not unreasonable to expect ultimate collection.

In respect of recognition of revenue by the Real Estate company, the Expert Advisory Committee notes paragraphs 10 and 11 of AS 9, which state as below:

"10. Revenue from sales or service transactions should be recognised when the requirements as to performance set out in paragraphs 11 and 12 are satisfied, provided that at the time of performance it is not unreasonable to expect ultimate collection. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.

11. In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and**
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods."**

The Expert Advisory Committee is of the view that revenue should be recognised by the company in respect of its housing projects only when the conditions in respect of sale of goods as aforesaid are satisfied.

Expert Advisory Committee is of the following opinion:

- (a) The revised AS 7 would not be applicable to the company for accounting for new housing projects which are undertaken by the company during the accounting periods commencing on or after 1.4.2003.

Accounting for Construction Contracts-AS-7.

Recognition of Revenue by Real Estate Developers-AS 9 Vs AS 7

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(b) The activity of developing housing projects on its own account as a commercial venture by the company is of the nature of production activity and, therefore, should be construed as such. The inventories should be valued by the company in accordance with AS 2 .

(c) AS 2 is relevant for valuation of inventories including construction work-in-progress and not for recognition of revenue. AS 9 would be relevant for recognition of revenue.

References : Expert Advisory committee on important principles related to AS-7 & AS-9

Material Contracts: A Contract that is mainly for supply of materials with a negligible element of service component should not be considered under AS – 7. AS – 9 will be applicable for the supply and service components. (EAO 156 / VOL XIX)

Consultancy Fees: Consultancy Fees received only for design engineering and project management directly related to Construction of an asset should be recognized as per AS – 7. If such revenue is not directly related to the Construction of an asset, AS – 9 principles will be applicable. (EAO 20 / VOL XXI)

Work-in-progress in a Consultancy Organization: AS – 7 would apply to revenue recognition of consultancy fees received only in respect of those service contracts which are directly related to the construction of an asset, and revenue should be recognized in the manner set out in AS – 7. If the consultancy services do not relate to construction of assets, then revenue should be recognized as set out in AS – 9. (MARCH 06 – CA JOURNAL PAGE NO.1350)

Notes:

