

NZ IAS 11 (Diff Rep)



NZ International Accounting Standard 11 (Diff Rep) Construction Contracts (NZ IAS 11 (Diff Rep))

Issued November 2012

This Standard was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant under section 24(1)(a) of the Financial Reporting Act 1993.

This Standard is a Regulation for the purposes of the Regulations (Disallowance) Act 1989.

As at 1 December 2012, the requirements in this Standard are identical to the requirements in NZ IAS 11 *Construction Contracts* as applied by qualifying entities. Versions of NZ IAS 11 applied by qualifying entities prior to adoption of this Standard are available on the Archived Standards page of the External Reporting Board (XRB) website at xrb.govt.nz

The following New Zealand Interpretations refer to NZ IAS 11 (Diff Rep):

- NZ SIC-27 (Diff Rep) *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*
- NZ SIC-32 (Diff Rep) *Intangible Assets—Web Site Costs*
- NZ IFRIC 12 (Diff Rep) *Service Concession Arrangements*
- NZ IFRIC 15 (Diff Rep) *Agreements for the Construction of Real Estate*

NZ IAS 11 (Diff Rep)

COPYRIGHT

© External Reporting Board (“XRB”) 2012

This XRB standard contains International Financial Reporting Standards (“IFRS”) Foundation copyright material. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by the IFRS Foundation. Reproduction of XRB standards outside of New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use only. Further information and requests for authorisation to reproduce for commercial purposes outside New Zealand should be addressed to the IFRS Foundation.

ISBN 978-1-927237-46-5

NZ IAS 11 (Diff Rep)

CONTENTS

NZ INTERNATIONAL ACCOUNTING STANDARD 11 (Diff Rep)
CONSTRUCTION CONTRACTS (NZ IAS 11 (Diff Rep))

Paragraphs

HISTORY OF AMENDMENTS

INTRODUCTION TO NZ IAS 11 (Diff Rep)

OBJECTIVE

SCOPE

NZ 0.1–2

DEFINITIONS

3–6

COMBINING AND SEGMENTING CONSTRUCTION CONTRACTS

7–10

CONTRACT REVENUE

11–15

CONTRACT COSTS

16–21

RECOGNITION OF CONTRACT REVENUE AND EXPENSES

22–35

RECOGNITION OF EXPECTED LOSSES

36–37

CHANGES IN ESTIMATES

38

DISCLOSURE

39–45

EFFECTIVE DATE

46–NZ 46.1

IASB ILLUSTRATIVE EXAMPLES

Disclosure of accounting policies

The determination of contract revenue and expenses

Contract disclosures

NZ IAS 11 (Diff Rep)

NZ International Accounting Standard 11 (Diff Rep) *Construction Contracts* (NZ IAS 11 (Diff Rep)) is set out in paragraphs NZ 0.1–NZ 46.1. NZ IAS 11 (Diff Rep) is based on International Accounting Standard 11 *Construction Contracts* (IAS 11) (revised 1993) issued by the International Accounting Standards Committee (IASC) and adopted by the International Accounting Standards Board (IASB). All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. NZ IAS 11 (Diff Rep) should be read in the context of its objective and the New Zealand *Conceptual Framework for Financial Reporting (Diff Rep)* (NZ Framework (Diff Rep)). NZ IAS 8 (Diff Rep) *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Any additional material is shown with grey shading and the paragraphs are denoted with “NZ”.

NZ IAS 11 (Diff Rep)

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IAS 11 (Diff Rep) *Construction Contracts*

This table lists the pronouncement establishing NZ IAS 11 (Diff Rep).

| Pronouncements | Date approved | Early operative date | Effective date (annual reporting periods... on or after ...) |
|--|---------------|-----------------------------|--|
| NZ IAS 11 (Diff Rep) <i>Construction Contracts</i> | Nov 2012 | Early application permitted | 1 Dec 2012 |

| Table of Amended Paragraphs in NZ IAS 11 (Diff Rep) | | |
|---|--------------|---------------------------------|
| Paragraph affected | How affected | By ... [date] |
| All PBE paragraphs | Deleted | NZ IAS 11 (Diff Rep) [Nov 2012] |
| Paragraph NZ 0.1 | Inserted | NZ IAS 11 (Diff Rep) [Nov 2012] |
| Paragraph 46 | Deleted | NZ IAS 11 (Diff Rep) [Nov 2012] |
| Paragraph NZ 46.1 | Inserted | NZ IAS 11 (Diff Rep) [Nov 2012] |

The following tables list the pronouncements establishing and substantially amending NZ IAS 11 as applied by qualifying entities prior to the issue of this Standard as NZ IAS 11 (Diff Rep).

| Pronouncements | Date approved | Early operative date | Effective date (annual reporting periods... on or after ...) |
|--|---------------|----------------------|--|
| NZ IAS 11 <i>Construction Contracts</i> | Nov 2004 | 1 Jan 2005 | 1 Jan 2007 |
| <i>Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to IFRSs Financial Reporting Standards Reporting Regime (Framework for Differential Reporting)</i> | June 2005 | 1 Jan 2005 | 1 Jan 2007 |

NZ IAS 11 (Diff Rep)

| Pronouncements | Date approved | Early operative date | Effective date (annual reporting periods... on or after ...) |
|---|----------------------|-----------------------------|---|
| Amendment to the <i>Framework for Differential Reporting</i> | Dec 2005 | 1 Jan 2005 | 1 Jan 2007 |
| NZ IAS 23 <i>Borrowing Costs</i> (revised 2007) | Jul 2007 | Early application permitted | 1 Jan 2009 |
| NZ IAS 1 <i>Presentation of Financial Statements</i> (revised 2007) | Nov 2007 | Early application permitted | 1 Jan 2009 |
| Minor Amendments to NZ IFRSs (2008-1) | Apr 2008 | Early application permitted | 1 June 2008 |
| Minor Amendments to NZ IFRSs (2008-2) | Aug 2008 | Immediate | Immediate |
| Amendments to NZ IAS 23 <i>Borrowing Costs</i> | Nov 2008 | Early application permitted | 1 Jan 2009 |
| Minor Amendments to NZ IFRSs | July 2010 | Immediate | Immediate |

| Table of Amended Paragraphs in NZ IAS 11 | | |
|---|---------------------|---|
| Paragraph affected | How affected | By ... [date] |
| Paragraph NZ 1.1 | Inserted | Amendment to the <i>Framework for Differential Reporting</i> [Dec 2005] |
| Paragraph NZ 1.2 | Inserted | Amendment to the <i>Framework for Differential Reporting</i> [Dec 2005] |
| Paragraph 18 | Amended | NZ IAS 23 (2007)[Jul 2007] |
| Paragraph NZ 18A | Inserted | Amendments to NZ IAS 23 [Nov 2008] |

Introduction to NZ IAS 11 (Diff Rep)

NZ IAS 11 (Diff Rep) is identical to NZ IAS 11 applied by qualifying entities prior to the issuance of NZ IAS 11 (Diff Rep). That is, there is no change to the recognition, measurement, presentation and disclosure requirements of NZ IAS 11 on adoption of this Standard.

The Standard prescribes the accounting treatment of revenue and costs associated with construction contracts by the entity that performs construction work.

The Standard requires:

- (a) where the outcome of the construction contract can be estimated reliably:
 - (i) revenue and expenses arising from a construction contract to be recognised by reference to the stage of completion of the contract; and
 - (ii) expected losses to be recognised immediately as expenses;
- (b) where the outcome of a construction contract cannot be estimated reliably, contract costs incurred to be recognised as expenses immediately and contract revenue to be recognised only to the extent that the contract costs incurred are recoverable (the “cost recovery method”); and
- (c) a number of disclosures in respect of each major contract or class of contracts.

Differential Reporting

Qualifying entities are given several concessions to the requirements of this Standard (as identified in the Standard).

NZ International Accounting Standard 11 (Diff Rep)

Construction Contracts **(NZ IAS 11 (Diff Rep))**

Objective

The objective of this Standard is to prescribe the accounting treatment of revenue and costs associated with construction contracts. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. Therefore, the primary issue in accounting for construction contracts is the allocation of contract revenue and contract costs to the accounting periods in which construction work is performed. This Standard uses the recognition criteria established in the *NZ Framework* (Diff Rep) to determine when contract revenue and contract costs shall be recognised as revenue and expenses in statement of comprehensive income. It also provides practical guidance on the application of these criteria.

Scope

NZ 0.1 This Standard applies only to Tier 3 for-profit entities.

1 This Standard shall be applied in accounting for construction contracts in the financial statements of contractors.

NZ 1.1 Entities which qualify for differential reporting concessions in accordance with XRB A1 *Accounting Standards Framework* may recognise profit on all construction contracts on a “completed contract method” and need not comply with other paragraphs of NZ IAS 11 (Diff Rep). The completed contract method is a method of accounting by which the profit on a construction contract is recognised only when the contract is completed or substantially completed, subject always to the requirements of paragraph 36 of NZ IAS 11 (Diff Rep) to recognise any loss as soon as it is foreseen.

NZ 1.2 Qualifying entities that elect to recognise profit on construction contracts in accordance with this Standard are not required to comply with the disclosure requirements in this Standard denoted with an asterisk (*).

2 [Paragraph 2 is not reproduced. The withdrawal of previous IASB pronouncements is not relevant to this Standard.]

Definitions

- 3 **The following terms are used in this Standard with the meanings specified:**
- A *construction contract* is a contract specifically negotiated for the construction of an asset or a 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 contract* is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a percentage of these costs or a fixed fee.**
- 4 A construction contract may be negotiated for the construction of a single asset such as a bridge, building, dam, pipeline, road, ship or tunnel. A construction contract may also deal with the construction of a number of assets which are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use; examples of such contracts include those for the construction of refineries and other complex pieces of plant or equipment.
- 5 For the purposes of this Standard, construction contracts include:
- (a) contracts for the rendering of services which are directly related to the construction of the asset, for example, those for the services of project managers and architects; and
 - (b) contracts for the destruction or restoration of assets, and the restoration of the environment following the demolition of assets.
- 6 Construction contracts are formulated in a number of ways which, for the purposes of this Standard, are classified as fixed price contracts and cost plus contracts. Some construction contracts may contain characteristics of both a fixed price contract and a cost plus contract, for example in the case of a cost plus contract with an agreed maximum price. In such circumstances, a contractor needs to consider all the conditions in paragraphs 23 and 24 in order to determine when to recognise contract revenue and expenses.

Combining and segmenting construction contracts

- 7 The requirements of this Standard are usually applied separately to each construction contract. However, in certain circumstances, it is necessary to apply the Standard to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

NZ IAS 11 (Diff Rep)

- 8** When a contract covers a number of assets, the construction of each asset shall be treated as a separate construction contract when:
- (a) separate proposals have been submitted for each asset;
 - (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
 - (c) the costs and revenues of each asset can be identified.
- 9** A group of contracts, whether with a single customer or with several customers, shall be treated as a single construction contract when:
- (a) the group of contracts is negotiated as a single package;
 - (b) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and
 - (c) the contracts are performed concurrently or in a continuous sequence.
- 10** A contract may provide for the construction of an additional asset at the option of the customer or may be amended to include the construction of an additional asset. The construction of the additional asset shall be treated as a separate construction contract when:
- (a) the asset differs significantly in design, technology or function from the asset or assets covered by the original contract; or
 - (b) the price of the asset is negotiated without regard to the original contract price.

Contract revenue

- 11** Contract revenue shall comprise:
- (a) the initial amount of revenue agreed in the contract; and
 - (b) variations in contract work, claims and incentive payments:
 - (i) to the extent that it is probable that they will result in revenue; and
 - (ii) they are capable of being reliably measured.

NZ IAS 11 (Diff Rep)

- 12 Contract revenue is measured at the fair value of the consideration received or receivable. The measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future events. The estimates often need to be revised as events occur and uncertainties are resolved. Therefore, the amount of contract revenue may increase or decrease from one period to the next. For example:
- (a) a contractor and a customer may agree variations or claims that increase or decrease contract revenue in a period subsequent to that in which the contract was initially agreed;
 - (b) the amount of revenue agreed in a fixed price contract may increase as a result of cost escalation clauses;
 - (c) the amount of contract revenue may decrease as a result of penalties arising from delays caused by the contractor in the completion of the contract; or
 - (d) when a fixed price contract involves a fixed price per unit of output, contract revenue increases as the number of units is increased.
- 13 A variation is an instruction by the customer for a change in the scope of the work to be performed under the contract. A variation may lead to an increase or a decrease in contract revenue. Examples of variations are changes in the specifications or design of the asset and changes in the duration of the contract. A variation is included in contract revenue when:
- (a) it is probable that the customer will approve the variation and the amount of revenue arising from the variation; and
 - (b) the amount of revenue can be reliably measured.
- 14 A claim is an amount that the contractor seeks to collect from the customer or another party as reimbursement for costs not included in the contract price. A claim may arise from, for example, customer caused delays, errors in specifications or design, and disputed variations in contract work. The measurement of the amounts of revenue arising from claims is subject to a high level of uncertainty and often depends on the outcome of negotiations. Therefore, claims are included in contract revenue only when:
- (a) negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and
 - (b) the amount that it is probable will be accepted by the customer can be measured reliably.
- 15 Incentive payments are additional amounts paid to the contractor if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to the contractor for early completion of the contract. Incentive payments are included in contract revenue when:
- (a) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and
 - (b) the amount of the incentive payment can be measured reliably.

Contract costs

- 16 Contract costs shall comprise:**
- (a) costs that relate directly to the specific contract;**
 - (b) costs that are attributable to contract activity in general and can be allocated to the contract; and**
 - (c) such other costs as are specifically chargeable to the customer under the terms of the contract.**

- 17** Costs that relate directly to a specific contract include:
- (a) site labour costs, including site supervision;
 - (b) costs of materials used in construction;
 - (c) depreciation of plant and equipment used on the contract;
 - (d) costs of moving plant, equipment and materials to and from the contract site;
 - (e) costs of hiring plant and equipment;
 - (f) costs of design and technical assistance that is directly related to the contract;
 - (g) the estimated costs of rectification and guarantee work, including expected warranty costs; and
 - (h) claims from third parties.

These costs may be reduced by any incidental income that is not included in contract revenue, for example income from the sale of surplus materials and the disposal of plant and equipment at the end of the contract.

- 18** Costs that may be attributable to contract activity in general and can be allocated to specific contracts include:
- (a) insurance;
 - (b) costs of design and technical assistance that are not directly related to a specific contract; and
 - (c) construction overheads.

Such costs are allocated using methods that are systematic and rational and are applied consistently to all costs having similar characteristics. The allocation is based on the normal level of construction activity. Construction overheads include costs such as the preparation and processing of construction personnel payroll. Costs that may be attributable to contract activity in general and can be allocated to specific contracts also include borrowing costs.

NZ IAS 11 (Diff Rep)

- 19 Costs that are specifically chargeable to the customer under the terms of the contract may include some general administration costs and development costs for which reimbursement is specified in the terms of the contract.
- 20 Costs that cannot be attributed to contract activity or cannot be allocated to a contract are excluded from the costs of a construction contract. Such costs include:
- (a) general administration costs for which reimbursement is not specified in the contract;
 - (b) selling costs;
 - (c) research and development costs for which reimbursement is not specified in the contract; and
 - (d) depreciation of idle plant and equipment that is not used on a particular contract.
- 21 Contract costs include the costs attributable to a contract for the period from the date of securing the contract to the final completion of the contract. However, costs that relate directly to a contract and are incurred in securing the contract are also included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained. When costs incurred in securing a contract are recognised as an expense in the period in which they are incurred, they are not included in contract costs when the contract is obtained in a subsequent period.

Recognition of contract revenue and expenses

- 22 **When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period. An expected loss on the construction contract shall be recognised as an expense immediately in accordance with paragraph 36.**
- 23 **In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:**
- (a) **total contract revenue can be measured reliably;**
 - (b) **it is probable that the economic benefits associated with the contract will flow to the entity;**
 - (c) **both the contract costs to complete the contract and the stage of contract completion at the end of the reporting period can be measured reliably; and**
 - (d) **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.**

NZ IAS 11 (Diff Rep)

24 **In the case of a cost plus contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:**

- (a) **it is probable that the economic benefits associated with the contract will flow to the entity; and**
- (b) **the contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.**

25 The recognition of revenue and expenses by reference to the stage of completion of a contract is often referred to as the percentage of completion method. Under this method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed. This method provides useful information on the extent of contract activity and performance during a period.

26 Under the percentage of completion method, contract revenue is recognised as revenue in profit or loss in the accounting periods in which the work is performed. Contract costs are usually recognised as an expense in profit or loss in the accounting periods in which the work to which they relate is performed. However, any expected excess of total contract costs over total contract revenue for the contract is recognised as an expense immediately in accordance with paragraph 36.

27 A contractor may have incurred contract costs that relate to future activity on the contract. Such contract costs are recognised as an asset provided it is probable that they will be recovered. Such costs represent an amount due from the customer and are often classified as contract work in progress.

28 The outcome of a construction contract can only be estimated reliably when it is probable that the economic benefits associated with the contract will flow to the entity. However, when an uncertainty arises about the collectibility of an amount already included in contract revenue, and already recognised in profit or loss, the uncollectible amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense rather than as an adjustment of the amount of contract revenue.

29 An entity is generally able to make reliable estimates after it has agreed to a contract which establishes:

- (a) each party's enforceable rights regarding the asset to be constructed;
- (b) the consideration to be exchanged; and
- (c) the manner and terms of settlement.

It is also usually necessary for the entity to have an effective internal financial budgeting and reporting system. The entity reviews and, when necessary, revises the estimates of contract revenue and contract costs as the contract progresses. The need for such revisions does not necessarily indicate that the outcome of the contract cannot be estimated reliably.

NZ IAS 11 (Diff Rep)

- 30 The stage of completion of a contract may be determined in a variety of ways. The entity uses the method that measures reliably the work performed. Depending on the nature of the contract, the methods may include:
- (a) the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs;
 - (b) surveys of work performed; or
 - (c) completion of a physical proportion of the contract work.
- Progress payments and advances received from customers often do not reflect the work performed.
- 31 When the stage of completion is determined by reference to the contract costs incurred to date, only those contract costs that reflect work performed are included in costs incurred to date. Examples of contract costs which are excluded are:
- (a) contract costs that relate to future activity on the contract, such as costs of materials that have been delivered to a contract site or set aside for use in a contract but not yet installed, used or applied during contract performance, unless the materials have been made specially for the contract; and
 - (b) payments made to subcontractors in advance of work performed under the subcontract.
- 32 When the outcome of a construction contract cannot be estimated reliably:**
- (a) revenue shall be recognised only to the extent of contract costs incurred that it is probable will be recoverable; and**
 - (b) contract costs shall be recognised as an expense in the period in which they are incurred.**
- An expected loss on the construction contract shall be recognised as an expense immediately in accordance with paragraph 36.**
- 33 During the early stages of a contract it is often the case that the outcome of the contract cannot be estimated reliably. Nevertheless, it may be probable that the entity will recover the contract costs incurred. Therefore, contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable. As the outcome of the contract cannot be estimated reliably, no profit is recognised. However, even though the outcome of the contract cannot be estimated reliably, it may be probable that total contract costs will exceed total contract revenues. In such cases, any expected excess of total contract costs over total contract revenue for the contract is recognised as an expense immediately in accordance with paragraph 36.
- 34 Contract costs that are not probable of being recovered are recognised as an expense immediately. Examples of circumstances in which the recoverability of contract costs incurred may not be probable and in which contract costs may need to be recognised as an expense immediately include contracts:
- (a) that are not fully enforceable, ie their validity is seriously in question;

NZ IAS 11 (Diff Rep)

- (b) the completion of which is subject to the outcome of pending litigation or legislation;
 - (c) relating to properties that are likely to be condemned or expropriated;
 - (d) where the customer is unable to meet its obligations; or
 - (e) where the contractor is unable to complete the contract or otherwise meet its obligations under the contract.
- 35 When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue and expenses associated with the construction contract shall be recognised in accordance with paragraph 22 rather than in accordance with paragraph 32.**

Recognition of expected losses

- 36 When it is probable that total contract costs will exceed total contract revenue, the expected loss shall be recognised as an expense immediately.**
- 37 The amount of such a loss is determined irrespective of:
- (a) whether work has commenced on the contract;
 - (b) the stage of completion of contract activity; or
 - (c) the amount of profits expected to arise on other contracts which are not treated as a single construction contract in accordance with paragraph 9.

Changes in estimates

- 38 The percentage of completion method is applied on a cumulative basis in each accounting period to the current estimates of contract revenue and contract costs. Therefore, the effect of a change in the estimate of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract, is accounted for as a change in accounting estimate (see NZ IAS 8 (Diff Rep) *Accounting Policies, Changes in Accounting Estimates and Errors*). The changed estimates are used in the determination of the amount of revenue and expenses recognised in profit or loss in the period in which the change is made and in subsequent periods.

Disclosure

- *39 An entity shall disclose:**
- (a) **the amount of contract revenue recognised as revenue in the period;**
 - (b) **the methods used to determine the contract revenue recognised in the period; and**

NZ IAS 11 (Diff Rep)

- (c) **the methods used to determine the stage of completion of contracts in progress.**
- 40 **An entity shall disclose each of the following for contracts in progress at the end of the reporting period:**
- (a) **the aggregate amount of costs incurred and recognised profits (less recognised losses) to date;**
- (b) **the amount of advances received; and**
- (c) **the amount of retentions.**
- 41 Retentions are amounts of progress billings that are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified. Progress billings are amounts billed for work performed on a contract whether or not they have been paid by the customer. Advances are amounts received by the contractor before the related work is performed.
- 42 **An entity shall present:**
- (a) **the gross amount due from customers for contract work as an asset; and**
- (b) **the gross amount due to customers for contract work as a liability.**
- 43 The gross amount due from customers for contract work is the net amount of:
- (a) costs incurred plus recognised profits; less
- (b) the sum of recognised losses and progress billings
- for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings.
- 44 The gross amount due to customers for contract work is the net amount of:
- (a) costs incurred plus recognised profits; less
- (b) the sum of recognised losses and progress billings
- for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).
- 45 An entity discloses any contingent liabilities and contingent assets in accordance with NZ IAS 37 (Diff Rep) *Provisions, Contingent Liabilities and Contingent Assets*. Contingent liabilities and contingent assets may arise from such items as warranty costs, claims, penalties or possible losses.

NZ IAS 11 (Diff Rep)

Effective Date

46 [Deleted]

| | |
|---------|---|
| NZ 46.1 | This Standard applies to annual periods beginning on or after 1 December 2012. Early application is permitted. This Standard replaces NZ IAS 11 as applied by qualifying entities prior to the issuance of this Standard. There are no changes to the requirements of NZ IAS 11 as it applied to qualifying entities. |
|---------|---|