EX 14 Construction Contracts – Exercises

1. On July 1st, 2010, Delta Ltd. negotiated a long-term contract to build a new yacht, for an amount of € 50.000. The estimated time to construct this was three years. The following table provides the information the costs and the timing of these that the company incurred during the life of the contract.

Considering this data, and assuming that the percentage of completion is determined on the basis of the costs incurred, complete the table below with the correct values:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DESCRIPTION** | **2010** | **2011** | **2012** | **2013** |
| Costs incurred during the financial period | 6.000 | 15.000 | 10.000 | 9.000 |
| Costs estimated to completion (at the end of the year) | 34.000 | 19.000 | 9.000 | 0 |
| Amounts invoiced during the period (Progress billings) | 5.000 | 14.000 | 9.000 | 12.000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Contract accounting** | **2010** | **2011** | **2012** | **2013** |
| Contract work in progress |  |  |  |  |
| Net asset (liability) |  |  |  |  |
| Attributable profit (loss) |  |  |  |  |

2. How are construction contracts defined in IAS 11?

3. When should contracts be combined and when should they be segregated under IAS 11?

4. What should a company do if it can’t make a reliable estimation of the contract outcome?

5. How are the gross amounts due to and from customers determined?

6. Under the percentage of completion method of accounting for construction contracts what alternative ways are there of determining the stage of completion?