Accounting treatment of construction contracts and the implications on the outcome of accounting recognition

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At international level, in accounting terms, construction contracts are covered by IAS 11 "Construction Contracts". This standard deals with the issue of recognition of revenue and costs of construction, ensuring that revenue and contract costs to be affected accounting periods in which construction activity, which was, in fact, the primary problem of accounting for construction contracts. Standard refers to contracts that run for over several accounting periods. Specifically, these include contracts on the one hand, contracts for services that are directly related to asset building (eg, services of architects and designers) and on the other hand, contracts for construction or restoration of assets and environmental restoration after dismantling them. Accounting for construction contracts, IAS 11 recommends two methods, namely the end of business method and the method of rising percentage of the work. The essential difference between the two methods is when to recognize the outcome of the contract.

From research carried out on the financial reports of companies’ active in the construction industry, we found that mentioned methods are applied sometimes unjustifiably, for the purpose of handling information on the financial performance of the enterprise. For example, if the losses are forecasted for the next period, in general, a company will be tempted to apply the method completion not work and the percentage of advancement or when using the method the degree of advancement of the work may be overvalued or undervalued advance work, just to influence the outcome in direction desired. The study's aims to comment on the accounting treatment of construction contracts and their implications on the outcome of accounting recognition highlight strengths and weaknesses of the two methods of counting.