national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

GRAP 11 – Construction Contracts

Effective 1 April 2021

DEFINITION

A **construction contract** is:
- ✓ A contract, or similar binding arrangement
- ✓ Specifically negotiated for the construction of an asset or combination of assets that are closely interrelated or interdependent in terms of 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 price, or a fixed rate per unit of output, which in some cases is subject to 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 and, in the case of commercially-based contract plus an additional percentage of these costs or a fixed fee, if any

Contract revenue includes the amount of revenue agreed in the initial contract, plus variations in the original work, plus claims and incentives to the extent that
- ✓ It will result in revenue (expected to be collected), and
- ✓ It is capable of being measured (can be measured reliably)

Where the cost associated with a construction contract are recovered from another entity (i.e., by way of an appropriation or conditional grant), the contract is classified as a fixed price contract. Any revenue received / receivable is recognised in terms of GRAP 23. The contract costs are recognised in terms of GRAP 11

Contract costs includes
- ✓ Costs directly related to the contract
- ✓ Costs attributable to contract activity in general and that can be allocated to the contract on a systematic and rational basis, and
- ✓ Other costs specifically chargeable to the client under the contract terms

COMBINING CONTRACTS

A group of contracts, whether with a single customer or with several customers, should be treated as a single contract when:
- ✓ The group of contracts is negotiated as a single package
- ✓ The contracts are so closely interrelated that it is, in effect, part of a single project with an overall margin, if any
- ✓ The contracts are performed concurrently or in continuous sequence

SEPARATING CONTRACTS

If a contract covers many assets, the contract should be accounted for separately if:
- ✓ Separate proposals were submitted for each asset
- ✓ Each asset in the contract were negotiated separately
- ✓ 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 should be accounted for separately if:
- ✓ The additional assets differs significantly (in design, technology or function) from the original asset, or
- ✓ The price of the additional asset is negotiated separately

OUTCOME CAN BE ESTIMATED RELIABLY

- If the entity can make an assessment of the revenue, the stage of completion and the costs to complete the contract
- If the outcome can be measured reliably, revenue and costs on the contract should be recognised with reference to stage of completion bases. Under this basis, contract revenue is matched with contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and surplus which can be attributed to the portion of work completed
- When it is probable that the total contract costs will exceed contract revenue, the expected deficit is immediately recognised as an expense

OUTCOME CANNOT BE ESTIMATED RELIABLY

- Revenue will be recognised only to the extent of contract costs incurred that is probable will be recoverable (no surplus is recognised)
- Contract costs will be recognised as an expense in the period in which they are incurred
- An expected deficit on a construction contract should be immediately recognised as an expense