

**Accounting Standards for Enterprises No. 15 - Construction Contracts**

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## Chapter I General Provisions

Article 1 In order to regulate the recognition, measure construction contracts of enterprises (construction contractors, the same below), and disclose the relevant information, these Standards are formulated according to the Accounting Standards for Enterprises - Basic Standards.

Article 2 The term "construction contract" means the contract signed for the construction of an asset or several assets that are closely interrelated in the matter of their design, technology and function or their ultimate purpose or use.

Article 3 Construction contracts consist of fixed price contracts and cost plus contracts.

A fixed price contract means a construction contract in which the construction price is ascertained on the basis of a fixed contract price or a fixed unit price.

A cost-plus contract means a construction contract in which the construction price is ascertained on the basis of the costs stipulated in the contract or costs negotiated otherwise, plus a proportion of these costs or a fixed fee.

## Chapter II The Split-up and Combination of Contracts

Article 4 Generally an enterprise shall have accounting treatment in accordance with each construction contract. However, in some cases, it is necessary to split up a single contract or combine several contracts in order to reflect the essence of a single contract or a group of contracts.

Article 5 For a construction contract including several assets; the construction of each asset shall be treated as a single construction contract when the conditions as follows are met simultaneously:

- (1) Independent construction plan of each asset;
- (2) Each asset is needed a separate negotiation with the customer, and the parties have been able to accept or reject the contract terms pertinent to each asset; and
- (3) The revenue and costs of each asset can be identified separately.

Article 6 The construction of each additional asset shall be accounted for as a separate contract if either of the conditions is met as follows:

- (1) There is great difference between the additional asset and the original asset under the original contract in terms of design, technology or function; or
- (2) It is not necessary to take into account of the original contract price when the price of the additional asset is separately negotiated.

Article 7 A group of contracts, whether with a single customer or with several customers, shall be treated as a single construction contract when all of the conditions are met as follows:

- (1) The group of contracts is signed as a package deal;
- (2) The contracts are so closely related that they are, in fact, parts of a single project with an overall profit margin; and
- (3) The contracts are carried out concurrently or in a sequential manner.

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### Chapter III Contract Revenue

Article 8 The contract revenue shall consist of:

- (1) The initial amount of revenue stipulated in the contract; and
- (2) Revenue incurred by alterations in contract, claims for compensation and incentive payments.

Article 9 A alteration in a contract is an adjustment by the customer for a change in the range of the work to be performed under the contract.

Revenues incurred by alterations in the contract shall be recognized when both of the conditions as follows are met simultaneously:

- (1) The customer will approve the amount of revenues incurred by the variation; and
- (2) The amount of revenues can be measured in a reliable way.

Article 10 A claim for compensation is an amount that is not included in the contract price and which the contractor seeks to charge from the customer or a third party as a compensation for costs that caused by the customer or a third party.

Revenue incurred by claims should be recognized when both of the conditions as follows are met simultaneously:

- (1) The customer is expected to accept the claims for compensation in accordance with the situations of negotiations; and
- (2) The amount that is accepted by the other party can be measured in a reliable way.

Article 11 Incentive payments refer to the additional amounts agreed to pay to the contractor by the customer if the specified performance standards are met or exceeded. Revenue incurred by incentive payments should be recognized when both of the conditions as follows are met simultaneously:

- (1) The contract has reached a stage of completion so that it can be deduced that the schedule and quality of the contract will meet or exceed the specified performance standards; and
- (2) The amount of incentive payments can be measured in a reliable way.

### Chapter IV Contract Costs

Article 12 The contract costs shall consist of the direct and indirect costs incurred and related to a contract during the period from the date of the contract signed to the date of the contract completed.

Article 13 The direct costs under a contract shall consist of the items as follows:

- (1) Costs of materials;
- (2) Labor costs;
- (3) Utilization expenses of equipment; and
- (4) Other direct costs, referring to other expenses that may be directly included in the contract costs.

Article 14 The indirect costs refer to the costs incurred by organizing and managing operating activities for construction entity or production entity subordinate to an enterprise.

Article 15 The direct costs shall be directly included as part of the contract costs when they are incurred. The indirect costs shall be allocated to the contract costs in light of a systematic and reasonable method on the date of the balance sheet.

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Article 16 The contract costs may be offset against by any incidental income pertinent to the contract, such as the income from the disposal of surplus materials at the end of the contract.

Article 17 The contract costs do not include the costs that shall be included in the current profits and losses, such as the administration costs, the selling costs, the financial costs.

The relevant expenses incurred by the sign of a contract shall be directly included in the current profits and losses.

#### Chapter V Recognition of Contract Revenue and Contract Costs

Article 18 If the outcome of a construction contract can be estimated in a reliable way, the contract revenue and contract costs shall be recognized in light of the percentage-of-completion method on the date of the balance sheet.

The term "percentage-of-completion method" means a method by which the contractor recognizes its revenues and costs in the light of the schedule of the contracted project.

Article 19 The outcome of a fixed price contract can be estimated in a reliable way when all of the conditions as follows are met simultaneously:

- (1) The total contract revenue can be measured in a reliable way;
- (2) The economic benefits pertinent to the contract will flow into the enterprise;
- (3) The actual contract costs incurred can be clearly distinguished and can be measured in a reliable way; and
- (4) Both the schedule of the contracted project and the contract costs to complete the contract can be measured in a reliable way.

Article 20 The outcome of a cost plus contract can be estimated in a reliable way when the conditions as follows are met simultaneously:

- (1) The economic benefits pertinent to the contract will flow into the enterprise; and
- (2) The actual contract costs incurred can be clearly distinguished and measured in a reliable way.

Article 21 The schedule of a contracted project may be ascertained by employing the methods as follows:

- (1) The proportion of accumulative actual contract costs incurred against the expected total contract costs;
- (2) The proportion of the completed contract work against the expected total contract work; or
- (3) Surveys of the work performed.

Article 22 When the schedule of the project is ascertained on the basis of the proportion of accumulative actual contract costs incurred against the expected total contract costs, the items as follows are excluded from the actual contract costs incurred:

- (1) The construction costs pertinent to future activity under the contract, such as costs of materials that are not installed or used during the construction;
- (2) The advance payments made to the subcontractors prior to the completion of the subcontract works.

Article 23 The current contract revenues in the current period shall, on the balance sheet date, be recognized in accordance with the balance of the total contract revenues times the schedule of completion then deducting the accumulated revenue recognized in previous accounting periods.

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At the same time, the current contract expenses in the current period shall be recognized in accordance with the balance of the expected total contract costs times the schedule of completion then deducting the accumulated expenses recognized in previous accounting periods. Article 24 For a construction contract completed in the current period, the balance of the total actual contract revenues deducting the accumulated revenue recognized in previous accounting periods should be acknowledged as contract revenues in the current period. Meanwhile, the balance of the accumulated contract costs incurred deducting the accumulated contract costs recognized in previous accounting periods should be acknowledged as contract expenses in the current period.

Article 25 If the outcome of a construction contract can not be estimated in a reliable way, it shall be treated in accordance with the circumstances as follows, respectively:

(1) If the contract costs can be recovered, the contract revenue shall be acknowledged in accordance with contract costs that can be recovered and the contract costs shall be acknowledged as contract expenses in the current period they are incurred; and

(2) If the contract costs cannot be recovered, these costs shall be acknowledged as contract expenses immediately when incurred and no contract revenue shall be acknowledged.

Article 26 If the uncertainties, which cause that the outcome of a construction contract can not be measured in a reliable way, have passed out of existence, the revenues and expenses pertinent to the construction contract shall be acknowledged in light of the provisions as prescribed in Article 18 of these Standards.

Article 27 If the total expected contract costs exceed the total expected contract revenue, the expected loss shall be recognized as the current expenses.

## Chapter VI Disclosure

Article 28 An enterprise shall disclose the information concerning the construction contracts in its notes as follows:

- (1) The total contract amount and the methods used to ascertain the schedule of each contract project;
- (2) The aggregate amount of costs incurred and aggregate gross profits (or loss) acknowledged for each contract;
- (3) The settlement amount of each contract; and
- (4) The reasons and the amount of the expected loss in the current period.

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