

## PBE IPSAS 11 Construction Contracts – Differences to NZ IFRS (PBE)

|   | NZ IAS 11 (PBE)  | PBE IPSAS 11  | Difference   |
|---|--|---|--|
| 1 | <p>NZIAS 11 (PBE) defines a construction contract as:<br/><i>a contract specifically negotiated for the construction of an asset...</i></p> <p>NZ IAS 11.3</p> | <p>PBE IPSAS 11 defines a construction contract as:<br/><i>a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset...</i></p> <p>PBE IPSAS 11.4</p>                | <p>The definition of a construction contract has been extended from <i>a contract...</i> to <i>a contract or similar binding arrangement...</i></p> <p>In some jurisdictions, the reporting entity cannot formally enter into a contract because it is not a legal entity. Commonly however, such entities are able to enter into binding arrangements which have the characteristics of a contract. As a result, references in IPSAS to contracts usually also refer to binding arrangements. This additional reference is not expected to impact on NZ financial reporting practice.</p> |
| 2 | <p>NZ IAS 11 (PBE) does not contain guidance on cost-based and non-commercial contracts.</p>   | <p>PBE IPSAS 11 provides guidance on both cost-based and non-commercial contracts with examples illustrating how the standard is applied to such contracts.</p> <p>PBE IPSAS 11.9 and Implementation Guidance</p> | <p>The standard now encompasses both commercial and non-commercial contracts, making it more applicable to the public sector.</p>  |

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| 3 | <p>NZ IAS 11 (PBE) requires that “when it is probable that total contract costs will exceed total contract revenue, the expected loss shall be recognised as an expense immediately”.</p> <p>NZ IAS 11.36</p> | <p>PBE IPSAS 11 also requires that an expected deficit on a contract is to be recognised (at the point when it is identified that costs are expected to exceed revenue) but only when it is intended at inception of the contract that contract costs are to be fully recovered from the parties to the construction contract.</p> <p>PBE IPSAS 11 reflects that some public sector entities might enter into construction contracts for less than full recovery, with the shortfall being funded from another party i.e. government assistance. In this instance the expected deficit over the life of the contract is not recognised immediately. PBE IPSAS 11 also provides two examples illustrating when a deficit should be recognised immediately and when it shouldn't.</p> <p>PBE IPSAS 11.44</p> | <p>Under the PBE Standard an expected deficit on a construction contract should not be recognised immediately unless it was intended that the contract costs would be fully recovered at the outset.</p> |
| 4 | <p>NZ IAS 11 (PBE) does not contain integral guidance on agreements for the construction of real estate. This is covered by NZ IFRIC 15 (PBE) <i>Agreements for the Construction of Real Estate</i>.</p>      | <p>PBE IPSAS 11 incorporates NZ IFRIC 15 (PBE) <i>Agreements for the Construction of Real Estate</i> as application guidance.</p>  | <p>No change. The location of the application guidance has changed but the incorporation of NZ IFRIC 15 (PBE) into PBE IPSAS 11 is designed to maintain status quo.</p>                                  |