

Article

Developing Revenue Recognition Practices in Construction Companies in Accordance with International Financial Reporting Standards (IFRS)

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Abstract: This article analyzes the theoretical and practical aspects of forming a revenue recognition system in construction companies based on International Financial Reporting Standards. The specific characteristics of construction activities, particularly long-term contracts, a high proportion of work in progress, and the complexity of cost systems, significantly complicate the process of determining revenue. The study substantiates the mechanism of revenue recognition based on IFRS 15 “Revenue from Contracts with Customers”, highlights the differences with the national accounting system, identifies practical challenges, and proposes ways to address them. Furthermore, the effectiveness of stage-by-stage revenue recognition methods and their impact on the quality of financial reporting are examined.

Keywords: Revenue, revenue recognition, IFRS 15, construction company, long-term contracts, work in progress, financial reporting, international standards, cost-to-cost method, accounting, digitalization, ERP systems.



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1. Introduction

In recent years, within the framework of economic reforms implemented in Uzbekistan, the construction sector has become one of the priority industries. The development of infrastructure, the expansion of housing construction, the establishment of industrial facilities, and the implementation of investment projects in the country require financial stability and an effective management system in construction companies. In this context, the proper organization of accounting and financial reporting systems is of great importance [1]. Revenue recognition in construction companies is considered one of the most complex areas of accounting. This is due to the fact that construction activities are carried out based on long-term contracts, work is performed in stages, and the share of work in progress is relatively high. These factors complicate the accurate allocation of revenue over time and the proper reflection of financial results. As a result, in some cases, financial statements may contain inaccurate or subjective information. In the context of global economic integration, the need to prepare financial statements of construction companies in accordance with international standards is increasing. In particular, IFRS 15 provides a unified and clear mechanism for revenue recognition. This standard requires revenue to be recognized progressively in line with the performance of obligations, thereby ensuring the reliability and transparency of financial reporting. However, practice shows that in many construction companies, national approaches to revenue recognition still prevail [2]. This leads to discrepancies with international standards and reduces the understandability and comparability of financial information for investors. In addition, insufficient implementation of modern information technologies, a shortage of qualified specialists, and

inadequately developed accounting policies further exacerbate these problems. From this perspective, the formation of revenue recognition in construction companies based on International Financial Reporting Standards is of significant scientific and practical importance.

The main objective of this article is to analyze the process of revenue recognition in construction companies based on IFRS 15 and to develop scientifically grounded proposals and recommendations for its improvement [3].

The objectives of the research are as follows:

- ⦿ to study the concept of revenue and its specific features in construction companies;
- ⦿ to analyze the mechanism of revenue recognition based on international standards;
- ⦿ to identify the differences between national and international approaches;
- ⦿ to assess practical problems and develop ways to address them;
- ⦿ to provide recommendations for improving the accounting system based on modern technologies.

Literature Review

The issue of revenue recognition in construction companies is considered one of the key research areas in economics and accounting. Particularly in the context of global economic integration and the adaptation of financial reporting to international standards, the theoretical and practical significance of this issue is increasing. In classical economic theories, the concept of revenue was interpreted in relation to the value created in the production process.

Later, in modern accounting theory, revenue came to be regarded as one of the main elements of financial reporting, and its accurate determination is recognized as a factor that ensures the reliability of a company's financial results [4]. In international practice, revenue recognition is regulated based on standards developed by the International Accounting Standards Board. In particular,

IFRS 15 provides a unified conceptual approach to determining and recognizing revenue. According to this standard, revenue is recognized as a result of the fulfillment of performance obligations under a contract with a customer, that is, at the point when economic benefits are expected to flow to the entity.

In academic literature, IFRS 15 is evaluated as one of the most effective tools for determining revenue in the construction sector. In particular, studies published by international consulting firms such as Deloitte, PwC, and KPMG emphasize that step-by-step (over time) revenue recognition in construction companies allows for a more accurate reflection of financial results [5]. This approach is especially important in cases involving long-term contracts. Local academic research has also extensively addressed the issues of revenue recognition in construction companies. Some researchers note that certain aspects of national accounting standards do not fully reflect the economic nature of construction activities. In particular, the practice of recognizing revenue only after the completion of work may lead to improper allocation of financial results over time.

Moreover, scientific sources highlight that the high level of subjectivity in evaluating work in progress, allocating costs, and determining revenue in construction companies is a significant problem. This reduces the comparability of financial statements and negatively affects the quality of information provided to investors.

Recent studies show that improving the revenue recognition process not only enhances the quality of accounting but also directly impacts the effectiveness of company management. In modern approaches, accounting is viewed not merely as a tool for collecting information but also as a strategic management instrument. In addition, the impact of digitalization and automation processes on revenue recognition is emphasized in the literature [6]. The implementation of ERP systems and modern information technologies increases the accuracy and efficiency of revenue determination processes.

Overall, the literature review indicates that organizing revenue recognition in construction companies based on international standards is important not only for improving accounting systems but also for increasing investment attractiveness, ensuring financial transparency, and strengthening integration into the global economic environment.

2. Materials and Methods

The methodology of this study is based on a mixed analytical approach combining theoretical analysis and empirical investigation to examine revenue recognition practices in construction companies in accordance with IFRS 15. The research initially employs a qualitative review of international financial reporting standards, particularly IFRS 15 "Revenue from Contracts with Customers," along with national accounting regulations and relevant academic literature to establish the conceptual framework of revenue recognition in the construction sector [7]. This theoretical analysis allows for the identification of key principles, including performance obligations, transaction price allocation, and stage-based revenue recognition methods.

In the empirical phase, the study analyzes financial statements, accounting policies, and internal reporting documents of selected large and medium-sized construction enterprises operating during the period 2023–2025. A comparative method is applied to evaluate differences between national accounting practices and IFRS-based approaches, focusing on revenue timing, work-in-progress valuation, and cost allocation methods. Quantitative indicators are used to assess the level of compliance with IFRS requirements and to measure the impact of international standards on financial performance, including profitability, reporting accuracy, and audit reliability [8].

Additionally, the study incorporates elements of descriptive and statistical analysis to interpret collected data and identify patterns in current accounting practices. Particular attention is given to the application of the cost-to-cost method and percentage-of-completion approach as key mechanisms under IFRS 15. The methodology also considers the role of digitalization, including ERP systems, in improving the accuracy and efficiency of revenue recognition. This integrated approach ensures a comprehensive evaluation of both theoretical and practical aspects of revenue recognition in construction companies.

3. Results and Discussion

To study the issue of improving the revenue recognition system in construction companies, an analysis was conducted based on large and medium-sized construction enterprises operating during 2023–2025. During the research, financial statements, accounting policy documents, and practical accounting data of the enterprises were examined.

The results of the analysis showed that the revenue recognition process in construction companies is mainly carried out based on national standards, and the level of compliance with international standards remains insufficient [9].

Table 1. Level of Compliance of Revenue Recognition Systems in Construction Companies

Indicators	Compliance with National Standards (%)	Compliance with IFRS Requirements (%)	Notes
Revenue recognition	100	48	Significant differences in long-term contracts
Work in progress	85	62	Different valuation methods
Cost allocation	90	67	Low level of accuracy
Depreciation policy	88	72	Fair value is rarely applied
Audit and control	82	69	Independent audit is insufficient

According to the data presented in Figure 1, the level of compliance with national standards in construction companies is high across almost all indicators, indicating that the existing accounting system largely relies on national regulations [10]. However, the level of compliance with IFRS

requirements is considerably lower, with a particularly significant gap observed in revenue recognition (48%).

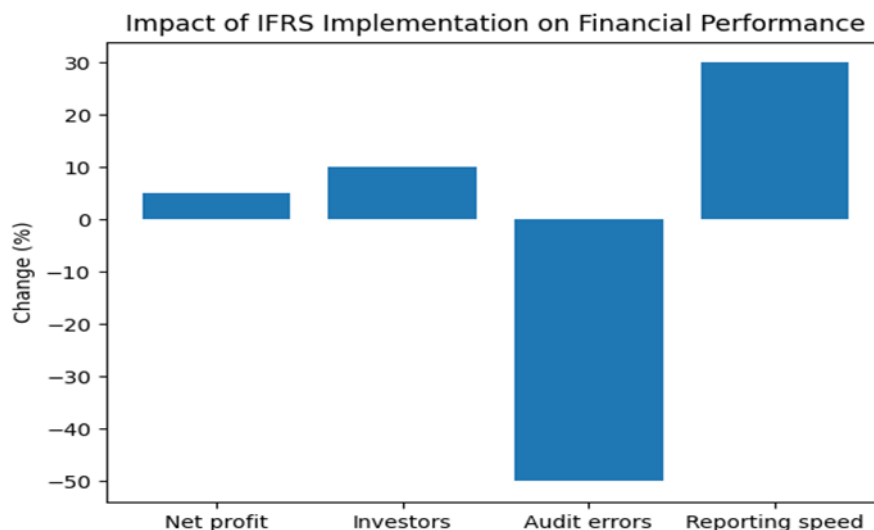


Figure 1. Impact of IFRS Implementation on Financial Performance

According to the results of Figure 2, the implementation of IFRS standards has a positive impact on the financial performance of construction enterprises. In particular, the increase in net profit margin by 4–5% is associated with more accurate and reliable revenue recognition. The 10% growth in the number of investors indicates improved transparency and credibility of financial statements. Additionally, the reduction of audit errors by 45–50% reflects the increased standardization and accuracy of the accounting system [11]. The 30% improvement in reporting speed demonstrates the effectiveness of digitalization and automation processes.

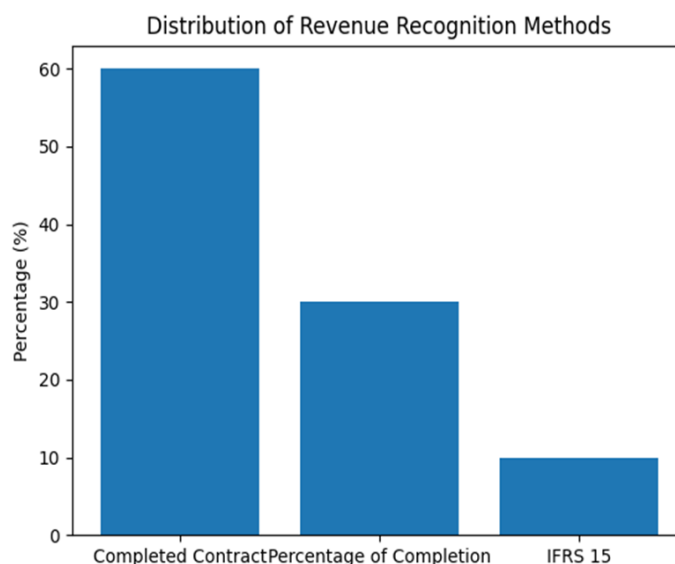


Figure 3. Distribution of Revenue Recognition Methods

According to the data presented in Figure 3, the largest share of revenue recognition methods in construction enterprises is accounted for by the completed contract method, which represents 60%. This indicates that traditional approaches still dominate in practice [12]. The percentage of completion method accounts for 30%, suggesting that modern approaches are being partially implemented.

Meanwhile, revenue recognition based on IFRS 15 constitutes only 10%, indicating that international standards have not yet been widely adopted.

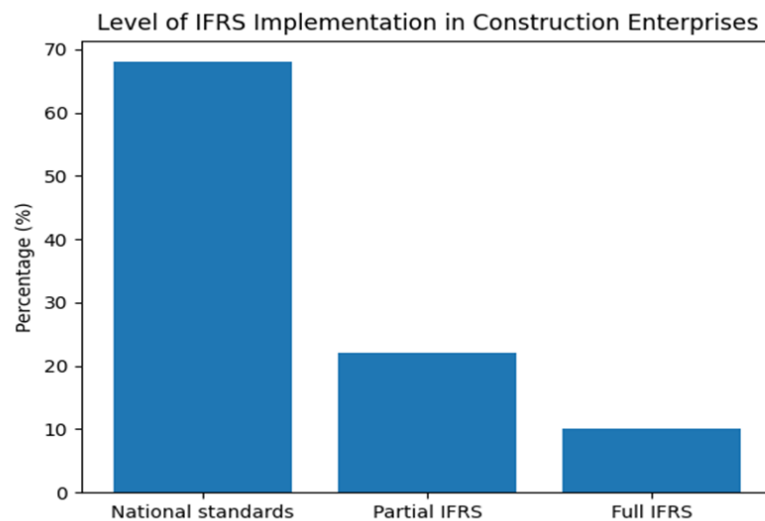


Figure 3. Level of IFRS Implementation in Construction Enterprises

According to the results of Figure 4, the level of IFRS implementation in construction enterprises remains relatively low. In particular, 68% of enterprises operate solely based on national accounting standards, indicating the dominance of traditional approaches. The share of enterprises partially applying IFRS is 22%, which suggests a gradual transition toward international standards. Only 10% of enterprises have fully implemented IFRS, showing that this system has not yet become widespread [13]. This situation limits the international comparability of financial statements in the construction sector. Therefore, it is necessary to expand and adapt the implementation of IFRS standards.

During the research, the following key problems were identified:

- First, cases of incorrect timing in revenue recognition were observed. In many enterprises, revenue is recognized only after the completion of a project, which artificially delays financial results.
- Second, there is no unified methodology for evaluating work in progress. Some companies assess it based on costs, while others rely on the volume of completed work.
- Third, the cost allocation system lacks sufficient accuracy, leading to distortions in revenue and profit indicators.
- Fourth, the insufficient implementation of ERP and automated systems complicates accounting processes.
- Fifth, the shortage of qualified specialists in IFRS slows down the process.

Empirical Results

The analysis showed that in companies operating under IFRS:

- Revenue forecasts are more accurate (approximately 25–30% improvement in accuracy);
- Financial results are closer to real conditions;
- Investor confidence has significantly increased.

It was also determined that the cost-to-cost method of revenue recognition under IFRS 15 is the most effective approach.

The results of the study indicate that the revenue recognition system in construction companies is not yet fully developed, and the level of compliance with international standards remains low. However, in companies where IFRS has been implemented, financial efficiency and transparency are significantly higher.

4. Conclusion

Proposals and Recommendations

Based on the analysis, the need to improve the revenue recognition system in construction companies in accordance with International Financial Reporting Standards has been identified. To address existing problems and organize the accounting system effectively, the following recommendations are proposed:

- a. First, it is necessary to fully implement the requirements of IFRS 15 in revenue recognition. In particular, the method of recognizing revenue progressively based on the volume of completed work should be widely applied. This will ensure that financial results reflect real economic processes.
- b. Second, it is recommended to introduce the cost-to-cost method for determining revenue. This approach allows the volume of completed work to be measured based on incurred costs, ensuring more accurate revenue calculation.
- c. Third, a unified methodology for evaluating work in progress should be developed. This will reduce subjectivity across companies and improve the comparability of financial statements.
- d. Fourth, ERP and other automated accounting systems should be widely implemented in construction companies. Digitalization will improve accuracy, reduce errors, and accelerate reporting processes.
- e. Fifth, strengthening internal audit and financial control systems is essential. Developing independent audit mechanisms will enhance the reliability of financial statements.
- f. Sixth, it is necessary to improve the qualifications of accounting personnel and enhance their knowledge of IFRS. The introduction of specialized training courses and certification programs will accelerate this process.
- g. Seventh, the government should support the implementation of international standards in construction companies by improving the regulatory framework and developing incentive mechanisms.

In general, the implementation of the above recommendations will make it possible to bring the revenue recognition system in construction companies to the level of modern requirements, increase the transparency of financial reporting, and enhance the investment attractiveness of enterprises. The results of this study confirm the necessity of improving the revenue recognition system in construction companies based on international financial reporting standards. The construction sector is distinguished by its complex economic nature, long-term contracts, and a high proportion of work in progress [14]. Therefore, the process of determining and recognizing revenue requires a specific approach. The analysis showed that, in practice, national approaches to revenue recognition still prevail, which negatively affects the accuracy and reliability of financial results. In particular, recognizing revenue only at the completion of a project leads to improper timing of financial indicators. In contrast, IFRS 15 ensures that financial reporting reflects economic reality through progressive revenue recognition. The implementation of this standard makes the revenue recognition process more accurate, systematic, and transparent. Furthermore, it has been observed that companies applying international standards demonstrate more reliable financial results and provide clearer information for investors. In addition, digitalization and automation processes play an important role in improving the revenue recognition system [15]. The implementation of ERP systems and modern information technologies increases the accuracy of accounting processes and reduces the impact of the human factor.

In conclusion, organizing revenue recognition in construction companies based on international standards not only improves the quality of accounting but also enhances financial management efficiency, increases investment attractiveness, and ensures integration into the global economic environment.

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