

## Contract Costing

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### Questions:

- Q.1 From the following particulars compute a conservation estimate of profit by 4 methods on a contract which has 80 percent complete:

	<b>Rs.</b>
Total expenditure to date	8,50,000
Estimate further expenditure to complete the contract	1,70,000
Contract Price	15,30,000
Work Certified	10,00,000
Work not certified	85,000
Cash received	8,16,000

- Q.2 A contractor commenced a contract on 1-7-2011. The costing records concerning the said contract reveal the following information as on 31-3-2012:

	<b>Amount Rs.</b>	
Material sent to site	7,74,300	
Labour paid	10,79,000	
Labour outstanding as on 31-3-2012	1,02,200	
Salary to Engineer	20,500	per month
Cost of plant send to site(1-7-2011)	7,71,000	
Salary to Supervisor	9,000	per month
(3/4 time devoted to contract )		
Administration & other expenses	4,60,600	
Prepaid Administration expenses	10,000	
Material in hand at site as on 31-3-2012	75,800	

Plant used for the contract has an estimated life of 7 years with residual value at the end of life Rs.50, 000. Some of material costing Rs. 13,500 was found unsuitable and sold for Rs. 10,000. Contract price was Rs. 45, 00,000. On 31-3-2012 two third of the contract was completed. The architect issued certificate covering 50% of the contract price and contractor has been paid Rs. 20, 00,000 on account. Depreciation on plant is charged on straight line basis. Prepare Contract Account.

Q.3 M/s ABID Constructions undertook a contract at a price of Rs. 171.00 lacs. The relevant data for the year ended 31<sup>st</sup> March, 2014 are as under:

	( Rs. '000)
Material issued at site	7,700
Direct Wages paid	3,300
Site office cost	550
Material return to store	175
Work certified	12,650
Work uncertified	225
Progress Payment received	10,120
Prepaid site office cost as on 31.03.2014	50
Direct wages outstanding as on 31.03.2014	100
Material at site as on 31.03.2014	110
Additional Information:	

- (a) A plant was purchased for the contract at Rs. 8, 00,000 on 01.12.2013.
- (b) Depreciation @ 15% per annum is to be charged.
- (c) Material which cost Rs.1, 30,000 was destroyed by fire.

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**Answer:**

**Q.1Ans:**

**Working Notes:**

**(i) Calculation of Notional Profit**

$$\begin{aligned} &= (\text{Work certified} + \text{Work not certified}) - \text{Total expenditures to date} \\ &= \text{Rs.}(10, 00,000 + 85,000) - \text{Rs. } 8, 50,000 \\ &= \text{Rs. } 2, 35,000 \end{aligned}$$

**(ii) Calculation of Estimated Profit**

$$\begin{aligned} &= \text{Contract Price} - (\text{Expenditures to date} + \text{Further expenditures to be incurred}) \\ &= \text{Rs. } 15, 30,000 - \text{Rs. } (8, 50,000 + 1, 70,000) \end{aligned}$$

$$= \text{Rs. } 5, 10,000$$

**Computation of Conservative Estimated of Profit by following methods:**

1. Notional Profit  $\times \frac{2}{3} \times \frac{\text{Cash received}}{\text{Work certified}}$   
 $= \text{Rs. } 2, 35,000 \times \frac{2}{3} \times \frac{\text{Rs. } 8,16,000}{\text{Rs. } 10,00,000}$   
 $= \text{Rs. } 1, 27,840$
2. Estimated Profit  $\times \frac{\text{Cost of work doen}}{\text{Estimated total cost}} \times \frac{\text{Cash received}}{\text{Work certified}}$   
 $= \text{Rs. } 5, 10,000 \times \frac{8,50,000}{(8,50,000+1,70,000)} \times \frac{\text{Rs. } 8,16,000}{\text{Rs. } 10,00,000}$   
 $= \text{Rs. } 3, 46,800$
3. Estimated Profit  $\times \frac{\text{Cash received}}{\text{Contrcat Price}}$   
 $= \text{Rs. } 5, 10,000 \times \frac{\text{Rs. } 8,16,000}{\text{Rs. } 15,30,000}$   
 $= \text{Rs. } 2, 72,000$
4. Notional Profit  $\times \frac{\text{Work certified}}{\text{Contrcat Price}} \times \frac{\text{Cash received}}{\text{Work certified}}$   
 $= \text{Rs. } 2, 35,000 \times \frac{\text{Rs. } 10,00,000}{\text{Rs. } 15,30,000} \times \frac{\text{Rs. } 8,16,000}{\text{Rs. } 10,00,000}$   
 $= \text{Rs. } 1, 25,333$
5. Estimated Profit  $\times \frac{\text{Work certified}}{\text{Contrcat Price}}$   
 $= \text{Rs. } 5, 10,000 \times \frac{\text{Rs. } 10,00,000}{\text{Rs. } 15,30,000}$   
 $= \text{Rs. } 3, 33,333$
6. Estimated Profit  $\times \frac{\text{Cost of work doen}}{\text{Estimated total cost}}$   
 $= \text{Rs. } 5, 10,000 \times \frac{\text{Rs. } 8,50,000}{\text{Rs. } 10,20,000}$   
 $= \text{Rs. } 4, 25,000$
7. Notional Profit  $\times \frac{\text{Work certified}}{\text{Contrcat Price}}$   
 $= \text{Rs. } 2, 35,000 \times \frac{\text{Rs. } 10,00,000}{\text{Rs. } 15,30,000}$   
 $= \text{Rs. } 1, 53,595$

Most conservative Profit is Rs. 1, 25,333, therefore profit to be transferred to Profit and Loss a/c is Rs. 1, 25,333

**Q.2 Ans:****Contract Accounts****(For the period 1.7.11 to 31.2.12)**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Material issued	7,74,300	By Material (Sold)	10,000
To Labour 10,79,000		By P & L A/c (Loss)	
Add: Outstanding <u>1,02,500</u>	11,81,500	( 13,500 – 10,000)	3,500
To Salary to engineer (20,500 × 9)	1,84,500	By Material in hand	75,800
To Salary to Supervisor		By Cost of contract c/d	26,39,600
$9,000 \times \frac{3}{4} \times 9$	60,750		
To Administration & other			
Expenses 4,60,600			
Less : Prepaid <u>10,000</u>	4,50,600		
To Depreciation on Plant			
( Refer W.N.1)	77,250		
	<u>27,28,900</u>		<u>27,28,900</u>
To Cost of Contract b/d	26,29,600	By Work-in Progress :	
To Notional Profit c/d	2,70,300	- Work certified	
		50% of 45,00,000	22,50,000
		- Work uncertified	
		( Refer W.N.2)	
		( 26,39,600 - 19,79,700)	6,59,900
	<u>29,09,900</u>		<u>29,09,900</u>
To P & L A/c ( Refer W.N.3)	1,60,178	By Notional Profit b/d	2,70,300
To Reserve	1,10,122		
	<u>2,70,300</u>		<u>2,70,300</u>

**Working Note:**

- Calculation of depreciation on plant

Cost of the Plant 7, 71,000

Less: Residual value 50,000

7, 21,000

Estimated life 7 Years

Depreciation per annum 1, 03,000

Depreciation for 9 months

$$= \frac{1,03,000}{12} \times 9 = 77,250$$

2. Cost of work uncertified = Cost incurred to date minus 50% of the total cost of contract  
= Rs. 26,39,600 (figure already shown in the contract A/c) – Rs. 19,79,700
3. Calculation of Profit to be transferred

$$\frac{2}{3} \times 2,70,300 \times \frac{20,00,000}{22,50,000} = 1,60,178$$

**Q.3 Ans:**

Dr.		M/s ABID Construction Contract Account				Cr.	
Particulars		Amount (Rs. in '000)	Particulars		Amount (Rs. in '000)		
To Material issued		7,700	By Material returned		175		
To Direct wages	3,300		By Profit & Loss A/c (Material Destroyed by fire )		130		
Add: Outstanding	100	3,400	By W-I-P				
To Site Office Cost	550		- Work Uncertified	225			
Less: Prepaid	50	500	- Work Certified	12,650	12,875		
To depreciation*		40	By Material at site		110		
To Notional Profit		1,650					
		13,290			13,290		
To Profit & Loss A/c (Working Note -2)		880	By Notional Profit		1,650		
To W-I-P ( Reserve )		770					
		1,650			1,650		

$$\text{Depreciation on Plant} = \text{Rs. } 8,00,000 \times 15\% \times \frac{4 \text{ months}}{12 \text{ months}} = \text{Rs. } 40,000$$

**Working Note:**

1. Percentage of Completion =  $\frac{\text{Work Certified}}{\text{Value of Contract}} \times 100$   

$$= \frac{\text{Rs. } 1,26,50,000}{\text{Rs. } 1,71,00,000} \times 100$$

$$= 73.98\%$$

2. Profit from the incomplete contract

$$= \text{Notional Profit} \times \frac{2}{3} \times \frac{\text{Cash Received}}{\text{Work Certified}}$$

$$= \text{Rs. } 16,50,000 \times \frac{2}{3} \times \frac{\text{Rs. } 1,01,20,000}{\text{Rs. } 1,26,50,000}$$

$$= \text{Rs. } 8,80,000$$

(Note: The above figures calculated on traditional prudent basis followed in contract costing.)