CHAPTER-9 CONTRACT COSTING

Ans.1. **Contract Account**

(for the period : between 1st April and 31st December, 1990)

	₹		₹
To Materials	2,58,100	By Materials sold (At cost)	4,500
To Labour engaged	5,60,500	By Work - in - Progress	
To Foremen's salary	79,300	Work certified	10,00,000
To Supervisor's salary (WN 1)	27,000	Work uncertified	2,62,250
To Depreciation of plant (WN 2)	14,000	Material at site	25,400
To Administrative and other expenses	1,40,000		
To Notional Profit c/d	2,13,250		
	12,92,150		**12,92,150**
To Profit & Loss A/c (WN 4)	1,06,625	By Notional Profit b/d	2,13,250
To Profit Reserve	1,06,625		
	2,13,250		**2,13,250**

Dr. **Contractee's Account** **Cr.**

	₹		₹
To Balance c/d	7,50,000	By Cash	7,50,000

Extracts of Balance Sheet

(as on 31st December, 1990)

	₹		₹	₹
Profit & Loss A/c	1,07,125	Work-in-Progress		
(See Working Note 4)		Work Certified	10,00,000	
		Work Uncertified	2,62,250	
		Material at site	25,400	
			12,87,560	
		Less : Provision	1,06,625	
			11,81,025	
		Less : Contractee's A/c	7,50,000	4,30,935
		Plant at site (WN 5)		2,40,000

Working Notes :

1. Supervisor's Salary $= \frac{3}{4}$ (9 months × ₹ 4,000) = ₹ 27,000

2. Depreciation of Plant $= \frac{₹\,2,60,000 - ₹\,15,000}{7 \text{ years}} \times \frac{146}{365}$ = ₹ 14,000

3. Cost of Work Uncertified

   Cost of 2/3rd of the Contract is ₹ 10,49,000

   Hence the Cost of the Contract is ₹ 10,49,000 × $\frac{3}{2}$ = ₹ 15,73,500.

The cost of 50% of the Contract, which has been completed and certified by the Architect is ₹ 7,86,750 (₹ 15,73,500 ?2).

The Cost of 1/6th of the contract, which has been completed but not certified by the Architect is ₹ 2,62,250 (₹ 10,49,000 – ₹ 7,86,750).

Profit & Loss A/c

	₹		₹
To Contract A/c	500	By Contract A/c	1,06,625*
(Loss on the sale of material)		(Profit transferred)	
To Balance c/d	1,07,125	By Profit on the Sale of Plant	1,000
	1,07,625		**1,07,625**

* Profit transferred to P & L A/c = $\frac{2}{3}$ × ₹ 2,13,250 × Cash received / Work Certified

= $\frac{2}{3}$ × ₹ 2,13,250 × ₹ 7,50,000 / ₹ 10,00,000

= ₹ 1,06,625

Plant A/c

	₹		₹
To Balance b/d	2,60,000	By Current A/c (Depreciation)	
To P & L A/c	1,000	By Cash Sale	
(Profit on Sale of Plant)		By Balance c/d	
	2,61,000		**2,61,000**

Note : Plant A/c can also form part of Contract A/c.

Ans.2. **Brock Construction Ltd. Contract A/c**

(November 1, 2003 to October 31, 2004)

Dr. **Cr.**

Particulars		Amount (₹)			Amount (₹)
To Materials issued		6,75,000	By Plant returned to		
To Labour paid	4,50,000		store on 31.03.04		
Prepaid	25,000	4,25,000	at cost	75,000	
To Plant Purchased		3,75,000	Less : Dep. (1/3)	10,417	64,583
To Expenses paid	2,00,000		By WIP		
To Outstanding	50,000	2,50,000	Certified	20,00,000	
To Notional profit c/d		6,89,583	Uncertified	75,000	
			Material at site	75,000	21,50,000
			By Plant at site		
			31/10/04 at Cost	3,00,000	
			Less : Dep (1/3)	1,00,000	2,00,000
		24,14,583			**24,14,583**
To Profit & Loss A/c		1,48,580			
To Provision for Contingency		5,41,003	By Notional Profit b/d		6,89,583
		6,89,583			**6,89,583**

Brock Construction Ltd. Contract A/c (1 November, 2003 to March 31, 2005)

(For computing estimated profit)

Dr. **Cr.**

Particulars	Amount (₹)			Amount (₹)
To Material issued	19,12,500	By Material at site		37,500
(6,75,000 + 12,37,500)		By Plant returned to		64,583
To Labour (paid & outstanding)	10,15,000	stores on 31.3.04		
(4,25,000 + 5,87,500 + 2,500)		By Plant returned to		
To Plant purchased	3,75,000	stores on 31.3.05		
To Expenses	5,75,000	Cost	3,00,000	
(2,50,000 + 3,25,000)		Less : Dep.	1,00,000	
		W.D.V.	2,00,000	
To Estimated profit	3,34,305	Less : 5 month Dep.		
		on W.D.V.	27,778	1,72,222
		By Contractee A/c		39,37,500
	42,11,805			**42,11,805**

Note : In contract A/c, Instead of Plant Depreciation can be recorded.

WN **Profit transferred to P / L A/c**

$$\text{Profit} = \text{Estimated Profit} \times \frac{\text{Cash Received}}{\text{Work Certified}} \times \frac{\text{Work Certified}}{\text{Contract Price}}$$

$$= 3,34,305 \times \frac{17,50,000}{20,00,000} \times \frac{20,00,000}{39,37,500}$$

$$= 1,48,580$$

Note : Instead of plant, students can record depreciation in Contract A/c

Ans.3.

Contract Account

For the year 1998-99

Dr. **Cr.**

Particulars	₹	**Particulars**	₹
To Opening work in-progress		**31.3.1999**	
Work uncertified	55,000	By Work - in - Progress	
Materials at site	2,000	Work Certified	4,05,000
1998-99		Work Uncertified	8,000
To Materials issued	1,12,000	Material at Site	4,000
To Wages paid	1,08,000		
To Hire of plant	20,000		
To Other expenses	34,000		
To Notional Profit c/d	86,000		
	4,17,000		**4,17,000**
31.03.99			
To Cost of contract b/d (to date)	3,27,000	By Notional Profit b/d	86,000
To Profit & Loss A/c	66,273		
To Profit in reserve	19,727		
	86,000		**86,000**

Profit for the year 1998–99

= ₹ 4,13,000 – ₹ 3,27,000 = ₹ 86,000.

Estimated profit (on the completion of the contract)

	₹
Cost of the contract (to date)	3,27,000
Further cost of completing the contract	23,000
Total cost : (A)	3,50,000
Contract price : (B)	4,40,000
Estimated profit on the Completion of contract : [(A) – (B))	90,000

Since $\left(\frac{\text{Work Certified}}{\text{Contract Price}}\right) \times 100 = \frac{₹\ 4,05,000}{₹\ 4,40,000} \times 100 = 92.05\%$

This implies that contract is nearing completing. Hence the profit to be taken to Profit and Loss Account on prudent basis will be given by the formula :

$$= \text{Estimated profit} \times \frac{\text{Work Certified}}{\text{Contract Price}} \times \frac{\text{Cash Received}}{\text{Work Certified}}$$

$$= ₹\ 90,000 \times \frac{₹\ 4,05,000}{₹\ 4,40,000} \times \frac{₹\ 3,24,000}{₹\ 4,05,000}$$

$$= ₹\ 66,273$$

Ans.4. **Contract Account for the year ended 31st March, 2002**

Dr. **Cr.**

	₹ '000		**₹ '000**
To Materials issued to site	5,000	By Work - in - Progress	
To Direct wages	3,800	Work Certified	10,000
To Wages accrued	110	Material at Site	1,800
To Plant hire	700		
To Site Office Costs	270		
To Direct expenses	500		
To Depreciation of special plant	300		
To Notional Profit c/d	1,220		
	11,900		**11,900**
To Profit & Loss A/c		By Notional Profit b/d	1,220
(Refer to working note 2)	1,200		
To Work-in-progress c/d	20		
(Profit in reserve)	1,220		1,220

Working notes :

1. **Percentage of contract completion** $= \frac{\text{Cost of work certified}}{\text{Value of the contract}} \times 100$

$$= \frac{100 \text{ lacs}}{108 \text{ lacs}} \times 100 = 92.59\%$$

2. **Since the percentage of Contract completion is more than 90% therefore the profit to be taken to Profit and Loss Account can be computed by using the following formula.**

Profit to be taken to P & L A/c = Budged / Estimated Profit $\times \frac{\text{Cash Received}}{\text{Work Certified}} \times \frac{\text{Work Certified}}{\text{Contract Price}}$

$$= 1,800 \times \frac{7,200}{10,000} \times \frac{10,000}{10,800}$$

$$= 1,800 \times \frac{7,200}{10,800}$$

$$= ₹\ 1,200$$

Ans.5. **MNP Construction Ltd.**

Contract Account (1st April, 1999 to 31st March, 2000)

Dr. **Cr.**

Particulars	**(₹)**	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Materials issued		3,00,000	By Plant returned to store	37,500
To Labour : Paid	2,00,000		(Refer to working note 1)	
Outstanding	20,000	2,20,000	By Work - in - Progress	
To Plant purchased		1,50,000	Materials at site	20,000
(Refer to working note 4)			Work certified	8,00,000
To Expenses		60,000	Work uncertified	25,000
To Notional profit c/d		2,27,500	By Plant at site	75,000
			(Refer to working note 2)	
		9,57,500		**9,57,500**
To Profit and Loss A/c		66,321.43	By Notional profit b/d	2,27,500
(Refer to working note 5)				
To Work in Progress A/c		1,61,178.57		
(Profit in reserve)				
		2,27,500.00		**2,27,500.00**

MNP Construction Ltd.

Contract Account (1st April, 1999 to 31st December, 2000)

(For computing estimated profit)

Dr. **Cr.**

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Material issued	8,50,000	By Materials at site	50,000
(₹ 3,00,000 + ₹ 5,50,000)	4,80,000	By Plant returned to store	
To Labour (Paid and outstanding)		on 31st March 2000	37,500
(₹ 2,20,000 + ₹ 2,30,000 +		(Refer to working note 1)	
₹ 30,000)		By Plant returned to store	60,937.50
To Plant purchased	1,50,000	on 31st December, 2000	
To Expenses	2,25,000		
(₹ 60,000 + ₹ 1,65,000)		(Refer to working note 3)	
To Estimated profit	1,93,437.50	By Contractee's A/c	17,50,000
	18,98,437.50		**18,98,437.50**

Working notes :

1. Value of the plant returned to store on 31st March, 2000

	₹
Historical cost of the plant returned	50,000
Less: Depreciation @ 25% of WDV cost for 1 Year	12,500
Value of the plant returned to store on 31st March, 2000	37,500

2. Value of plant at site

	₹
Historical cost of the plant at site	1,00,000
Less: Depreciation @ 25% of WDV cost for 1 Year	25,000
Value of the plant returned at site on 31st March, 2000	75,000

3. Value of the plant returned to store on 31st December, 2000

	₹
Value of the plant on 31st March, 2000	75,000
Less : Depreciation @ 25% of WDV for a period of 9 Months	14,062.50
Value of the plant on 31.12.2000	60,937.50

4. Expenses paid

Total expenses paid	75,000
Less : Prepaid expenses at end	15,000
Expenses paid for the year 1999-2000	60,000

5. Profit to be credited to P / L A/c on 31st March, 2000 for the contract likely to be completed on 31st December 2000.

$$\text{Estimated profit} \times \frac{\text{Cash Received}}{\text{Work Certified}} \times \frac{\text{Work Certified}}{\text{Total Contract Price}}$$

$$= ₹\,1,93,437.50 \times \frac{₹\,6,00,000}{₹\,8,00,000} \times \frac{₹\,8,00,000}{₹\,1,75,000}$$

$$= ₹\,66,321.43$$