CHAPTER - 9

CONTRACT COSTING

Q. 1. A contractor, who prepares his account on 31st December each year, commenced a contract on 1st April 2014. The costing records concerning the said contract reveal the following information on 31st December, 2014 :

	₹
Material charged to site	2,58,100
Labour engaged	5,60,500
Foremen's salary	79,300

Plants costing ₹ 2,60,000 had been on site for 146 days. Their working life is estimated at 7 years and their final scrap value at ₹ 15,000. A supervisor, who is paid ₹ 4,000 p.m. has developed approximately three-fourths of his time to his contract. The administrative other expenses amount to ₹ 1,40,000. Materials in hand at site on 31st December, 2014 cost ₹ 25,400. Some of the material costing ₹ 4,500 was found unsuitable and was sold for ₹ 4,000 and a part of the plant costing ₹ 5,500 (on 31.12.2014) unsuited to the contract was sold at a profit of ₹ 1,000.

The contract price was ₹ 22,00,000 but it was accepted by the contractor for ₹ 20,00,000. On 31st December, 2014, two thirds of the contract was completed Architect's certificate had been issued covering 50% of the contract price and ₹ 7,50,000 had so far been paid on account.

Prepare Contract Account and state how much profit or loss should be included in the financial accounts to 31st December, 2014. Working should be clearly given. Depreciation is charged on time basis.

Also prepare the Contractee's account and show how these accounts should appear in the Balance Sheet as on 31st December, 2014.

Q. 2. Brock Construction Ltd. commenced a contract on November 1, 2013. The total contract was for ₹ 39,37,500. It was decided to estimate the total profit on the contract and to take to the credit of P/L A/c that proportion of estimated profit on cash basis, which work completed bore to the total contract. Actual expenditure for the period November 1, 2013 to October 31, 2014 and estimated expenditure for November 1, 2014 to March 31, 2015 are given below :

		November 1, 2013 to October 31, 2014 (Actuals)	November 1, 2014 to March 31, 2015 (Estimated)
		₹	₹
Material issued		6,75,000	12,37,500
Labour	Paid	4,50,000	5,62,500
	Prepaid	25,000	
	Outstanding		2,500
Plant purchased		3,75,000	
Expenses	Paid	2,00,000	3,50,000
	Outstanding	50,000	25,000
Plant return to store		75,000	3,00,000
(Historical cost)		**(on March 31, 2014)**	**(on March 31, 2015)**
Work certified		20,00,000	Full
Work uncertified		75,000	
Cash received		17,50,000	
Material at site		75,000	37,500

The plant is subject to annual depreciation @ $33^1/_3$% on written down value method. The contract is likely to be completed on March 31, 2015.

Required :

Prepare the contract A/c. Determine the profit on the contract for the year November, 2013 to October, 2014 on prudent basis, which has to be credited to P / L A/c.

Q. 3. A contractor commenced a building contract on October 1, 2013. The contract price is ₹ 4,40,000. The following data pertaining to the contract for the year 2014-15 has been complied from his books and is as under.

		₹
April, 2014	Work-in-progress not certified	55,000
		Materials at site 2,000
2014-2015	Expenses incurred	Material issued 1,12,000
		Wages paid 1,08,000
		Hire of plant 20,000
		Other expenses 34,000
March 2015	Materials at site 4,000	
		Work-in-progress not certified 8,000
		Work-in-progress certified 4,05,000

The cash received represents 80% of work certified. It has been estimated that further cost to complete the contract will be ₹ 23,000 including the material at site as on March 31, 2015.

Determine the profit on the contract for the year 2014-15 on prudent basis, which has to be credited to P / L A/c.

Q. 4. A construction company undertook a contract at an estimated price of ₹ 108 lacs, which includes a budgeted profit of ₹ 18 lacs. The relevant data for the year ended 31.03.2014 are as under :

	(₹ '000)
Materials issued to site	5,000
Direct wages paid	3,800
Plant hired	700
Site office costs	270
Materials returned	100
Direct Expenses	500
Work certified	10,000
Progress payment received	7,200

A special plant was purchased specifically for this contract ₹ 8,00,000 and after use on this contract till the end of 31.02.2014, it was valued at ₹ 5,00,000. This cost of materials at site at the end of the year was estimate at ₹ 18,00,000. Direct wages accrued as on 31.3.2014 was ₹ 1,10,000.

Required :

Prepare the Contract Account for the year ended 31st March 2014 and compute the profit to be taken to the Profit and Loss Account.

Q. 5. REX Ltd. commenced a contract on 1-7-2013. The total contract price was ₹ 5,00,000 but Rex Ltd. accepted the same for ₹ 4,50,000/-. It was decided to estimate the total profit and to take to the credit of Profit & Loss account, that proportion of estimated profit on cash basis which the work completed bears to the total contract. Actual expenditure till 31-12-2013 and the estimated expenditure in 2014 are given below :

	Actual till 31-12-2013	**Estimate for 2014**
Materials	75,000	1,30,000
Labour	55,000	60,000
Plant purchased (original cost)	40,000	—-
Miscellaneous expenses	20,000	35,500
Plant Returned / to be returned on 31-12.2013 / 30.9.2014		
at original cost	10,000	25,000
Materials at site	5,000	Nil
Work certified	2,00,000	Full
Work uncertified	7,500	Nil
Cash received	1,80,000	Full

The plant is subject to the annual depreciation at 20% of original cost. The contract is likely to be completed on 30-9-2014.

You are required to prepare the contract account for the year ended 31-12-2013. Workings should be clearly given.

It is the policy of the company to charge depreciation on time basis.