

For Assignment Purposes Only

CONTRACT COSTING

1. **[SS, p.9.9][calculation of amount of profit to be transferred to P&L A/c]:** The total contract price in respect of a contract was Rs. 20 lacs. On 31st March, 2018, the value of work certified was Rs. 15 lacs, and the total cost incurred was Rs. 11 lacs. Out of the total cost incurred, the work costing Rs. 50000 remained uncertified as on 31st March, 2018. The cash received was Rs. 10 lacs. You are required to compute amount of profit to be transferred to P&L A/c.

[Rs. 200000]

2. **[SS, p.9.10][Profit in case of almost completed projects]:** The contract price in respect of a project was Rs. 20 lacs. On 31st March, 2018, 90% of the work is completed and certified by the architects. The costs incurred up to 31st March, 2018 on this project amounted to Rs. 16 lacs. It was estimated that another Rs. 80000 would have to be incurred further to complete the project. The contractee paid 75% of the value of work certified. Find out profit to be taken to profit and loss account.

[Rs. 216000]

3. **[SS. p.11]:** On 1st march 2018, SK construction Ltd. commenced work on the construction of a building at contracted price of Rs. 15 lacs. The construction company's financial year ended on 31st December, 2018 and on that date the accounts pertaining to the contract contained the following balances:

| | Rs. |
|--|--------|
| Materials issued to site | 320000 |
| Materials returned from site | 20000 |
| Wages paid | 140000 |
| Plant sent to site (at cost) | 240000 |
| Payment for hire of additional machinery | 100000 |
| Salary of supervisory staff exclusively devoted for contract | 50000 |
| Head office expenses assigned to the contract | 120000 |
| Value of work certified up to 31 st Dec. 2018 | 900000 |
| Cost of work completed but not yet certified | 80000 |

Depreciation on own plant is to be provided at the rate 20% p.a. on the cost; Rs. 10000 is owing for wages; estimated value of materials on site Rs. 50000. The contractee has so far paid up the value of work certified minus 20% of retention money.

You are required to prepare the Contract Account for the period ended 31st December, 2018 showing the amount to be included in the construction company's P&L Account.

[Profit to be transferred Rs. 144000, Reserves Rs. 126000]

3A: [Unsolved Questions number 9, 10, 12 of MM] [See WhatsApp image]

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4. [MNA]: **Escalation Clause:** A contractor undertook a contract for Rs. 5 lakh on 1/7/2011 for the construction of a library building. On 30.6.2012, when the accounts were closed, the following details about the contract were gathered:

| Particulars | Amount in Rs. |
|--------------------------------|---------------|
| Materials purchased | 100000 |
| Wages paid | 45000 |
| General expenses | 9000 |
| Plant purchased | 60000 |
| Materials in hand on 30/6/2012 | 25000 |
| Wages accrued on 30/6/2012 | 5000 |
| Work certified | 200000 |
| Work uncertified | 15000 |
| Cash received | 150000 |
| Plant depreciation | 6000 |

The above contract contains an escalation clause which reads as follows, “in the event of prices of materials and rates of wages increase by more than 5%, the contract price would be increased accordingly by 25% of the rise in the cost of materials and wages beyond 5% in each case”.

It was found that since the date of signing the agreement, the prices of materials and wages rates increased by 25%. The value of work certified does not take into account the effect of the above clause. Prepare the contract account with working notes.

5. [MNA]: **Total Estimated Profit:** The following rates to a contract for Rs. 4 lakh. Work commenced on 1st January, 2012 with following expenditure.

Stores and materials = Rs. 72000, wages = Rs. 65000, Plant and tools = Rs. 20000, Sundry expenses = Rs. 5300, and Establishment Charges = Rs. 11700. The value of plant and tools on site on 31st December, 2012 was Rs. 6200. The value of stores and materials was Rs. 3400 and the cost of uncertified work was Rs. 21900. It was later certified for Rs. 25000. Rs. 140000 cash received being 80% of work certified.

Certain materials costing Rs. 12000 were unsuited to the contract and were sold for Rs. 14500. A portion of the plant was scrapped and sold for Rs. 2300.

The contractor wished to take profit on this contract on estimation basis and the following estimates were made:

1. That the contract would be completed by 30th Sept. 2013.
2. That further wages required would be Rs. 71500
3. That further stores and materials required in addition to those in stock on 31st Dec. 2012 would be Rs. 68600 and that of sundry expenses would be Rs. 6000.
4. That further plant and tools required would be Rs. 25000 which would have residual value of Rs. 3000 on completion of contract.
5. That establishment expenses would cost the same per month as in 2012.
6. That 2 ½ % of total cost of the contract would be charged as a provision for contingencies.

Prepare Contract Account and Statement of Estimation of Profit on Contract.