

QUESTION BANK - CONTRACT COSTING

Q1. The following is the summarised information relating to contract account number 100 :

	₹
Contract price	6,00,000
Wages	1,64,000
General expenses	8,600
Materials	1,20,000
Cash received (80% of certified work)	2,40,000
Materials at site	10,000
Plant	20,000

Included in the above informations are wages ₹ 3,500, materials ₹ 4,000 and other expenses ₹ 2,500 which were incurred since certification.

Depreciation plant at 10%.

Prepare Contract A/c No. 100.

[B.Com. (Hons.) Delhi 2004]

~~Q.1~~ Q. A contractor undertook a contract on 1-04-2013 at an agreed price of ₹ 6,00,000. The contractor closes the books on 31st March every year. The following information is provided in respect of the contract which is still incomplete as on 31st March, 2014 :

Materials issued	₹ 1,60,000
Materials returned to store	₹ 4,000
Materials at site on 31-03-2014	₹ 22,000
Labour	₹ 1,50,000
Direct expenses	₹ 91,000
Plant installed	₹ 80,000
Plant value on 31-03-2014	₹ 63,000
Uncertified work	₹ 23,000
Cash received from the contractee (being 90% of the work certified)	₹ 3,78,000

You are required to prepare the contract account.

Q3 The following details are available from the books of accounts (for the year ended 31st March, 2016) of a contractor with respect to a particular contract (No. 113) he has undertaken for a manufacturing organisation :

	₹
Materials sent to site	5,11,800
Labour engaged in site	4,66,100
Cost of plant installed at site	1,00,000
Direct expenses	24,000
Establishment expenses	29,000
Materials returned to stores	2,120
Work certified	10,70,000
Cost of work not certified	31,000
Materials in hand (as on 31st March, 2016)	12,220
Accrued wages (as on 31st March, 2016)	11,160
Accrued direct expenses	1,330
Value of plant (as revalued on 31st March, 2016)	88,000

The contract price agreed upon with the contractee is ₹ 13,00,000 Payment of ₹ 9,90,000 has been received from the contractee.

You are required to prepare the Contract Account No. 113, computing and incorporating in the said account the profit to be taken to the Profit and Loss Account for the year ended 31st March, 2016.

9 4. The following information relates to a building contract for ₹ 10,00,000.

	2017 (₹)	2018 (₹)
Materials issued	3,00,000	84,000
Direct wages	2,30,000	1,05,000
Direct expenses	22,000	10,000
Indirect expenses	6,000	1,400
Work certified	7,50,000	10,00,000
Work uncertified	8,000	—
Material at site	5,000	7,000
Plant issued	14,000	2,000
Cash received from contractor	6,00,000	10,00,000

The value of plant at the end of 2017 and 2018 was ₹7,000 and ₹5,000 respectively.

Prepare (a) contract account; and (b) contractee account for two years 2017 and 2018 taking into consideration such profit for transfer to profit and loss account as you think proper.

Ans: A contractor prepares his account on 31st March every year. Contract number 7 started on 1st July 2017. The costing records relating to the said contract reveal following information on 31st March 2018:

Material charged to Site	₹ 73,680
Direct Labour	₹ 1,40,400
Foreman's Salary	₹ 23,000

A machine costing ₹ 50,000 has been on site for 73 days. Its working life is estimated at 5 years and its final scrap value at ₹ 2,000. A supervisor, who is paid ₹ 36,000 p.a. has spent approximately six month on this contract. The administrative and all other expenses amount to ₹ 34,000. Material at the site at the end of the year cost ₹ 5,000. The contract price is ₹ 6,00,000. At the end of the year, two-third of the contract was completed for which amount architect's certificate has been issued and ₹ 3,20,000 has so far been received on account.

Prepare contract account showing the profit and loss to be included in respect to this contract in the financial accounts on 31st March 2018. Also show how work in progress will appear in the balance sheet of the year ending on 31st march 2018.

~~Q.10~~ ABC Co Limited has undertaken a contract for ₹2,00,000 on April 1, 2017. Prepare a contract account and the balance sheet in T format from the trial balance and the adjustment given below:

The Trial Balance as on March 31, 2018

Particulars	Dr. Amount ₹	Cr. Amount ₹
Share Capital		40,000
Cash received on contract (80% of work certified)		1,00,000
Plant and Tools	12,200	
Material sent to site	44,250	
Labour charges	56,180	
Land and Building	25,000	
Sundry Creditors		4,380
General Expenses	4,650	
Cash in Hand	2,100	
Total	1,44,380	1,44,380

Material returned to store is ₹ 2,125. Of the plant and tools sent to site, plant worth ₹ 1,300 were lost due to carelessness of the staff. The value of the plant and tools as on 31-03-2018 was ₹ 8,000. Reserve 1/3 of the profit. The work completed but not certified is ₹ 6,145. Assume that this was the only contract in hand during 2017-2018.

Q1. PQR Construction Ltd. commenced a contract on April 1, 2017. The total contract was for ₹ 27,12,500. It was decided to estimate the total profit and to take to the credit of profit and loss A/c the proportion of estimated profit on cash basis which work completed bear to the total contract. Actual expenditure in 2017-18 and estimated expenditure in 2018-19 are given below:

	2017-18 Actual (₹)	2018-19 Estimated (₹)
Material issued	4,56,000	8,14,000
Labour :Paid	3,05,000	3,80,000
:Outstanding at end	24,000	37,500
Plant purchased	2,25,000	—
Expenses: Paid	1,00,000	1,75,000
:Outstanding at the end	—	25,000
:Prepaid at the end	22,500	—
Plant returned to stores at historical cost	75,000	1,50,000
	(31-03-2018)	(31-12-2018)
Material at site	30,000	75,000
Work-in-progress :Certified	12,75,000	Full
Work-in-progress: Uncertified	40,000	—
Cash received	10,00,000	Full

The plant is subject to annual depreciation @ 20% of WDV cost. The contract is likely to be completed on December 31, 2018.

- Required:
- Prepare the Contract A/c for the year 2017-18.
 - Estimate the profit on the contract for the year 2017-18 on prudent basis which has to be credited to P/L A/c.



Engineers Ltd. undertook several contracts during the year 2018. The following information relate to contract No. 107:

		₹
Direct materials		20,250
Direct wages		15,500
Stores issued		10,500
Loose tools		2,400
Tractor expenses :		
Running material ₹	2,300	
Wages of driver ₹	3,000	5,300
Other direct charges	<u> </u>	2,650

The contract took 13 weeks on its completion. The values of loose tools and stores returned at the end of the period were ₹ 200 and ₹ 3,000 respectively. The plant was also returned at a value of ₹ 16,000 after charging depreciation at 20%. The value of tractor was ₹ 20,000 and the depreciation was to be charged to the tractor @15% per annum. The administration and office expenses are to be provided at 10% on works cost. Profit to be charged at 20% of the total cost.

Prepare the aforesaid Contract Account assuming the price of the contract was duly received from the contractee.

99) Surya Construction Ltd. with a paid-up share capital of ₹ 50 lakhs undertook a contract to construct MIG apartments. The work commenced on the contract on 1st April, 2017. The contract price was ₹ 60 lakh. Cash received on account of the contract upto 31st March, 2018 was ₹ 18 lakh (being 90% of the work certified). Work completed but not certified as on 31st March 2018 was estimated at ₹ 1,00,000, material at site ₹ 30,000, machinery at site costing ₹ 2,00,000 was returned to stores and wages outstanding were ₹ 5,000. Plant and machinery at site is to be depreciated at 5%.

The following were the ledger balances (Dr.) as per trial balance as on 31st March, 2018 :

	₹
Land and Building	23,00,000
Plant and Machinery (60% at site)	25,00,000
Furniture	60,000
Materials	14,00,000
Fuel and Power	1,25,000
Site expenses	5,000
Office expenses	12,000
Rates and taxes	15,000
Cash at Bank	1,33,000
Wages	2,50,000

Prepare the Contract Account and Balance Sheet.

[B.Com. (Hons) Delhi 2001]

910 The following is the trial balance of Cosmos Construction Limited, engaged in the execution of Contract No. 303, for the year ended 31st December, 2018:

	Dr. ₹	Cr. ₹
Contractee's Account: 75% of work certified		3,60,000
Accumulated depreciation account		50,000
Creditors		12,000
Buildings	2,00,000	
Bank balance	45,000	
Share capital		5,00,000
Materials	2,00,000	
Wages	1,80,000	
Expenses	47,000	
Plant	2,50,000	
	9,22,000	9,22,000

The work on Contract No. 303 was commenced on 1st January, 2018.

Materials costing ₹ 1,70,000 were sent to the site of the contract but those costing ₹ 6,000 were destroyed in an accident. Plant costing ₹ 50,000 was used on the contract all through the year. Plant with a cost of ₹ 2 lakhs was used from 1st January to 30th September, 2018, and was then returned to the stores.

The contract was for ₹ 6,00,000 and the contractee pays 75% of the work certified. The cost of work uncertified was estimated to be ₹ 15,000 on 31st December, 2018, on which date materials costing ₹ 4,000 were at the site of the contract.

Expenses are charged to the contract at 25% of wages. Plant is to be depreciated at 10% according to the straight line method for the entire year.

Prepare Contract No. 303 Account for the year 2018 and make out the Balance Sheet of Cosmos Construction Limited as on 31st December, 2018.

9. MNP Construction Ltd. commenced a contract on April 1, 2017. The total contract was for ₹17,50,000. It was decided to estimate the total profit and to take to the credit of P/L A/c the proportion of estimated profit on cash basis which work completed bore to the total contract. Actual expenditure in 2017-2018 and estimated expenditure in 2018-2019 are given below :

	2017-2018 (Actuals) (₹)	2018-2019, (Estimated) (₹)
Materials issued	3,00,000	5,50,000
Labour : Paid	2,00,000	2,50,000
: Outstanding at end	20,000	30,000
Plant purchased	1,50,000	—
Expenses: Paid	75,000	1,50,000
: Prepaid in the end	15,000	—
Plant returned to store (historical cost)	50,000	1,00,000
	(on March 31, 2017)	(on Dec. 31, 2018)
Material at site	20,000	50,000
Work certified	8,00,000	Full
Work uncertified	25,000	—
Cash received	6,00,000	Full

The plant is subject to annual depreciation @ 25% of WDV Cost. The contract is likely to be completed on December 31, 2018. Prepare the Contract A/c. Determine the profit on the contract for the year 2017-2018 on prudent basis, which has to be credited to P/L A/c.

Contract Costing - Answers

Q1. Profit to be taken to P&L A/C Rs 13547
Reserve Rs 11853

Q2. Profit to be taken to P&L A/C Rs 30600
Reserve Rs 20400

Q3. Profit to be taken to P&L A/C Rs 36979

Q4. Profit credited to P&L A/C - ^{Rs.} 105600 (2017)
132000 (2018)

Q5. Profit credited to P&L A/C - Rs 60800
Reserve - Rs 53200

Q6. Profit credited to P&L A/C - Rs 16860
Reserve - Rs 8430

Q7. Profit credited to P&L A/C - Rs 159263
Reserve - Rs 278237

Q8. Profit - Rs 12793

Q9. Profit credited to P&L A/C = Rs 72900
B/S Total = Rs 50,77,900

Q10. Profit credited to P&L A/C = Rs 45,000
B/S Total = Rs 5,44,000

Q11. Profit credited to P&L A/C = Rs 66,321
Total estimated profit on
the contract = Rs 19,34,38