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**VIRTUAL COACHING CLASSES  
ORGANISED BY BOS, ICAI**

**INTERMEDIATE LEVEL  
PAPER 3: COST & MANAGEMENT ACCOUNTING  
TOPIC COVERED: CONTRACT COSTING**

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# ***Contract Costing***

*Contract Costing is a method of costing used by those enterprises who are into business of construction . Since each contract is unique therefore separate contract account is prepared for every contract . A contract may extend to a period of more than 1 year .*



# ***Few important terms :***

## ***Contractor :***

*Person who undertakes the contracts .*

## ***Contractee :***

*Person for whom contract is undertaken .*

## ***Contract Price :***

*The price as agreed between the contractor and contractee for the work to be done*

## ***Work Certified :***

*The part of work done for which contractee's architect has issued completion certificate . Generally payment is made to the contractor on the basis of work certified .*



## **Work Uncertified :**

*The part of work done by the contractor for which contractee's architect has not issued certificate .Work uncertified is always valued at cost price .*

## **Progress Payment :**

*Periodic payment made by the contractee to contractor on the basis of work certified after deducting a certain amount known as retention money .*

## **Retention Money :**

*Portion of value of work certified, which is kept by a contractee as security money for any loss or damage caused by the contractor.*

## **Escalation Clause:**

*A clause in a contract which empowers a contractor to revise the price of the contract in case of increase in the prices of inputs due to some macro-economic or other agreed reasons.*



## ***Estimated Profit :***

*( Contract Price – Estimated total cost )*

## ***Estimated Total Cost :***

*(Cost incurred till date + Estimated cost )*



## Question 1

The following expenses were incurred on a contract:

|                                      |                 |
|--------------------------------------|-----------------|
| <i>Materials purchased</i>           | <i>6,00,000</i> |
| <i>Material drawn from stores</i>    | <i>1,00,000</i> |
| <i>Wages</i>                         | <i>2,25,000</i> |
| <i>Plant issued</i>                  | <i>75,000</i>   |
| <i>Chargeable expenses</i>           | <i>75,000</i>   |
| <i>Apportioned indirect expenses</i> | <i>25,000</i>   |

The contract was for 20,00,000 and it commenced on January 1, 2020. The value of the work completed and certified upto 30th November, 2020 was 13,00,000 of which 10,40,000 was received in cash, the balance being held back as retention money by the contractee. The value of work completed subsequent to the architect's certificate but before 31st December, 2020 was 60,000. There were also lying on the site materials of the value of 40,000. It was estimated that the value of plant as at 31st December, 2020 was 30,000. You are required to compute value of work certified, cost of work not certified and notional profit on the contract till the year ended 31<sup>st</sup> December, 2020.



## Question 2

A contractor prepares his accounts for the year ending 31st December each year. He commenced a contract on 1st April, 2020. The following information relates to the contract as on 31st December, 2020:

|                   |          |
|-------------------|----------|
| Material issued   | 2,51,000 |
| Wages             | 5,65,600 |
| Salary to Foreman | 81,300   |

A machine costing 2,60,000 has been on the site for 146 days, its working life is estimated at 7 years and its final scrap value at 15,000.

A supervisor, who is paid 8,000 p.m. has devoted one-half of his time to this contract.

All other expenses and administration charges amount to 1,36,500. Material in hand at site costs 35,400 on 31st December, 2020.

The contract price is 20,00,000. On 31st December, 2020 two-third of the contract was completed.

The architect issued certificates covering 50% of the contract price, and the contractor had been paid 7,50,000 on account.

PREPARE Contract A/c and show the notional profit or loss as on 31st December, 2020.



### Question 3

Vansh limited undertook a contract for 5,00,000 on 1st July, 2020. On 30th June 2021 when the accounts were closed, the following details about the contract were gathered:

| <b>Particulars</b>          | <b>Amount</b> |
|-----------------------------|---------------|
| Materials purchased         | 1,00,000      |
| Wages paid                  | 45,000        |
| General expenses            | 10,000        |
| Plant Purchased             | 50,000        |
| Materials on hand 30-6-2021 | 25,000        |
| Wages accrued 30-6-2021     | 5,000         |
| Work certified              | 2,00,000      |
| Cash received               | 1,50,000      |
| Depreciation of Plant       | 5,000         |
| Work uncertified            | 15,000        |

The above contract contained an escalator clause which read 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 wage rates increased by 25% the value of the work certify does not take into account the effect of the above clause. Prepare the contract account. Working should form part of the answer.



## Question 4

*M/s. Bansals Construction Company Ltd. took a contract for ₹ 60,00,000 expected to be completed in three years. The following particulars relating to the contract are available:*

|                                    | <b>2018</b>      | <b>2019</b>      | <b>2020</b>      |
|------------------------------------|------------------|------------------|------------------|
| <i>Materials</i>                   | <i>6,75,000</i>  | <i>10,50,000</i> | <i>9,00,000</i>  |
| <i>Wages</i>                       | <i>6,20,000</i>  | <i>9,00,000</i>  | <i>7,50,000</i>  |
| <i>Transportation cost</i>         | <i>30,000</i>    | <i>90,000</i>    | <i>75,000</i>    |
| <i>Other expenses</i>              | <i>30,000</i>    | <i>75,000</i>    | <i>24,000</i>    |
| <i>Cumulative work certified</i>   | <i>13,50,000</i> | <i>45,00,000</i> | <i>60,00,000</i> |
| <i>Cumulative work uncertified</i> | <i>15,000</i>    | <i>75,000</i>    | <i>—</i>         |

*Plant costing 3,00,000 was bought at the commencement of the contract. Depreciation was to be charged at 25% per annum, on the written down value method. The contractee pays 75% of the value of work certified as and when certified, and makes the final payment on completion of the contract.*

*You are required to PREPARE a contract account for three years and total estimated profit/ loss from the contract.*



## Question 5

RST Construction Ltd. commenced a contract on April 1, 2019. The total contract was for 49,21,875. Actual expenditure for the period April 1, 2019 to March 31, 2020 and estimated expenditure for April 1, 2020 to September 30, 2020 are given below:

|   | <b>1 April 2019 to 31 March 2020</b> | <b>1 April 2020 to 30 Sep 2020</b> |
|---|--------------------------------------|------------------------------------|
|   | <b>(Actual)</b>                      | <b>(Estimated)</b>                 |
| Materials issued                            | 7,76,250                             | 12,99,375                          |
| Wages: Paid                                 | 5,17,500                             | 6,18,750                           |
| Prepaid                                     | 37,500                               | -                                  |
| Outstanding                                 | 12,500                               | 5,750                              |
| Plant purchased                             | 4,00,000                             | -                                  |
| Expenses: Paid                              | 2,25,000                             | 3,75,000                           |
| Outstanding                                 | 25,000                               | 10,000                             |
| Prepaid                                     | 15,000                               | -                                  |
| Plant returns to store<br>(historical cost) | 1,00,000                             | 3,00,000                           |
|   | (on September 30,<br>2019)           | (on September 30,<br>2020)         |
| Work certified                              | 22,50,000                            | Full                               |
| Work uncertified                            | 25,000                               | -                                  |
| Cash received                               | 18,75,000                            | -                                  |
| Materials at site                           | 82,500                               | 42,500                             |



*The plant is subject to annual depreciation @ 25% on written down value method. The contract is likely to be completed on September 30, 2020.*

*Required:*

*PREPARE the Contract A/c for the year ended 31<sup>st</sup> March, 2020 and determine the estimated profit on the contract.*



## Question 6

AKP Builders Ltd. commenced a contract on April 1, 2020. The total contract was for ` 5,00,000. Actual expenditure for the period April 1, 2020 to March 31, 2021 and estimated expenditure for April 1, 2021 to December 31, 2021 are given below:

| Particulars            | 2020-21  | 2021-22                |
|------------------------|----------|------------------------|
|                        | (actual) | (9 months) (estimated) |
| Materials issued       | 90,000   | 85,750                 |
| Wages: Paid            | 75,000   | 87,325                 |
| Outstanding at the end | 6,250    | 8,300                  |
| Plant                  | 25,000   | -                      |
| Sundry expenses: Paid  | 7,250    | 6,875                  |
| Prepaid at the end     | 625      | -                      |
| Establishment charges  | 14,625   | -                      |

A part of the material was unsuitable and was sold for 18,125 (cost being 15,000) and a part of plant was scrapped and disposed- off for 2,875. The value of plant at site on 31 March, 2021 was 7,750 and the value of material at site was 4,250. Cash received on account to date was 1,75,000, representing 80% of the work certified. The cost of work uncertified was valued at 27,375.



*The contractor estimated further expenditure that would be incurred in completion of the contract:*

- *The contract would be completed by 31<sup>st</sup> December, 2021.*
- *A further sum of ` 31,250 would have to be spent on the plant and the residual value of the plant on the completion of the contract would be 3,750.*
- *Establishment charges would cost the same amount per month as in the previous year.*
- *10,800 would be sufficient to provide for contingencies.*

***Required:***

*PREPARE a Contract Account for the year ended 31<sup>st</sup> March, 2021, and CALCULATE estimated total profit on this contract.*



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**THANK YOU**