

# CONTRACT COSTING

- (1) → Work Certified → Always Record at ?  
**Selling Price.**
- (2) → Work Uncertified → Always Record at ?  
**Cost.**
- (3) If work certified is not given directly in the problem, then it can be found out with the help of cash received as follows.

$$\text{Work Certified} = \frac{\text{Cash Received}}{\text{Cash Received \%}}$$

## **Types of Problems :-**

- (1) Problems relating only to the first year of contract.**
- (2) Problems relating to the second & subsequent years.**
- (3) Problems based on complete Balance Sheet.**
- (4) Problems based on Estimated Profits.**

# (1) Problems relating only to the first year of Contract.

| <div>Dr.</div> <div>CONTRACT ACCOUNT</div> <div>Cr.</div> |     |                            |     |
|-----------------------------------------------------------|-----|----------------------------|-----|
| PARTICULARS                                               | AMT | PARTICULARS                | AMT |
| To Expenses                                               | XXX | <u>By W.I.P. (Closing)</u> |     |
|                                                           |     | Work certified (S.P.)      | XXX |
|                                                           |     | Work Uncertified (C.P)     | XXX |
|                                                           |     | By Sale of Scrap           | XXX |
| To Notional Profit c/d                                    | XXX | By P/L A/c (Loss)          | XXX |
|                                                           | XXX |                            | XXX |
| To P&L A/c (W.N.)                                         | XXX | By Notional Profit b/d     | XXX |
|                                                           |     |                            |     |
| To Bal.c/d (Res.Profit)                                   | XXX |                            |     |
|                                                           | XXX |                            | XXX |

**Notional Profit to be transferred to P & L A/c will be calculated as follows :**

**→ Find out the percentage of work certified.**

$$\text{PERCENTAGE OF W. CERTIFIED} = \frac{\text{Total Work Certified}}{\text{Contract Price}} \times 100$$

## →Amount to be transferred to Profit & Loss A/c

| <b>% of Work Certified</b>            | <b>Notional Profit to be transferred to Profit &amp; Loss A/c</b>                                                            |
|---------------------------------------|------------------------------------------------------------------------------------------------------------------------------|
| <b>Less than 25%</b>                  | <b>NIL</b>                                                                                                                   |
|                                       |                                                                                                                              |
| <b>25% or more but less than 50%</b>  | <b>Notional Profit <math>\times \frac{1}{3} \times \frac{\text{Total Cash Received}}{\text{Total Work Certified}}</math></b> |
|                                       |                                                                                                                              |
| <b>50% or more but less than 100%</b> | <b>Notional Profit <math>\times \frac{2}{3} \times \frac{\text{Total Cash Received}}{\text{Total Work Certified}}</math></b> |
|                                       |                                                                                                                              |
| <b>100%</b>                           | <b>100%</b>                                                                                                                  |

## **(2) Problems relating to the second & subsequent years**

- 1) Record opening balance in contract A/c (Reserve profit)**
- 2) Record opening balance in contractee's A/c**
- 3) Record opening balance in work-in-progress A/c.**
- 4) Transfer Op.WIP from WIP A/c. to Contract A/c. Debit side.**
- 5) Closing W.C. → Cumulative figure.  
Closing W.U.C → Non Cumulative figure  
In the last year record **Contract Price** on the credit side.**
- 6) Record Cl. Stock of R.M of last year as Op. stock in the Working note of raw material consumed.**

# **CONTRACT ACCOUNT (Subsequent year)**

**Dr.** **Cr.**

| <b>PARTICULARS</b>              | <b>AMT</b> | <b>PARTICULARS</b>                     | <b>AMT</b> |
|---------------------------------|------------|----------------------------------------|------------|
| <u>To W.I.P. (Op)</u>           |            | <b>By Bal.b/d (Res.)</b>               | <b>XXX</b> |
| Work certified                  | XXX        |                                        |            |
| Work Uncertified                | XXX        | <u>By W.I.P. (Cl)</u>                  |            |
| To C.Y. Expenses                | XXX        | Work certified ( <b>Cum</b> )          | XXX        |
|                                 |            | Work Uncertified<br>( <b>Non Cum</b> ) | XXX        |
| To Notional Profit c/d          | <b>XXX</b> | <b>By Sale of Scrap</b>                | <b>XXX</b> |
|                                 | <b>XXX</b> |                                        | <b>XXX</b> |
| To P&L A/c (W.Note.)            | XXX        | By Notional Profit b/d                 | XXX        |
| <b>To Bal.c/d (Res. Profit)</b> | <b>XXX</b> |                                        |            |
|                                 | <b>XXX</b> |                                        | <b>XXX</b> |

# CONTRACT ACCOUNT (Last year)

**Dr.**

**Cr.**

| PARTICULARS           | AMT | PARTICULARS         | AMT |
|-----------------------|-----|---------------------|-----|
| <u>To W.I.P. (Op)</u> |     | By Bal.b/d (Res.)   | XXX |
| Work certified        | XXX |                     |     |
| Work Uncertified      | XXX | By Contractee's A/c | XXX |
| To Expenses           | XXX | (Contract Price)    |     |
| To P/L A/c (Profit)   | XXX | By Sale of Scrap    | XXX |
|                       | XXX |                     | XXX |

### 3) Problems based on complete Balance Sheet

- Prepare contract A/c as usual.
- Prepare P& L A/c
- Finally prepare a Balance Sheet.

#### **Dr.**                      **Profit & Loss A/c (Format)**                      **Cr.**

| PARTICULARS                           | AMT | PARTICULARS                          | AMT |
|---------------------------------------|-----|--------------------------------------|-----|
| To Expenses (Not related to Contract) | XXX | By Contract A/c (Profit)             | XXX |
|                                       |     | By Incomes (Not related to contract) | XXX |
| To Net Profit Trf.to Balance Sheet    | XXX |                                      |     |
|                                       |     |                                      |     |
|                                       | XXX |                                      | XXX |

## Expenses not related to contract

- Deprn. on fixed assets **not** used directly for contract.
- Deprn. on Plant & Machinery for the period **not** used for the contract.
- General office expenses **not** incurred particularly for the contract.
- Loss on sale of raw material / machinery

## Incomes not related to contract

- Dividend recd., interest recd., rent recd., brokerage recd., commission recd.....
- Profit on sale of raw material / machinery etc.

# Balance Sheet Presentation of Work-in-Progress

| Liab. | Assets                               | Amt                        | Amt        |
|-------|--------------------------------------|----------------------------|------------|
|       | <u><b>Current Assets</b></u>         |                            |            |
|       | <u><b>Closing WIP</b></u>            |                            |            |
|       | <b>Work Certified</b>                | <b>XXX</b>                 |            |
|       | <b>Work Uncertified</b>              | <b>XXX</b>                 |            |
|       | <b>(-) Adv.recd. from Contractee</b> | <b>XXX</b><br><b>(XXX)</b> |            |
|       | <b>(-) Reserve Profit</b>            | <b>XXX</b><br><b>(XXX)</b> | <b>XXX</b> |

#### **(4) Problems based on Estimated Profits**

→Actual expenses as well as future estimated expenses will be given.

→Notional profit to be transferred to P & L A/c

$$\text{Estimated Profit} \times \frac{\text{Total Work Certified}}{\text{Contract Price}} \times \frac{\text{Total Cash received}}{\text{Total Work Certified}}$$

$$\text{Estimated Profit} \times \frac{\text{Total Work Certified}}{\text{Contract Price}}$$

#### **Choosing the formula**

**Instruction given in problem** →Strictly follow instruction.

#### **Instruction not given in problem**

→Cash received given →Use 1st formula.

→Cash received not given →Use 2nd formula.

# Estimated Profit – How to find out?

## Total Contract A/c

**Dr.**

**Cr.**

| PARTICULARS         | AMT | PARTICULARS         | AMT |
|---------------------|-----|---------------------|-----|
| To Actual cost      | XXX | By Contractee's A/c | XXX |
| To Estimated cost   | XXX | By Sale of Scrap    | XXX |
| To Estimated Profit | XXX |                     |     |
|                     | XXX |                     | XXX |

## Contractee's A/c (Format)

**Dr. CONTRACTEE'S ACCOUNT (1<sup>ST</sup> Year) Cr.**

| PARTICULARS    | AMT | PARTICULARS    | AMT |
|----------------|-----|----------------|-----|
| To Balance c/d | XXX | By Cash / Bank | XXX |
|                | XXX |                | XXX |

**Dr. CONTRACTEE'S ACCOUNT (Subsequent Year) Cr.**

|                |     |                |     |
|----------------|-----|----------------|-----|
| To Balance c/d | XXX | By Balance b/d | XXX |
|                |     | By Cash / Bank | XXX |
|                | XXX |                | XXX |

**Dr. CONTRACTEE'S ACCOUNT ( Last Year) Cr.**

|                 |     |                |     |
|-----------------|-----|----------------|-----|
| To Contract A/c | XXX | By Balance b/d | XXX |
|                 |     | By Cash / Bank | XXX |
|                 | XXX |                | XXX |

# Work-in-progress A/c (Format)

**Dr.**

## W.I.P ACCOUNT (1<sup>st</sup> Year)

**Cr.**

| PARTICULARS     | AMT | PARTICULARS    | AMT |
|-----------------|-----|----------------|-----|
| To Contract A/c | XXX | By Balance c/d | XXX |
|                 |     |                |     |
|                 | XXX |                | XXX |

**Dr.**

## W.I.P ACCOUNT (Subsequent Year)

**Cr.**

|                 |     |                 |     |
|-----------------|-----|-----------------|-----|
| To Balance b/d  | XXX | By Contract A/c | XXX |
| To Contract A/c | XXX | By Balance c/d  | XXX |
|                 | XXX |                 | XXX |

**Dr.**

## W.I.P ACCOUNT (Last Year)

**Cr.**

|                |     |                 |     |
|----------------|-----|-----------------|-----|
| To Balance b/d | XXX | By Contract A/c | XXX |
|                | XXX |                 | XXX |

# **Important Questions**

**Q.1, 3, 4, 6, 9, 10,  
12, 14, 17, 18**

