

## Some Important Terms

[1] Contractee : Who gives the contract.

[2] Contractor : Who takes the contract.

[3] Tender Price & Deposit: Will not be shown in Contract A/c.

[4] Contract Price : Will be credited to contract a/c., when Contract is completed.

[5] Work completed : Will not be shown (Calculate on the basis of Contract price) in Contract Account.

[6] Work Certified : Will debited to WIP a/c and Credited to Contract a/c. [work completed and also certified by the architect]

[7] Work uncertified : Will be shown under “WIP” Account. [Work completed but not certified]

### **To calculate the profit on uncompleted contract**

1. When contract is completed “ Whole profit or loss is carried to General Profit & Loss Account”.

2. When contract is uncompleted : (on the basis of contract price)

A. When certified work is less than 25 % : Profit carried forward to WIP A/c. No profit should be transferred to Profit & Loss A/c.

B. When certified work is more than 25 % and less than 75 %.  
(On the basis of 2/3 cash )

• To P & L A/c = Notional profit  $\times \frac{2}{3} \times \frac{\text{cash recd.}}{\text{work certified}}$

• To WIP A/c = Notional Profit – P & L A/c

3. When major part of work is completed / Estimated Contract:  
Profit transferred to..

$$P \ \& \ L \ A/c = \text{Estimated Profit} \times \frac{\text{Work Certified}}{\text{Contract Price}}$$

### **Various methods of Contract Accounting**

- General Exercise
- Find out cost of work uncertified
- Contract running for more than one year
- Prepare contract accounts for more than one contract
- Prepare contract account and Balance Sheet.
- Estimated contract account
- Escalation Clause

#### **Short Note : Escalation Clause**

In case of fixed price contracts, the contractor is likely to be put to disadvantage on account of subsequent rise in price of materials, labour rate and other expenses. In case of fall in price, the contractee will be at a disadvantage. The purpose of this clause is to provide protection to both the parties against losses which are likely to arise due to variations in the prices.

Escalation Clause is generally inserted in the building and engineering contracts. It provides for modification in the contract price with the change in price of materials and labour. The value of contract is changed in proportion to the rise or fall in prices. For Example, if the price of material rise by 20% compared to the basis price of material agreed upon the contract price is proportionately increased. It must, however, be remembered that the increase in contract price is allowed only in respect of materials purchased after the rise in price of materials.

## Contract Accounts

**“Each Contract has a separate identify and, therefore it becomes essential to analyses and segregate costs according to each contract ”**

**- P. Dasgupta**

### FORMAT OF CONTRACT ACCOUNT (FOR INCOMPLETE CONTRACT)

Dr.

Cr.

Particulars	Rs.	Particulars	Rs.
Materials/Plants issued from stores	---	Materials return to stores	---
Materials /Plants received from other contract	---	Plants return to stores(Depreciation)	---
Materials Purchased	---	Materials issued to other contract	---
Wages/Labour paid       ---		Material/Plants sold	---
+ Outstanding / unpaid   ---		Loss by accident materials/plants	---
- Pay in advance        ---	---	Loss of material/plant theft	---
Direct expenses	---	Loss (any type of loss)	---
Indirect expenses       ---		Bank/Cash/Insurance – income	---
+ Outstanding/unpaid   ---	---	<b><u>Work-in-progress :</u></b>	
Preliminary expenses	---	Work certified	---
Establishment expenses	---	Work uncertified	---
Cost of sub-contract	---	Material at site/Closing stock	---
Plant issued :		Plant at site(year ended)    ---	---
Normal plants        ---			
Specific plants      ---	---	By Profit and Loss A/c.	
Architect fees	---	(loss of contract transfer to P&L A/c)	---
Contract's Profit :			
To P & L A/c	---		
To Work-in-progress A/c	---		
	☺		☺

### Work-in-Progress Account

Particulars	Rs.	Particulars	Rs.
<b><u>To Contract A/c:</u></b>		<b>By Contract A/c</b>	---
Work certified        ---		(reserve profit)	
Work uncertified    ---			
Closing stock        ---			
Plant at site         ---	---		
	---		---

1. On 31<sup>st</sup> December 1996, details regarding to **Contract No. 333** is as follows :

	Rs.		Rs.
Materials direct purchased	55,000	Direct expenses	15,000
Materials issued from stores	15,000	Establishment expenses	
Wages	29,500	(distributed)	15,000
Scrap sold	2,000	Plant	50,000
Contract deposit	50,000		

**Other details :**

1. On 31<sup>st</sup> Dec. 1996, outstanding Wages were Rs. 1,000 and Direct Expenses were Rs. 1,500.
2. In Cost of Work Uncertified, Materials Rs. 3,500; Wages Rs. 2,500 and Expenses Rs. 2,000.
3. Plant, cost of Rs. 3,000 and Materials cost of Rs. 4,000 were lost due to fire.
4. Plant, cost of Rs. 7,000 was sold at Rs. 6,000 and Materials, Cost of Rs. 3,000 was sold at Rs. 4,000.
5. Depreciation charged on plant on 31<sup>st</sup> December was Rs. 12,000.
6. Materials at site were Rs. 6,000.
7. Cash received Rs. 1,40,000 as 80 % of Work Certified from Contractee.
8. Contract Price was Rs. 2,50,000.
9. Profit transferred to P & L A/c. on 2/3<sup>rd</sup> Cash Base.

✚ **Prepare Contract Account.** (Sau. Uni. T.Y.B.Com. April '89)

2. **M/S. Das & Co.** took a contract for Rs. 24,00,000 from PWD. Contract period 1-1-97 to 31-12-97. Prepare Contract Account and Work-in-progress Account on the basis of following details.

1. Wages	Rs. 6,00,000
2. Specific plant	Rs. 2,00,000
3. Materials	Rs. 3,00,000
4. Overhead expenses	Rs. 1,20,000
5. Materials at site (31-12-97)	Rs. 40,000

6. Depreciation Charged on Plant at 10 %.
7. Rs. 16,00,000 Cash received at 80 % of Work Certified.
8. In Uncertified Work, 5 % of material cost and 6 % of wage cost is counted. Overhead expenses are counted on percentage of wage. Depreciation will not count in Uncertified Work.

✚ Find out the Profit which will transfer on case basis to Profit & Loss Account.

3. **M/s. Rasiklal Associates** took a contract on 1<sup>st</sup> January, '06. They prepare their final accounts on 31<sup>st</sup> December. Their cost accounts are shown following details on 31<sup>st</sup> December 2006.

1. Materials issued on contract site Rs. 43,000.
2. Salary of Foreman Rs. 12,620
3. Wages paid Rs. 1,00,000.
4. One machine was used for contract cost of Rs. 30,000. Life of machine is 5 years and Scrap value of machine after 5 years was calculated Rs. 2,000. Actually Machine was Used only 1/5 part time.
5. One supervisor spends his 1/2 time on contract site, Monthly salary Rs. 1,500 paid to him.

6. Other expenditure of contracts is Rs. 14,000.
7. Materials at site of Rs. 2,500.
8. Contract price was Rs. 4,00,000.
9. On 31 December 2006, 2/3<sup>rd</sup> work is completed, but architect was given the certificate of Rs. 2,00,000 and its 80 % cash was paid.

✚ From the above information, prepare Contract Account and show the balance of Work in progress account in the Balance Sheet.

4. **Shree Jani** took a contract of Rs. 22,50,000 on 1-4-2005. Prepare (1) Contract Account (2) Work in progress Account and (3) Contractee Account on the following details for the year ended 31-3-2005.

<u>Particulars</u>	<u>Rs.</u>
Materials	6,50,000
Plant (1-4-'05)	1,35,000
Other expenses	3,67,000
Cost of sub contract	3,00,000
Supervision fees	70,000
Material at sites	35,000
Materials return to stores	22,500
Cash received ( 80 % of work certified )	14,40,000
Material loss	4,000

✚ 90 % work is completed of contract price. Depreciation will charge 20 % on plant. As per cash base 3/4<sup>th</sup> profit will transfer to P & L A/c.

## CONTRACT WHICH RUN FOR MORE THAN ONE YEAR

5. The following information relates to building contract for Rs. 20,00,000 for which 80 % of the value of work-in-progress as certified by the architect is being paid by the contractee.

Particulars	2004 (Rs.)	2005 (Rs.)	2006 (Rs.)
Materials issued	2,40,000	2,90,000	1,68,000
Direct wages	2,20,000	3,10,000	2,20,000
Direct expenses	10,000	34,000	12,000
Indirect expenses	4,000	5,200	1,000
Cash received from contractee	3,76,000	8,24,000	Remaining total
Uncertified work	6,000	16,000	-
Plant issued	28,000	-	-
Materials at site (year ended)	4,000	10,000	16,000
Plant after depreciation (year ended)	22,400	14,000	6,000

✚ Prepare contract account for these three years, taking into account such profit as you think Proper on incomplete contract.

6. **Shree Shubham** obtained a contract for Rs. 5,00,000 on 1-1-97. Term of cash received was 80 % of work certified.

Particulars	1997	1998	1999
Materials issued	50,000	1,00,000	60,000
Wages paid	18,000	32,000	47,000
Unpaid wages( year end )	2,000	5,000	3,000
Plant issued (1/1/97)	1,00,000	---	---
Indirect expenses	5,000	7,900	6,000
Work-certified ( of contract price )	25 %	60 %	100 %
Uncertified work	10,000	25,000	---
Closing stock	10,000	20,000	5,000

**Other information:**

1. In the year 1997, face value of Material Rs. 10,000 was sold at 20 % profit on selling price.
2. On 1/7/98 a plant sold at Rs. 19,200. Its face value on 1/1/97 was Rs. 20,000.
3. Depreciation will charge 10 % p.a. as per reducing balancing method on plant.
4. For contract profit:
  - [a]  $\frac{1}{4}$  profit on cash base will be transferred to P & L Account in the year 1997.
  - [b]  $\frac{2}{3}$  profits on cash base will be transferred to P & L Account in the year 1998.

Saw your necessary calculations.
5. How much profit was earned by Shubham during the whole contract?

7. A building contractor took a contract of Rs. 16,00,000. He has received 80 % cash of work certified. **Following balances were at the end of first year :**

- (1) Contractee account Rs. 2,40,000 (2) Materials Stock on hand Rs. 11,500 (3) Work uncertified Rs. 52,500 (4) Plants (after depreciation) Rs. 85,000 (5) Outstanding wages Rs. 4,500 (6) To work in progress account (reserve) 99,000.

**Following details for the second year are as follows :**

	Rs.
Vendors issued materials gradually	2,41,000
Materials from stores	2,84,000
Wages paid	1,18,500
Indirect expenses ( Out of them Rs. 2775 debited to nominal Profit and Loss Account)	85,275
Materials sold (cost Rs. 11,000)	18,500
Materials return to stores	3,575
Materials theft on the contract site	2,925

**At end of second year :**

- (1) Stock of materials Rs. 12,250 (2) Outstanding wages Rs. 6,000 (3) Rs. 1,28,000 profits Credited to P & L A/c as per  $\frac{2}{3}$ <sup>rd</sup> cash base.

Ratio of work certified and work uncertified is 16 : 1. Depreciation will charge 10 % p.a. as per reducing balance method on plant. Prepare for the second year : (1) Contract account (2) Contractee account (3) Work in progress account and show in the Balance Sheet. (Sau. Uni.Oct. Nov. '92 – 20 marks)

## Prepare Contract Accounts for more than one Contract

8. A firm took three **contracts No. 101, 202 and 303**. All three contracts was starts on 1<sup>st</sup> April 1999, 1<sup>st</sup> October 1999 and 1<sup>st</sup> January 2000 respectively. On 31/3/2000, following details were available.

Particulars	Contract No. 101	Contract No. 202	Contract No. 303
Contract price	4,00,000	1,35,000	1,50,000
Materials	72,000	29,000	10,000
Wages paid	1,10,000	56,200	7,000
General expenses	4,000	1,400	500
Plant	20,000	8,000	6,000
Material on hand	4,000	2,000	1,000
Outstanding wages	3,400	1,800	800
Outstanding general exp.	600	200	100
Work certified	2,00,000	80,000	18,000
Cash received	1,50,000	60,000	13,500
Uncertified work	6,000	4,000	1,050

- ✚ Depreciation will charge on plant @ 10 %. Prepare contract accounts.

## Prepare Final Account of Contract

9. The following details are for the **Contract No. 202 of AASHU Construction Co. Ltd.** On these details prepare necessary accounts in their books. On the base of 2/3<sup>rd</sup> cash will be credited to Profit and Loss Account. Contractee has pay 80 % of work certified.

### Proforma Balance Sheet on 31-3-2006

Particulars	Debit Rs.	Credit Rs.
Contractee Account	-	16,00,000
Building	1,50,000	-
Creditors	-	20,000
Bank Balance	30,000	-
Share Capital	-	1,00,000
General Plants	50,000	
<b><u>To Contract A/c :</u></b>		
Materials	5,40,000	
Wages	3,00,000	
Indirect Expenses	1,50,000	
Direct Expenses	50,000	
Plant & Machinery	4,00,000	
Specific Plants	50,000	
	14,90,000	
	<b>17,20,000</b>	<b>17,20,000</b>

Contract was started on 1-4-2005. A plant issued value of Rs. 20,000 were destroyed due to fire while, Materials cost of Rs. 9,000 were sold out at Rs. 25,000.

Material at site was Rs. 20,000, Cost of work uncertified was Rs. 50,000. Calculate 15 % depreciation charged on cost of plants and 10 % on Building p.a. Year ended, outstanding wages was Rs. 10,000.

10. The **Jalandhar Construction Co. Ltd.** took contract no. 555. Work Balance Sheet as on 31-12-99 was as under.

Particulars	Debit Rs.	Credit Rs.
Contractee Account	---	3,00,000
Building	1,60,000	---
Creditors	---	72,000
Bank balance	35,000	---
Share Capital ( each of Rs. 100 )	---	5,00,000
Materials	2,00,000	---
Wages	1,80,000	---
Expenses	47,000	---
Plants	2,50,000	---
	<b>8,72,000</b>	<b>8,72,000</b>

- ✚ Contract No. 555 was started on 1/1/99. Materials issued on contract site Rs. 1,70,000. Materials face value Rs. 6,000 was destroyed in an accident. Wages paid during the year was Rs. 1,80,000. Plant face value Rs. 50,000 was used whole year at contract while, Plant face value Rs. 2,00,000 was used at contract from 1<sup>st</sup> January to 30<sup>th</sup> September and thereafter it was return to stores. Closing stock of materials at site was Rs. 4,000.
- ✚ Contract price was Rs. 6,00,000 and cash received 62.5 % of work certified from contractee. At the year ending, work certified was 80 % of contract price while, uncertified work was Rs. 15,000.
- ✚ Expenses are debited to contract account was 25 % of wages. Depreciation will charge 10 % on plant.
- ✚ Prepare Contract Account for Contract No. 555 and also prepare Balance Sheet as on 31/12/199.

11. The Following Work Balance Sheet was taken from the books of **R. K. Gupta Construction Company Limited** as on 31-03-2000.

Particulars	Debit Rs.	Credit Rs.
Share Capital (each of Rs. 10)	---	4,00,000
Profit & Loss Account	---	50,000
<b>Provision of Depreciation fund on plants</b>	---	63,000
Cash receive to contract no. 51	12,80,000	---
Creditors	---	1,57,000
Land & Building (face value)	1,90,000	---
Plant (face value)	52,000	---
Bank balance	78,000	---
<b><u>To Contract No. 51 :</u></b>		
Materials	6,00,000	
Direct wages	8,30,000	
Expenses	40,000	
Plant issued at site (face value)	1,60,000	
	<b>19,50,000</b>	<b>19,50,000</b>

- ✚ Contract no. 51 started on 1-4-199. Contract price is Rs. 24,00,000 and Rs.



12,80,000 Cash received 80 % of work certified from contractee. Uncertified work is Rs. 16,000.

- ✚ After preparing the work balance sheet, Plant was return to stores face value Rs. 32,000 and Closing stock was Rs. 25,000. Outstanding wages is Rs. 6,000. Depreciation will charge on plant fact value @ 12.5 %.
- ✚ Prepare necessary accounts and Balance Sheet as on 31-3-2000.

## Prepare Contract Account and Proforma Contract Account

### [CONTRACT WHICH ARE NEARING COMPLETION]

12. Details of a contract of **Harsha Construction Limited** are as under. Contract price is Rs. 20,00,000.

Particulars	31-3-2005	31-3-2006
<b>To work in progress account :</b>		
- Work certified	7,00,000	16,00,000
- Uncertified work	40,000	2,50,000
- Closing stock	10,000	30,000
- Plants at site ( after depreciation ) (face value of plant is Rs. 2,00,000)	1,25,000	?
- Reserve profit	75,000	?
<b>Particulars</b>	<b>Actual Exp.'s From 1/4/'05 To 31/3/06</b>	<b>Estimated Exp.'s From 1/4/'06 To 30/9/'06</b>
Materials	3,00,000	1,80,000
Wages	3,80,000	40,000
Indirect expenses	1,20,000	as per previous Monthly base
Materials sold ( face value Rs. 20,000)	16,000	-
Provision of contingency expense	-	30,000

✚ **Additional details :**

- (1) 12.5 % Depreciation charged on plants as per starigth line method.
- (2) Estimate that the contract would be finished on 30-9-2006.
- (3) Materials at site on contract would be Rs. 2,500.

✚ **On above information**

- (1) Prepare contract account for the year ended 31-3-2006.
- (2) Prepare Proforma contract account which show estimated profit.

( N.G.Uni., T.Y.B.Com. April 2005)

13. **Shree Ram** took a contract for building a house at Rs. 2,00,000. Work start on 1<sup>st</sup> April 2005 and during the year following expenses were paid :

Particulars	Rs.	Particulars	Rs.
Plant	10,000	Sundry expenses	2,650
Sundry materials	36,000	Salary	5,850
Wages	32,500		

- ✚ Some of the materials consign Rs. 6,000 were found unsuitable and were sold for Rs.

- 7,250 and a part of the plant costing Rs. 1,150 unsuited to the contract was sold as scrap.
- ✚ The value of plant on 31<sup>st</sup> March, 2006 was Rs. 3,100 and the value of Sunday material on hand was Rs. 1,700. Cash received to date was Rs. 70,000 representing 80 % of the work certified. The cost of work uncertified was Rs. 10,500 which is certified later at Rs. 12,500.
  - ✚ In order to calculate the profit made on the contract to 31<sup>st</sup> March 2006, The contractors estimated further expenditure that would be incurred in completing the contract and took to the credit of Profit & Loss Account for the year 2005-'06 that proportion of the estimated net profit to be realized on the contract which the value of work certified bore to the contract price.
  - ✚ **The estimates were as under :**
    - a. that the contract would be completed within another 9 months.
    - b. that a further sum of Rs. 12,500 would have to be spent on plant and the residual value of the plant on the completion of the contract would be Rs. 1500.
    - c. the materials, in addition to those on hand would cost Rs. 34,300, Wages Rs. 37,750 and those further sundry expenses of Rs. 3,000 would be incurred.
    - d. that the salary expense would cost the same amount per month as in the previous year.
    - e. that 2.5 % of the total cost of the contract should be Provided for contingencies.
  - ✚ Prepare the contract account for the year ended 31<sup>st</sup> March 2006 and show your calculations of the profit to be credited to P & L A/c of the year.

## Some Special Problems of Contract

14. **M/s. Gariba Builders** took a contract to build a hospital Price of Rs. 6,00,000. At the end of first year, Materials issued, Wages paid and Overhead expenses shows on debit side of the contract account. On credit side of the contract account, Materials shows Rs. 10,000 and Plant at site shows after depreciation at 20 % of Rs. 1,60,000. Net cost of contract is Rs. 3,30,000. Ratio of Materials issued, Wages paid and Overhead expenses is 7 : 4 : 1 respectively. Certified work is 2/3 portion of Contract price. 2/3 portion of Notional Profit as per cash base, Rs. 64,000 is credited to P & L A/c.

**Prepare :**

- [1] Contract Account at the end of first year with complete details.
- [2] Amount of Uncertified work.
- [3] Work-in-progress account.

15. **Mr. Manoj** is a contractor. He was completed a contract with in the two years. Contract was started on 1-4-2002 and completed on 31-3-2004. Work was same (Uniform) during both the years. In first year, expenses were done as follows:

1. Materials	Rs. 2,00,000
2. Wages	Rs. 1,00,000
3. Plant issued	Rs. 2,50,000
4. Other expenses	Rs. 30,000

- ✚ Depreciation will charged on plant at 20 %. Certified work was 60 % of contract price.

Cost of uncertified work was zero.

- ✚ Cost of materials and wages in second year was 10 % higher than the first year While, other expenses were same as per first year. Mr. Manoj got the 20 % profit of contract price.
- ✚ Find out the contract price and prepare separate accounts for both the two years. Cash received 90 % of contract price by proprietor of the building. Find out the profit which will transfer to P & L A/c.

## [ESCALATIO CLAUSE]

16. **Ravindra** took a Contract to built a building worth Rs. 5,00,000 on **1-1-2006**. An **Escalation Clause was included**.

Expenses up to 31-12-'06 were as under:

Materials	95,500
Rent of Plant	18,500
Wages	1,08,000
Administrative expenses	35,000

- ✚ Materials at site Rs. 17,000 on 31-12-'06 and cash received @ 85 % of work certified is Rs. 3,40,000. Cost of uncertified work was Rs. 8,000.
- ✚ Arbiter granted 22% price increase in uncompleted work as per Escalation Clause on 1-1-'07. Contract will complete on Dt. 30-9-'07 and other expenses will incur as follows:

Materials	22,000
Rent of Plant	3,500
Wages	49,400
Administrative expenses	8,900

- ✚ Profit will be transferred to P&L A/c as per 2/3 cash basis.
- ✚ Prepare Contract Accounts for the year 2006 and 2007.

***Don't think too much about your problem in life,  
they are just test papers given by God to see how  
much you learnt from his subject called "Life"***