

Ques

The following is the trial balance of m/s KR Construction Co., engaged in the execution of Contract No. 1247, for the year ending 31. December. 2018.

	₹	₹
Contractor's Account (Amount Recd)	-	3,00,000
Building	1,60,000	-
Creditors	-	72,000
Bank Balance	35,000	-
Capital Account	-	5,00,000
Materials	2,00,000	-
Wages	1,80,000	-
Expenses	47,000	-
Plant	2,50,000	-
	<u>872,000</u>	<u>872,000</u>

The work on Contract No. 1247 was commenced on 1. January. 2018. Materials costing ₹1,70,000 were sent to the site of the contract but those worth ₹6000 were destroyed in an accident. The wages of ₹1,80,000 were paid during the year. A plant costing ₹50,000 was used on the contract all through the year. Another plant with a cost of ₹2,00,000 was used from 1. Jan. to 30th Sept and

was then returned to the store. Materials of the cost of ₹4000 were at site on 31 Dec. 2018.

The contract was for ₹600000 and the contractor pays 75% of the work certified. The work certified was 80% of the total contract work at the end of 2018. Uncertified work was estimated at ₹15000 on 31 Dec. 2018.

Expenses are charged to contract at 25% of wages. The plant is to be depreciated at 10% for the entire year.

Prepare Contract No. 1247 A/c for the year 2018 and make out the Balance sheet as on 31st Dec. 2018 in the books of KK Construction Co.

Solⁿ

Contract No. 1247 Account
for the year ending 31-12-2018

Materials	170,000	P & L A/c	6000
Wages	180,000	(Loss by accident)	
Expenses (25% of wages)	45,000	Materials at site	4000
Depreciation on plant	20,000	WIP	
(50000 x 10% = 5000)		Certified - 480,000	
(200000 x 10% x 9/12 = 15k)		Uncertified - 15,000	495,000
Balance c/d	90,000		
(National Profit)			
	<u>505,000</u>		<u>5,05,000</u>
P & L A/c	37,500	National Profit	90,000
$\left[\frac{90000 \times 2}{3} \times \frac{300000}{480000} \right]$			
Cash received work certified.			
Balance c/d	52,500		
(Reserve)			
	<u>90,000</u>		<u>90,000</u>

Note:- (1) Unabsorbed expenses
47000 - 45000 = 2000

To be charged to P & L A/c in the b/s

(2) Depⁿ on plant 1 & 2 L has been charged to contract for 9 months only for remaining 3 months, it has been charged to P & L A/c.

Balance Sheet as at 31. Dec. 2018

Capital	5,00,000	Building	160,000
P & L A/c	37,500	Plant in store (200000 - 20000)	180,000
(-) loss of mat.	6000	Plant at site (50000 - 5000)	45,000
	31,500	Materials in store	30,000
(-) unabsorbed exp.	2000	Materials at site	4000
	29,500	WIP	
(-) Dep'n on plant	5000	certi	4,80,000
	24,500	uncerti	15,000
			4,95,000
Creditors	72,000	(-) Reserve	52,500
			4,42,500
		(-) Cash	3,00,000
		Recd.	1,42,500
		Bank	35,000
	5,96,500		5,96,500

Ques

A contractor, who prepares his accounts on 31. Dec. each year, commenced a contract on 1. April. 2018. The costing records concerning the said contract reveal the following information on 31 Dec. 2018.

Materials charged to site	2,58,100
Labour engaged	5,60,500
Owner's salary	79,300

Plants costing ₹260,000 had been on site for 146 days. Their working life is estimated at 7 years and their final scrap value at ₹15,000. A supervisor, who is paid ₹4000 p.m., has devoted approximately three fourth of his time to this contract. The administrative and other expenses amount to ₹140,000.

Materials in hand at site on 31.12.18 cost ₹25400. Some of the material costing ₹4,500 was found unsuitable and was sold for ₹4000 and part of the plant costing ₹5500 (on 31.12.18) unsuited to the contract was sold at a profit of ₹1000.

The contract price was ₹2200,000 but it was accepted by the contractor for ₹20,00,000. On 31 Dec 2018, two third of the contract was completed.

Architect's certificate had been issued covering 50% of the contract price and ₹750,000 has so far been paid on account. Prepare Contract Account and state how much profit or loss should be included in the financial accounts to 31st Dec. 2018. Workings should be clearly given. Depreciation is charged on time basis.

Also prepare the Contractor's Account and show how these accounts would appear in the Balance Sheet as on 31. Dec. 2018.

Solⁿ

Contract Account for the year ending 31.12.18

Materials	2,58,100	Materials at site	25,400
Labour	5,60,500	Materials sold	4,000
Foreman's salary	79,300	less on sale of	500
Supervisor's salary	27,000	Materials	
$(4000 \times \frac{3}{4} \times 9)$		WIP	
Plant depreciation	14,000	Certified - 10,00,000	
$(260000 - 15000) \times \frac{146}{365} \times \frac{1}{7}$		Uncertified* - 2,62,250	12,62,250
Administrative and other expenses	1,40,000		
Notional Profit	2,13,250		
	12,92,150		12,92,150
Profit & Loss A/c	1,06,625	Notional Profit Hd	2,13,250
$(213250 \times \frac{2}{3} \times \frac{750000}{1000000})$			
Balance (Reserve)	1,06,625		
	2,13,250		2,13,250

Contractee's Account

31.12.2018.			
To Balance c/d	7,50,000	By Cash	7,50,000

Balance Sheet as on 31.12.2018

<p>Profit & loss A/c</p> <p>Profit on contract 1,06,625</p> <p>(+) Profit on sale of plant 1,000</p> <hr/> <p style="text-align: right;">1,07,625</p> <p>(-) Loss on sale of materials 500</p> <hr/> <p style="text-align: right;">1,07,125</p>	<p>Materials at site 2,54,000</p> <p>Plant at site 2,40,500</p> <p><u>WIP</u></p> <p>Certified 10,00,000</p> <p>Uncertified 2,62,250</p> <hr/> <p style="text-align: right;">12,62,250</p> <p>(-) Res. 1,06,625</p> <hr/> <p style="text-align: right;">1,155,625</p> <p>(-) Cash 7,50,000</p> <hr/> <p style="text-align: right;">4,05,625</p>	
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Working Notes

* Calculation of cost of work uncompleted -

Contract completed = $\frac{2}{3}$
 work certified = 50% or $\frac{1}{2}$

∴ work uncompleted = $\frac{2}{3} - \frac{1}{2}$
 $= \frac{4-3}{6} = \frac{1}{6}$

Total cost incurred -

⇒ 258100 + 560500 + 79300 + 27000
 + 14000 + 140000 - (25400 + 4000 + 500)

⇒ 10,49,000

Cost of $\frac{2}{3}$ of the contract = 10,49,000

Cost of complete contract = $10,49,000 \times \frac{3}{2}$
 $= 15,73,500$

Cost of work uncompleted

⇒ $15,73,500 \times \frac{1}{6} = \underline{\underline{2,62,250}}$

Ques

Swastik building company engaged in contract work has the following trial balance on 31.12.2018.

	Dr.	Cr.
• Share Capital - Shares of ₹10 each	-	35,180
• Profit and loss A/c as on 1.1.2018	-	2,500
• Provision for depreciation on plants and tools	-	6,300
• Contractor's A/c - Contract no. 902	-	1,28,000
• Creditors	-	8,120
• Land and building (at cost)	7,400	
• Plant and tools (at cost)	5,200	
• Bank balance	4,500	-
• <u>Contract no. 902</u>		
materials issued	60,000	-
direct labour	83,000	-
Expenses	4,000	-
Plant and tools at site (at cost)	16,000	-
	<u>1,80,100</u>	<u>1,80,100</u>

Contract No. 902, having a contract price of ₹240,000 was begun on 1st Jan. 2018 and contractor pays 80% of the work completed and certified. The cost of work which is uncertified is estimated to be ₹1600.

After the above trial balance was extracted on 31st Dec. 2018, plant costing ₹ 3200 was returned to the stores and materials at site on that date were valued at ₹ 3000. Provision is to be made for sub contract costs amounting to ₹ 600 incurred on contract no. 902 and for depreciation of all plants and tools @ 12.5% on cost.

Prepare Contract no. 902 Account showing the computation of profit, if any, for which credit may properly be taken in 2018 and. Prepare the Balance sheet of the construction company on 31. Dec. 2018.

Solⁿ

Contract Account

Materials	60,000	Materials at site	3,000
Direct labour	83,000	WIP	
Expenses	4,000	Certi - 160,000*	
Sub contract costs	600	Uncerti - 1600	1,61,600
Dep ⁿ on plant (16000 x 12.5%)	2,000		
Notional Profit	15,000		
	<u>1,64,600</u>		<u>1,64,600</u>
P & L A/c [15000 x $\frac{2}{3}$ x $\frac{128000}{160000}$]	8,000	Notional Profit b/d	15,000
Reserve	7,000		
	<u>15,000</u>		<u>15,000</u>

* work certified

$$\begin{aligned}
 \text{If } 80\% &= 128,000 \\
 100\% &= \frac{128,000 \times 100}{80} \\
 &= \underline{\underline{1,60,000}}
 \end{aligned}$$

Balance sheet as on 31.12.2018

Liabilities	₹	Assets	₹
Share Capital	35,180	Land & Building	7,400
Creditors	8,120	Plant & Tools 5200	
P&L A/c 2500		(+) Return 3200	8,400
(+) Profit 8000			
during the yrs	10,500	Plant at site	12,800
(-) Provision		[16000 - 3200]	
for dep ⁿ 650		Materials at site	3000
(12.5% on 5200)	9,850		
Provision for dep ⁿ		<u>WIP</u>	
[6300 + 2000 + 650]	8950	certi 160,000	
Reserve		uncerti 1600	
Provision for		161600	
sub contracts	7000	(-) Cash 128000	
		Recd. _____	33,600
	600	Bank Balance	4,500
	69,700		69,700