

# AS 7 Construction Contract

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1) AS 7 is applicable to the Financial Statement of Contractor.

2) Contract Profit/Loss :-

Contract Revenue  
(-) Contract Cost

3) Contract Revenue :- Consist of

Agreed price	—	xxx
(+) price increased due to Escalation	—	xxx
(+/-) Variations due to modification	—	xxx
(+) Incentives on Target Completion	—	xxx
(+) Claims	—	xxx
(-) Penalty	—	(xxx)

Total Revenue

#### 4) Contract Revenue → How to Recognise ?

If Outcome of Contract is probable

(Kaam pura Ho Jayega)



Apply POCM (i.e.)  
on Total Revenue

If Outcome of Contract is not probable (or) it's Uncertain

(Shayad Kaam pura na Ho)



Revenue = Cost incurred till date of which delivery is probable.

#### 5) Percentage of Completion method (POCM)

Cost Basis



Cost incurred till date

$\frac{\text{Cost incurred till date}}{\text{Total Est. Contract Cost}} \times 100$

Technical Survey approach

↓  
(Given in the Question)



Cost incurred till date  $\Rightarrow$  Work Certified  
(+) Work Uncertified



Total Estimated Cost  $\Rightarrow$  Cost incurred till date  
(+) Further Estimated Cost

## 6) Contract Cost Consist of :-

Materials Consumed ——— XXX  
 (OPing + Purchase - Closg)

(+) Labour (Paid + Payable) ——— XXX

(+) Depreciation of PPE Used ——— XXX

(+) Hiring Charges of PPE Used ——— XXX

(+) Sub Contractor Cost ——— XXX

(+) designing & Technical Assist. ——— XXX

(-) Sale of Scrap material ——— XXX

(+) allocated Overheads  
 relating to Contract ——— XXX

(+) pre Contract Cost

Cost of Contract

Abnormal Loss

Gen adm. OH

S&D OH

R&D Cost

⇒ Not a part of Cost

## 7) How to Calculate Contract Profit/Loss :-

a) POCM  $\frac{1}{\%}$   $\frac{2}{\%}$   $\frac{3}{\%}$

b) Total Revenue

c) Revenue Relog.  
 till date

(a x b)

d) Revenue Releg.  
+ till Py

e) Cy Revenue  
(c-d)

f) Cy Cost incurred

g) Contract Profit or  
Loss  
(e-f)

8) How to Solve the Full Question Covering Maximum adjustments of AS 7?

Step 1	<u>Calculate % of Completion of Contract (PCM):</u>  $\frac{\text{Cost Incurred till date (work certified + work uncertified)}}{\text{Total Estimated Cost of Project}} \times 100$												
Step 2	<u>Recognise Contract Revenue &amp; Cost and Calculate Contract Profit/loss:</u>  Contract Revenue = Total Price x PCM (%) = XXX (less) Revenue Recognised till last year  Contract Cost = Work Certified + Uncertified = XXX  Contract Revenue (-) Contract Cost = Contract Profit/loss recognised												
Step 3	<u>Recognise Provision of Foreseeable Loss:</u> (if total contract cost is expected to exceed contract revenue)  <table><tbody><tr><td>Total Contract Revenue</td><td>XXX</td></tr><tr><td>(-) Total Contract Cost of Project</td><td>XXX</td></tr><tr><td><b>Total Loss in a Contract</b></td><td><b>XXX</b></td></tr><tr><td>(-) Loss already recognised</td><td>XXX</td></tr><tr><td>(+) Profit already recognised</td><td>XXX</td></tr><tr><td><b>Provision for Foreseeable Loss</b></td><td><b>XXX</b></td></tr></tbody></table>	Total Contract Revenue	XXX	(-) Total Contract Cost of Project	XXX	<b>Total Loss in a Contract</b>	<b>XXX</b>	(-) Loss already recognised	XXX	(+) Profit already recognised	XXX	<b>Provision for Foreseeable Loss</b>	<b>XXX</b>
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Step 4	<u>Calculation of "Amount due from Customer or due to Customer"</u>  <table><tbody><tr><td>Contract Cost incurred till date</td><td>XXX</td></tr><tr><td>(+) Profit Recognised till date</td><td>XXX</td></tr><tr><td>(-) Loss Recognised Till date</td><td>XXX</td></tr><tr><td>(-) Progress Billings</td><td>(XXX)</td></tr><tr><td><b>Amount Receivable or (Payable) from/to Customer</b></td><td><b>XXX/(XXX)</b></td></tr></tbody></table> Progress Billing = Payment Received + Payment Retained by Client	Contract Cost incurred till date	XXX	(+) Profit Recognised till date	XXX	(-) Loss Recognised Till date	XXX	(-) Progress Billings	(XXX)	<b>Amount Receivable or (Payable) from/to Customer</b>	<b>XXX/(XXX)</b>		
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WC  
+ Work Uncert.

### 9) Single Contract of Multiple Assets

↓  
Treat Every Asset as Separate Contract  
if all Conditions are satisfied

IF Each Asset  
has **Separate  
proposal/Quotation**

Each Asset  
is Subject to  
**Separate  
negotiation.**

**Revenue & Cost  
of Each Asset  
Can be measured  
Separately.**

↓  
Contractor/customer  
has ability to accept  
any one & rejects  
others.

### 10) Multiple Contracts with Customer → Treated as Single Contract

↓  
When any one Condition is Fulfilled

all Assets are  
negotiated under  
**Single Package**  
(No Separate Quotation)

(OR)

All Assets are  
Contracted with  
**Common Objective**

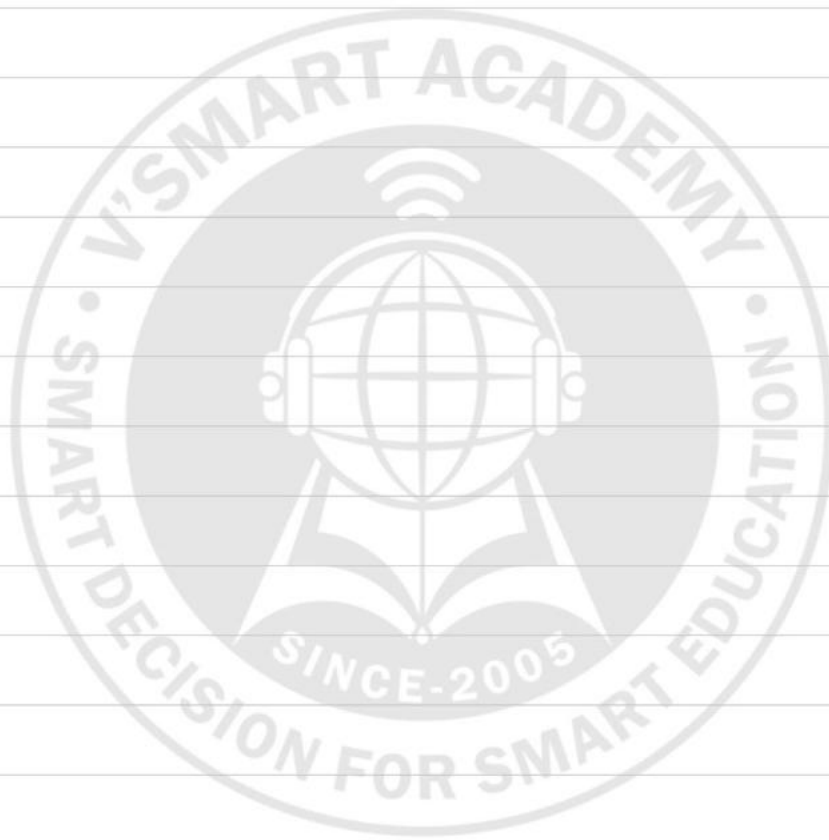
### 11) Additions of Asset to the Existing Contract

↓  
Treat Such Additional Asset as **Separate  
Contract** if :-

(OR)

Such Asset  
is different  
in respect of  
Design, Functions  
or Location,  
Technologia

The price of  
Such Asset  
reflects the  
"Stand alone price"



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