

# AS7 - Construction Contracts

Class Ex:-1

4 years Contract

Total est. Cost  
of project = 80,00,000

Fixed price = ₹ Cr.

Actual Cost Incurred (Cumulative)	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
	18 lacs.	45 lacs.	62 lacs.	80 lacs.

Calculate Contract profit/Loss of each year.

Sol):-

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
Pcm %	$\frac{18}{80} \times 100$	$\frac{45}{80} \times 100$	$\frac{62}{80} \times 100$	$\frac{80}{80} \times 100$
	22.50%	56.25%	77.5%	100%

Contract Revenue      2250000      3375000      2125000      2250000

(-) Contract Cost      (1800000)      (2700000)      (1700000)      (1800000)

Contract	450000	675000	425000	450000
Gain/Loss				

Class Ex:-2

Fixed price = 50,00,000

	<u>1</u>	<u>2</u>	<u>3</u>
Cost incurred in the year	13,20,000	9,50,000	21,40,000

Further est. Cost to be incurred	28,80,000	2,10,000	0
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Client Pctog Charging	—	1,00,000	—
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Calculate Contract Gain/Loss for each year

Sol):- Calculation of Pctm (%)

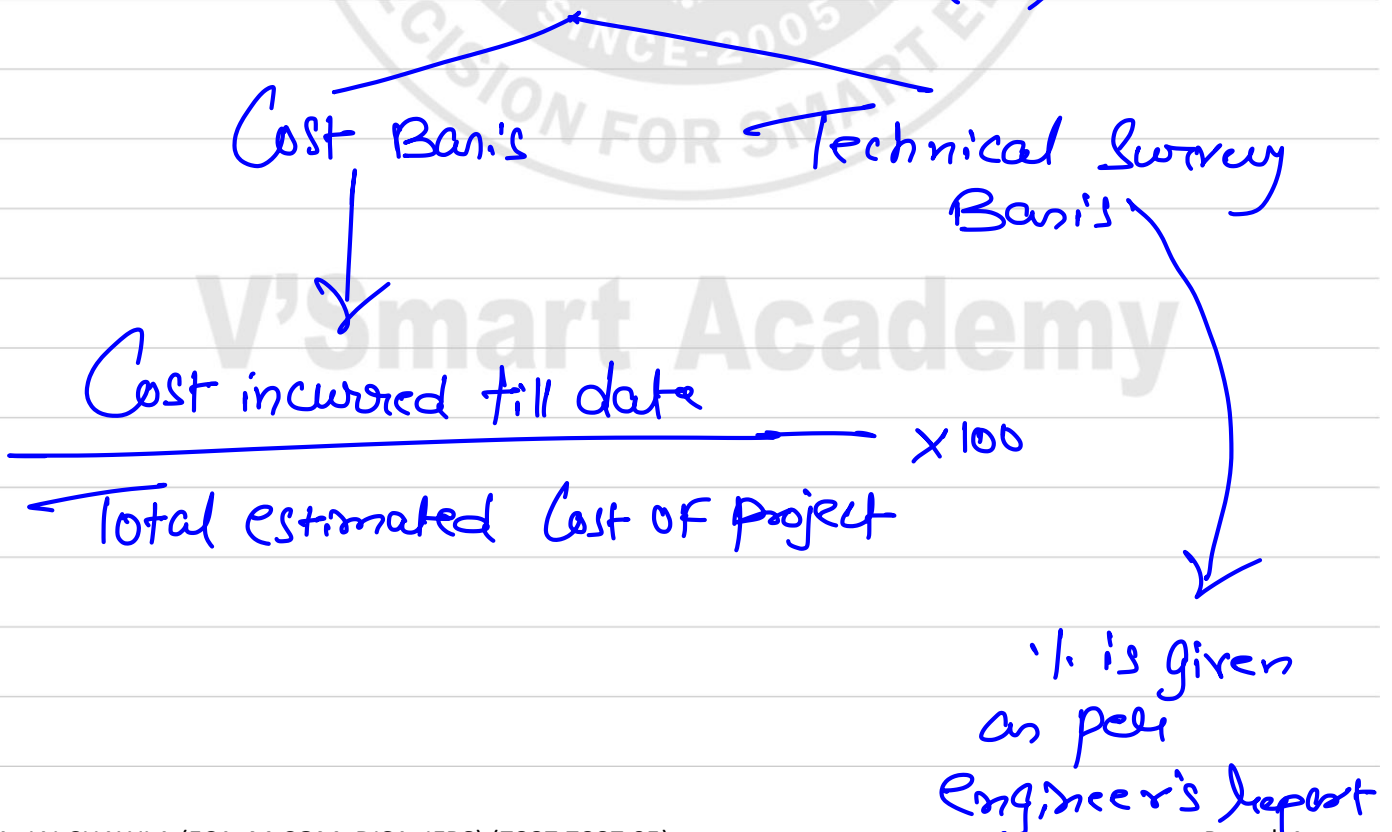
	<u>1</u>	<u>2</u>	<u>3</u>
a) Cost incurred OF the year	1320000	950000	2140000
b) Cost incurred till date	1320000	2270000	44,10,000

c) Further to be incurred	2880000	2100000	0
d) Total estimate Cost of project (b+c)	4200000	4370000	4410000
e) % Cost incured till date Total Project Cost	$\frac{1320000}{4200000} \times 100$ 31.42%	$\frac{2270000}{4370000} \times 100$ 51.94%	100%
a) Fixed price	50,00,000	51,00,000	51,00,000
b) % pcm	31.42%	51.94%	100%
c) Cumulative Revenue	15,71,000	26,48,940	51,00,000
d) Revenue for the year	15,71,000	10,77,940	24,51,060
e) Cost incurred in the year	13,20,000	9,50,000	21,40,000
f) Contr. Gain (d-e)	2,51,000	1,27,940	3,11,060

## Summary points OF AS 7

- 1) AS 7 is applicable For the Books OF Contractor.
- 2) AS 7 shall prescribe — How to record the Contract Revenue & Cost.
- 3) General Rule For Revenue Recognition :-  
Contractor shall record Revenue as per PCM (·%)

### 4) How to Calculate PCM (·%)



5) How to Record Contract Cost ?

Cost should be recorded as per actual cost incurred during the year

$$\text{Cost} = \text{Work Cert.} + \text{Work Uncertified}$$

6) If Incentives are Variable in nature then they must be calculated as Under :-

$$\text{First Slab (i.e.) Incentive} \times \text{Probability (i.e.)} =$$

$$+ \text{Second Slab (i.e.) Incentive} \times \text{probability (i.e.)} =$$

(Refer Ex: 9)  
As Group

$$\underline{\underline{\text{EST. Incentive}}}$$

Further points Continued from pg.no....

V'Smart Academy