L43

STUDENT NOTES

REVENUE RECOGNITION

55% complete
45%
Time
Cost

construction contract
outcome
reliably measure

Whether outcome of the contract can be measured reliably

YES

Recognise revenue and costs in proportion to the work completed. i.e. %age proportionate profits will be recognised.

NO

Revenue (if realisable) will be recognised only to the extent of costs incurred i.e. no profits can be recognised.

When it is probable that estimated total contract costs exceeds the contract revenue, full loss will be recognised in the P&L irrespective of;

1. Whether or not work has commenced on the contract.

2. The stage of completion of contract activity.

3. The amount of profits expected to arise on other contracts which are not treated as a single construction contract.

DETERMINATION OF STAGE OF COMPLETION

1. Proportion of contract costs incurred for work performed upto the reporting date to the total contract costs.

$$= \frac{\text{Contract Costs incurred}}{\text{Total contract costs}}$$

- Exclusions from contract costs incurred:-
  - Contract costs paid for future activities.
  - Payments to subcontractors in advance.

2. Surveys of work performed.
3. Completion of physical proportion of contract work.

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DISCLOSURES

- *Amount of contract revenue recognised in the period*
- *Method used to determine contract revenue*
- *Method used to determine stage of completion of contracts.*

In respect of contracts in progress:

- *The amount of costs incurred and recognised profits upto the reporting date.*
- *Amount of advances received.*
- *Amount of retentions.*

1500000
1300000
200000

Also disclose

- *The amount due from customer for contract work as an asset.*
- *The amount due to customer for contract work as a liability.*

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Revenue = 75 × 57.14% = 42.855
Cost = 40
Profit = 2.855

→ If nothing is mentioned then assume that outcome can be reliably measured.

STUDENT NOTES

$\frac{\text{Cost inc}}{\text{TCC}} = \frac{15+14+6+5}{40+30} = 57.14\%$

QUESTION 8

Compute the percentage of completion and the Contract Revenues and Costs to be recognized from the following data.

- **Contract Price- ₹75 Lakhs** → Revenue
- **Materials issued- ₹18 Lakhs of which materials costing ₹3 Lakhs is still lying unused at the end of the period.** 18-3=15
- **Labour paid for workers engaged at the site- ₹12 Lakhs (₹2 Lakhs is still payable)** 12+2 = 14
- **Specific contract costs- ₹6 Lakhs, Sub-contract costs for work executed- ₹5 Lakhs, Advances paid to subcontractors- ₹3 Lakhs**
- **Cost estimated to be incurred to complete the contract- ₹30 Lakhs**

Answer: *Here, the Proportionate Cost Method will provide a realistic estimate of the stage of completion. This is calculated as under –*

	Particulars	**Computation**	**Amount**
	Materials Cost incurred on the Contract (net of Closing Stock)	*₹ 18 (-) ₹ 3*	*15 Lakhs*
Add:	*Labour Costs incurred on the Contract (paid + payable)*	*₹ 12 + ₹ 2*	*14 Lakhs*
	Specific Contract Costs	*Given*	*6 Lakhs*
	Sub-Contract Costs (advances should not be considered)	*Given*	*5 Lakhs*
	Costs Incurred Till Date		*40 Lakhs*
Add:	*Further Costs to be incurred*	*Given*	*30 Lakhs*
	Total Contract Costs		*70 Lakhs*
	Hence, Percentage of Completion based on Costs = $\frac{\text{Cost incurred till date}}{\text{Estimated Total Costs}}$	*(40/70) x 100%*	*57.14%*
	Contract Revenue to be recognized (as per Para 21)	*57.14% × ₹ 75*	*42.86 Lakhs*
Less:	*Contract Costs to be recognized (as per Para 21)*	*as computed*	*40.00 Lakhs*
	Therefore, Contract Profit		*2.86 Lakhs*

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Work cert / work not cer → contract cost → not related.

payment recd.

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TCC = 1050000 } %

CI = 990000

STUDENT NOTES

QUESTION 11

→ Costs incurred till date

An amount of ₹9,90,000 was incurred on a contract work up to 31st March. Certificates have been received to date to the value of ₹12,00,000 against which ₹10,80,000 has been received in cash. The cost of work done but not certified amounted to ₹22,500. It is estimated that by spending an additional amount of ₹60,000 (including Provision for contingencies) the work can be completed in all respects in another two months. The agreed Contract Price of the work is ₹12,50,000. Compute a conservative estimate of the profit to be taken to the P&L A/C as per AS-7.

% com = 94.28%

Contract Rev = 1250000 × 94.28% = 1178500

Cost = 990000

188500

Answer:

	Particulars	₹
	Total Cost = Cost incurred till Date + Estimated Additional Cost = 9,90,000 + 60,000	10,50,000
	% of completion based on Cost = $\frac{\text{Cost incurred till date}}{\text{Estimated Total Costs}}$ = (9,90,000/10,50,000) X 100	94.29%
	Contract Revenue to be recognized (12,50,000 x 94.29%)	11,78,625
Less:	Contract Cost incurred till date	9,90,000
	Contract Profit	1,88,625

QUESTION 12

A Company undertakes a number of Contracts. The following particulars are extracted in respect of certain loss-making contracts. Determine the amount of Expected Loss that should be recognized in the accounts for the year, (in ₹ Lakhs)

→ HW → HW

Contract	A	B	C	D
Contract Price	15.00	12.50	87.50	10.00
Cost Incurred till date	12.00	10.90	2.50	6.00
Costs expected to be incurred to complete the Contract	4.00	3.60	88.00	4.00

TR = 15

TC = 16

TL = 1

A = SOC = $\frac{12}{16}$ = 75%

CC 12 | CR 11.25

Loss T.D. 0.75 } A.P. for loss = 0.25

TL 1

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