

CONSTRUCTION CONTRACT

AS
07

The below information relates to Questions 1 – 3:

XY Ltd. agrees to construct a building on behalf of its client GH Ltd. on 1st April 2022. The expected completion time is 3 years. XY Ltd. incurred a cost of ₹ 30 lakh up to 31st March 2023. It is expected that additional costs of ₹ 90 lakh. Total contract value is ₹ 112 lakh. As at 31st March 2023, XY Ltd. has billed GH Ltd. for ₹ 42 lakh as per the agreement. Assume that the work is completed to the extent of 75% by the end of Year 2.

1. Revenue to be recognized by XY Ltd. for the year ended 31st March 2023 is
 - a. ₹ 28 lakh
 - b. ₹ 42 lakh
 - c. ₹ 30 lakh
 - d. ₹ 32 lakh

2. Total expense to be recognised in Year 1 is
 - a. ₹ 30 lakh
 - b. ₹ 120 lakh
 - c. ₹ 38 lakh
 - d. ₹ 36 lakh

3. Revenue to be recognised for year 2 is
 - a. ₹ 84 lakh
 - b. ₹ 42 lakh
 - c. ₹ 56 lakh
 - d. ₹ 28 lakh

4. LP Contractors undertakes a fixed price contract of ₹ 200 lakh. Transactions related to the contract include:
Material purchased: ₹ 80 lakh Unused material: ₹ 30 lakh
Labour charges: ₹ 60 lakh
Machine used for 3 years for the contract. Original cost of the machine is ₹ 100 lakh. Expected useful life is 15 years. Estimated future costs to be incurred to complete the contract: ₹ 80 lakh. Loss on contract to be recognised is:
 - a. ₹ 40 lakh
 - b. ₹ 10 lakh
 - c. ₹ 90 lakh
 - d. ₹ 50 lakh

5. Which of the following does not form a part of contract costs as defined in AS 7?
 - a. Estimated warranty costs under the construction contract.
 - b. Comprehensive insurance policy premium for all open construction contracts.
 - c. General administration costs for which reimbursement is not specified in the contract.
 - d. Research and development costs incurred at the instance of the contractee and billed to his account.

6. When fixed-price construction contracts require more than one accounting period for completion & contract costs can be reasonably estimated, revenue should be recognized
 - a. At the completion of contract
 - b. When title to the project is transferred to the buyer
 - c. When cash is received from the buyer
 - d. As per percentage of completion.
7. According to AS 7, "Construction Contracts," which of the following criteria must be met for a contract to be considered a construction contract?
 - a. Involvement of physical construction only
 - b. The contract should involve the construction of an asset
 - c. The contract should be completed within a fiscal year
 - d. The contract should be of significant value
8. How are fixed-price contracts recognized under AS 7?
 - a. Using the percentage of completion method
 - b. Using the completed contract method
 - c. Using the installment method
 - d. Using the cost recovery method
9. According to AS 7, which method is preferred for recognizing revenue and costs of long-term contracts?
 - a. Percentage of completion method
 - b. Completed contract method
 - c. Installment method
 - d. Cost recovery method
10. Under AS 7, when should an entity recognize contract revenue and expenses for a construction contract using the percentage of completion method?
 - a. When the contract is completed
 - b. When the contract is initiated
 - c. Over the contract period based on the stage of completion
 - d. When the costs are incurred
11. XYZ Ltd. has a construction contract where the outcome cannot be reliably measured. How should revenue be recognized for this contract according to AS 7?
 - a. Recognize revenue only to the extent of contract costs incurred of which recovery is probable.
 - b. Recognize revenue at the beginning of the contract
 - c. Recognize revenue only upon completion of the contract
 - d. Do not recognize revenue until the outcome is reliably measurable
12. What does AS 7 require regarding the disclosure of information about construction contracts in financial statements?
 - a. Disclose only the total revenue and expenses from the contracts
 - b. Disclose details of contracts and the basis of revenue recognition
 - c. Disclose information only if the contract value exceeds a certain threshold
 - d. Do not disclose information about construction contracts

13. In a construction contract, when should an expected loss be recognized according to AS 7?
- As soon as the loss becomes probable
 - Only upon completion of the contract
 - At the beginning of the contract
 - When the contract value exceeds a certain threshold
14. According to AS 7, which costs should be included when determining the costs attributable to a contract?
- General and administrative costs
 - Costs that are directly related to the specific contract
 - Costs incurred before the contract date
 - Costs incurred after the completion of the contract

Answers:

- (a)
- (d)
- (c)
- (b)
- (c)
- (d)
- (b)
- (a)
- (a)
- (c)
- (a)
- (b)
- (a)
- (b)