

ANSWERS TO IAS 11

A-4

a)

Merry view- Income statement (Extract) year to March 31, 2001

	Rs. (000)
Sales revenue	14,000
Cost of sales (w (i))	<u>(9,100)</u>
Profit on contract	<u><u>4,900</u></u>

Balance sheet extract as at March 31, 2001

Non- current assets	
Plant and machinery (3,600-900) (w (ii))	2,700
Current assets	
Amount due from customer (w(iii))	1,500

ii) Income statement extract March 31, 2002

Sales revenue (40,000x75%-14,000 (w(ii))	16,000
Cost of sales (22,500-9,100) (w (iii))	<u>(13,400)</u>
Profit on contract	<u><u>2,600</u></u>

Balance sheet extract March 31, 2002

Plant and machinery (3,600-900-1,200)(w(iii))	1,500
Amount due from customers (w (iii))	1,000

Workings

i) Contract cost as at March 31, 2002

Architect's and supervisor fee	500
Materials used (3,100-300)	2,800
Direct labore	3,500
Over heads (3,500x40%)	1,400
Plant and machinery depreciation	900
Cost at March 31, 2001	<u><u>9,100</u></u>

Estimated cost to complete

Excluding depreciation	14,800
Plant depreciation (3,600-600-900)	<u>2,100</u>
	<u><u>16,900</u></u>

Total estimated cost to complete

Percentage of completion (9,100/26,000)	35%
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Contract costs as at March 31, 2002

Summarized costs excluding depreciation	20,400
Plant depreciation (21 months @ 100)	<u>2,100</u>
	<u><u>22,500</u></u>

Cost to date

Estimated cost to complete	
Excluding depreciation	6,600
Plant depreciation	<u>900</u>
	<u><u>7,500</u></u>

Estimated total costs on completion

Percentage of completion (22,500/30,000)*100	<u><u>75%</u></u>
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ii)

The plant has a depreciable amount of Rs.3,000 (3,600 – 600 residual value) Its estimated life on this contract is 30 months (1 July 2000 to 31 December 2002) Depreciation would be Rs.100 per month i.e. Rs.900 for the period to 31 March 2001; Rs.1,200 for the period to 31 March 2002; and a further Rs.900 to completion.

iii)

Amount due from customers	2001	2002
Contract cost to date	9,400	22,500
Profit to date	4,900	7,500
Contract work in progress	14,300	30,000
Cash received to date	<u>(12,800)</u>	<u>(29,000)</u>
Due from customers	<u>1,500</u>	<u>1,000</u>

A-5

Income statement March 31, 2004	Rs. (m)
Sales revenue	70
Cost of sales (w (i))	<u>(81)</u>
Loss for the year	<u>(11)</u>
Balance sheet March 31, 2004	
Cost to date	195
Profit to date	<u>44</u>
	239
Progress billings to date	<u>(180)</u>
Due from customers	<u>59</u>

Workings

	Cumulative 1 April 2003	Cumulative 31, March 2004	Amounts for the year
Sales	150	220	70
Cost of sales	(112)	(176)	(64)
Rectification costs	Nil	(17)	(17)
	<u>38</u>	<u>27</u>	<u>(11)</u>

- i) Progress payments received are Rs.180 million. This is 90% of the work certified (at 29 February 2004), therefore the work certified at that date was Rs.200 million. The value of the further work completed in March 2004 is given as Rs.20 million, giving a total value of contract sales at 31 March 2004 of Rs.220 million.

- ii) the total estimated profit (excluding rectification costs) is Rs.60 million:

	Rs. million
Contract price	300
Cost to date	(195)
Estimated cost to complete	(45)
Estimated total profit	60

The degree of completion (by the method given in the question) is 220/300
Therefore the profit to date (before rectification costs) is Rs.44 million (Rs.60 million × 220/300). Rectification costs must be charged to the period they were incurred and not spread over the remainder of the contract life. Therefore after rectification costs of Rs.17 million the total reported contract profit to 31 March 2004 would be Rs.27 million. With contract revenue of Rs.220 million and profit to date of Rs.44 million, this means contract costs (excluding rectification costs) would be Rs.176 million. The difference

between this figure and total cost incurred of Rs.195 million is part of the Rs.59 million of the amounts due from customers shown in the balance sheet.

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Silver Construction Limited
Extracts from Income Statement
For the year ended June 30, 2008

	Rs. in million
Contract revenue recognized	2,318.18
Contract costs recognized	(2,108.00)

Silver Construction Limited
Extracts from Balance Sheet
As of June 30, 2008

	Rs. in million
ASSETS	
Due from customers	106.75
LIABILITIES	
Due to customers	21.76

Working schedule

		I	II	III	IV	V	VI	Total
		Rupees in Million						
Contract price		300	375	280	400	270	1,200	2,825.00
Incentive payments		-	-	-	40	-	-	40.00
Total contract price	(A)	300	375	280	440	270	1,200	2,865.00
Contract cost incurred to date	(B)	248	68	186	246	185	1,175	2,108.00
Estimated further costs		67	221	-	164	15	-	467.00
Total estimated costs to	(C)	315	289	186	410	200	1,175	2,575.00
Completion % B / C x	(D)	78.73%	23.53%	100%	60%	92.50%	100%	
Revenue to be recognized A	(E)	236.19	88.24	280.00	264.00	249.75	1,200	2,318.18
Expected losses from	(A-	(15.00)	-	-	-	-	-	(15.00)
		*233.00	88.24	280.00	264.00	249.75	1,200	
Amount recoverable from	(E)							
Progress billings		200.00	110.00	280.00	235.00	205.00	1,200	
Due from customers		33.00	-	-	29.00	44.75	-	106.75
Due to customers		-	(21.76)	-	-	-	-	(21.76)

* Cost to be recognized – expected losses = 248 – 15 = 233

(b) **Comments on additional information**

- (i) Incentive payments are included in contract revenue when:
- The contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and
 - The amount of the incentive payment can be measured reliably.
- Since the Contract IV is in advance stage and the probability to achieve the target is very high, the company should recognize the incentive payment to be received, on this contract.

- (ii) Claims are recorded in contract revenue only when:
- Negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and
 - The amount that it is probable will be accepted by the customer can be measured reliably.

Since the claim amount cannot be measured reliably, the claim should not be recognized as contract revenue.

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Extracts from Statement of Comprehensive Income for the year ended June 30, 2010

	Rs. in million
Contract revenue recognized (800 x 55%) + (400 x 25%)	<u>540.00</u>
Contract costs recognized (412.48+116.4)	W-2 <u>528.88</u>

Statement of Financial Position as of June 30, 2010

Assets

Construction contracts in progress	(8.12+42.3) Note-1	50.42
Account receivables (Net unpaid bills)	(140*0.85)	119.0
		0
Retentions held by the customers	(640+80)*5%	36.00
Liabilities		
Advances received from the customers {(800+400)-(640+80)}*10%		48.00

Notes to the accounts for the year ended June 30, 2010

Note 1: Construction contracts in progress

	A	B
	Rs. in million	
Contract costs incurred up to June 30, 2010 (126.40 + 12.30) (c)	600.60	138.70
Recognized profit/(loss) (59.40 x80%)/(16.40 X 100%)	<u>47.52</u>	<u>(16.40)</u>
	648.12	122.30
Progress billings up to June 30, 2010	<u>640.00</u>	<u>80.00</u>
	8.12	42.30

W-1 - Expected profit / (loss) on completion of the contracts:

	A	B	
	As of June 30, 2010	For the year 2009	For the year 2010
Contract price	800.00	800.00	400.0 0
(a)			
Work completion % up to June 30, 2010	80%	25%	55%
(b)			
contract costs incurred	600.00	180.00	420.00
Technical assistance fee incurred but not allocated to the contracts	0.60		0.60
	<u>600.60</u>	<u>180.00</u>	<u>420.60</u>
(c)			
Estimated costs to complete	100.00	500.00	100.00
Estimated warranty works (5% of the contract price)	40.00	40.00	40.00
	<u>740.60</u>	<u>720.00</u>	<u>560.60</u>
Total estimated costs to complete the contracts			
(d)			
Estimated profit / (losse) on completion of the contracts.	59.40		(16.40)
(a)-(d)			

W-2 : Contract costs to be recognized for the year ended June 30, 2010

Costs to be recognized up to June 30, 2010	W-1 (d)*(b)	592.48	104.10
Less: Costs recognized up to June 30, 2009 $\{(180+500)+(800*0.05)\}*0.25$		180.00	-
Costs for the year ended June 30, 2010		412.48	104.10
Add: Loss to be recognized $\{(400*0.25)+16.4\}-104.1$			12.30
Contract costs to be recognized for 2010		412.48	116.40

A-10

Extract of statement of financial position

	Rs. (m)	Rs. (m)
Assets		
Cost to date		1,470
Profit to date		235
Work in progress		1,705
Progress billings to date		(500)
Due from customers		1,205
Retention money $(500*.10)$		50
Liabilities		
Mobilization advance $(5,000*10\%) = (500-100)$		400
Running finance		1,000

Extract of statement of comprehensive income

	Rs. (m)	Rs. (m)
Revenue		1,200
Expenses		<u>(965)</u>
Profit for the year $(980*24)$		<u><u>235</u></u>

Workings

	Rs. (000)	
W-1		
Stage of completion		
Work certified to date	1,200	
Total revenue	5,000	$1,200/5,000*100$
		24%
Cost to date $(120+1,350)$	1,470	
Future cost	<u>2,550</u>	
Total cost	<u>4,020</u>	
Expected profit $(5,000-3,900)$	<u>980</u>	