

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>4,900</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>2,600</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 | <u>900</u> |
| Cost at March 31, 2001 | <u>9,100</u> |

Estimated cost to complete

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

Total estimated cost to complete

| | |
|---|-----|
| Percentage of completion (9,100/26,000) | 35% |
|---|-----|

Contract costs as at March 31, 2002

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

Cost to date

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

Estimated total costs on completion

| | |
|--|-----|
| Percentage of completion (22,500/30,000)*100 | 75% |
|--|-----|

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 | (12,800) | (29,000) |
| 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.

A-7

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

| | Rs. in million |
|-----------------------------|-----------------------|
| Contract revenue recognized | <u>2,318.18</u> |
| Contract costs recognized | <u>(2,108.00)</u> |

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

| | Rs. in million |
|--------------------|-----------------------|
| ASSETS | |
| Due from customers | <u>106.75</u> |
| LIABILITIES | |
| Due to customers | <u>21.76</u> |

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) |
| | | | | | | | | |
| Amount recoverable from | (E) | *233.00 | 88.24 | 280.00 | 264.00 | 249.75 | 1,200 | |
| 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.

A-8

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%) | 540.00 |
| Contract costs recognized (412.48+116.4) | W-2 528.88 |

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%) | 47.52 | (16.40) |
| | 648.12 | 122.30 |
| Progress billings up to June 30, 2010 | 640.00 | 80.00 |
| | 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 | For the year 2010 |
| Contract price | 800.00 | 800.00 | 800.00 | 400.0 0 |
| (a) | | | | |
| Work completion % up to June 30, 2010 | 80% | 25% | 55% | 25% |
| (b) | | | | |
| contract costs incurred | 600.00 | 180.00 | 420.00 | 125.0 0 |
| Technical assistance fee incurred but not allocated to the contracts | 0.60 | | 0.60 | 1.40 |
| | 600.60 | 180.00 | 420.60 | 126.4 0 |
| (c) | | | | |
| Estimated costs to complete | 100.00 | 500.00 | 100.00 | 270.0 0 |
| Estimated warranty works (5% of the contract price) | 40.00 | 40.00 | 40.00 | 20.00 |
| Total estimated costs to complete the contracts | 740.60 | 720.00 | 560.60 | 416.4 0 |
| (d) | | | | |
| Estimated profit / (losse) on completion of the contracts. (a)-(d) | 59.40 | | | (16.40) |

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 $(5,000 \times 10\%) = (500-100)$ | | 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 $(980 \times .24)$ | | <u><u>235</u></u> |

Workings

| | | |
|---------------------------------|------------------|--------------------------|
| W-1 | Rs. (000) | |
| Stage of completion | | |
| Work certified to date | 1,200 | |
| Total revenue | 5,000 | $1,200/5,000 \times 100$ |
| | 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> | |