



DEPARTMENT OF COMMERCE

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CONTRACT COSTING

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CONTRACT COSTING

- **Contract Costing defined:**

' Method where each contract is treated as cost unit and Profit & Loss is ascertained separately, '

Employed by undertakings engaged in building, road & bridge construction, ship building

Features of Contract Costing:

- ' Large in size and takes more than one year for completion
- ' Involves two parties viz, Contractor and Contractee
- Contract executed for a price termed as Contract Price
- ' Each contract is a cost unit; expenses get separately recorded and profit too is separately ascertained
- Expenses are chargeable directly to contract account
- ' Specialist sub-contracts may be employed

- Plant may be purchased or hired especially for the contract
- ' Employed by undertakings engaged in building, road & bridge construction, ship building, etc, '
- Work carried out at site and not in factory premises
- Payments made based on stages of completion and depends on Architects Certificate
- ' May contain Escalation Clause and Penalty

Concepts relating to Contract Accounts:

- **Contractor:** Person who undertakes the task of doing the job
- **Contractee:** Person on whose behalf the task is being done
- **Contract Price:** Value for which the contract is undertaken
- **Work certified:** Part of the total contract price which has been completed and approved by the architect

Concepts relating

- **Uncertified Work:** Part of the task done but not approved by the architect of the Contractee
- **Cash Paid:** Part of the work certified that is paid by the Contractee
- **Retention Money:** Part of the work certified that is held back by the Contractee

- **Profit on Incomplete Contracts:**

(a) When work certified is less than 25%
complete No profit or Loss be accounted for (

b) When work certified is 25 % or more but less than 50%

Notional Profit X 1/3 X Cash received
/WorkCertified

THANKS YOU