Q1

Question No. 1(a)
AS-7
Construction Contracts

(Amount in ₹)

① Computation of Percentage of Completion

Costs of Construction

Materials costs incurred (net of closing stock) (21,00,000 − 4,00,000)	17,00,000
Labour Expenses (including O/s amounts)	16,00,000
Specific Contract Costs	5,00,000
Sub Contract Costs for work executed (advances not considered)	7,00,000
Costs incurred till date	45,00,000
Add: Estd further costs	35,00,000
Estd Total Costs	80,00,000

$$\text{Percentage of Completion} = \frac{\text{Costs incurred till date}}{\text{Estd Total Costs}} \times 100$$

$$= \frac{45,00,000}{80,00,000} \times 100$$

$$= 56.25\%$$

② Computation of contract revenue to be recognised

$$= (85,00,000 \times 56.25\%)$$

$$= 47,81,250$$

③ Contract costs to be recognised = 45,00,000

Q2

Question No. 2 (a)
AS-7
Construction Contracts

① As per AS-7, when a contract covers a no. of assets then each asset should be treated as a separate construction contract if all the following conditions are satisfied →

(a) Separate proposals have been submitted for each asset

(b) Each asset has been subjected to a separate negotiation, and contractor & customer have been able to accept or reject that part of contract relating to each asset

(c) Costs & revenues of each asset can be identified separately.

② In the given case, AP Ltd. has undertaken the construction of 3 units of commercial complex for Kay Ltd.

③ AP Ltd. has submitted separate proposals for each unit. The revenue & completion time of each unit can be identified separately hence implying that separate negotiations have taken place for each unit.

Hence AP Ltd. should treat the construction of each unit of commercial complex as a separate construction contract

CA SONAL KALRA

Q3

Question No 3(c)
AS-7
Construction Contracts

① As per AS-7, when it is probable that total contract costs will exceed the total contract revenue, the expected loss should be recognised as an expense immediately irrespective of -

(a) whether or not work has commenced,
(b) stage of completion of contract or
(c) Profits expected from other contracts which are treated as separate contracts

② In the given case, B Ltd. undertook a construction contract for ₹50 crore & the estimated total cost of completion would be ₹53 crore

③ The foreseeable loss of ₹3 crore (₹53 crore - ₹50 crore) should be recognised as an expense immediately in the financial statements of B Ltd. for the year ended 31st March, 2021

CA SONAL KALRA