

## EXAMPLE 2

Project B commenced during 2002 , the following balances relate to the first 2 year's of the contract :

|                               | 2003<br>£'000 | 2002<br>£'000 |
|-------------------------------|---------------|---------------|
| Total contract price          | 820           | 820           |
| Costs incurred to date        | 500           | 264           |
| Estimated costs to completion | 120           | 350           |
| Payments on account           | 510           | 240           |
| Value of work certified       | 640           | 348           |

Show how the contract would be recorded in the financial statements for each year .  
The company calculates attributable profit by reference to the proportion of value of work certified to the total contract price

## PROFIT AND LOSS ACCOUNT (EXTRACT)

(2)

|               | 2003<br>£'000 | 2002<br>£'000 |
|---------------|---------------|---------------|
| Turnover      | 292           | 348           |
| Cost of Sales | (223)         | (261)         |
| Gross Profit  | <u>69</u>     | <u>87</u>     |

## BALANCE SHEET (EXTRACT)

|                                             | 2003<br>£'000 | 2002<br>£'000 |
|---------------------------------------------|---------------|---------------|
| Debtors: Amounts receivable<br>on contracts | <u>130</u>    | <u>108</u>    |
| Stock: Long Term Contract<br>Balances       | <u>16</u>     | <u>3</u>      |

(W3) Debtors

|                         | 2003<br>£'000 | 2002<br>£'000 |
|-------------------------|---------------|---------------|
| Value of work certified | 640           | 348           |
| less: POA               | (510)         | (240)         |
| Debtors                 | <u>130</u>    | <u>108</u>    |

(W4) Stocks

|                              | 2003<br>£'000 | 2002<br>£'000 |
|------------------------------|---------------|---------------|
| Costs to date                | 500           | 264           |
| less: transferred to p+l acc | (484)         | (261)         |
| stocks                       | <u>16</u>     | <u>3</u>      |

(iv) P+C A/C (2002)

|                        |            |
|------------------------|------------|
| Total contract price   | ₹ 870      |
| Costs to date          | (264)      |
| Costs to complete      | (350)      |
| Total Estimated Profit | <u>206</u> |

$$\% \text{ completion} = \frac{348}{870} \times 100\% = 40\%$$

$$\text{Attributable profit} = \frac{1000}{87}$$

Turnover 348

CO S (261)

Gross Profit 87

(142) P+L A/C (2003)

Total contract price £1000  
870

Costs to date (500)

Costs to complete (170)

Total estimated profit 200

$$\% \text{ completion} = \frac{640}{870} \times 100\% = 78.0\%$$

$$\text{Total attributable profit to date} = 78.0\% \times 200$$

$$= \begin{array}{r} \text{£1000} \\ 156 \end{array}$$

Less: earned in 2002 (87)

Earned in 2003 69

Turnover (640 - 348) £1000  
292

COS (223)

Gross Profit 69