

EXAMPLE 1

Project A commenced during 2003 , the following balances relate to the first year of the contract :

	2003 £'000
Total contract price	1000
Costs incurred to date	320
Estimated costs to completion	480
Payments on account	360
Value of work certified	390

Show how the contract would be recorded in the financial statements for the year .
The company calculates attributable profit by reference to the proportion of the cost incurred to date to the total estimated contract costs

(1)

Profit And Loss Account (Extract)

	2003 £'000
Turnover	390
Cost of Sales	(310)
Gross Profit	<u>80</u>

BALANCE SHEET (Extract)

	2003 £'000
Debtors: Amounts recoverable on contracts	<u>30</u>
Stocks: Long Term Contract Balances	<u>10</u>

(W3)

Value of work certified

£1000
390

less: POA

(360)

Debitors: Anna

30

(W4)

Costs to Date

320

less: transferred to COS

(300)

STOCKS

20

(w1)	Contract Price	4'000
		1'000
	less: costs to date	(320)
	costs to complete	(480)
	Estimated Profit	<u><u>200</u></u>

$$(w2) \quad \% \text{ completion} = \frac{320}{320 + 480} = 40\%$$

$$\therefore \text{Attributable Profit} = 40\% \times 200$$

$$= \underline{\underline{80}}$$