

**Answer to Question no.1:**

### Sub-Contracting

- 1) **Meaning :-** Sometimes, the contractor finds it difficult to execute the entire work by his own efforts and he may be interested in delegating some portion of the contract to another person. In such a case, the work which is so delegated is known as “sub-contract” and the person to whom such work is delegated is known as sub-contractor.
- 2) **Necessity:-** The procedure of “sub-contracting” becomes advisable in case of complex projects where many specialized activities are involved and it is necessary to delegate some portion of the work to those organizations who are experts in their respective fields.
- 3) **Accountability:-** Sub-contractor is accountable to main contractor and not the contractee. If any deficiency is observed in the sub-contract, the sub-contractor has to give the explanation to the main contractor and not the contractee.
- 4) **Advantages of sub-contracting:-**
  - (a) It leads to quick completion of the contract.
  - (b) Quality may be improved on account of expertise level of sub-contractor in their respective field
  - (c) Cost may be saved as the main contractor may find it more expensive to execute the entire work through own efforts.
- 5) **Disadvantages:-** There is one limitation, i.e., the control gets diluted. This is so because the contractor is dependent upon sub-contractor for effective completion of contract.

**Answer to Question no.2:**

Particulars	Amount (₹)
Contract Price	25,00,000
Work Certified	24,00,000
Cash Received	21,60,000
Cost of Contract to date	19,80,000
<b>Total Estimated Cost</b>	
Cost of Contract to date	19,80,000
<b>Add: Estimated Additional Cost</b>	1,20,000
	<b>21,00,000</b>
<b>Estimated Profit</b>	
Contract Price	25,00,000
<b>Less: Estimated Additional cost</b>	(21,00,000)
	<b>₹ 4,00,000</b>

**Computation of amount of profit to be taken to Profit and Loss A/c under different methods**

<b>Method 1</b>	$\text{Estimated Profit} \times \frac{\text{Work Certified}}{\text{Contract Price}} = ₹ 4,00,000 \times \frac{₹ 24,00,000}{₹ 25,00,000} = ₹ 3,84,000$
<b>Method 2</b>	$\text{Estimated Profit} \times \frac{\text{Work Certified}}{\text{Contract Price}} \times \frac{\text{Cash Received}}{\text{Work Certified}}$ $= ₹ 4,00,000 \times \frac{₹ 24,00,000}{₹ 25,00,000} \times \frac{₹ 21,60,000}{₹ 24,00,000} = ₹ 3,45,600$
<b>Method 3</b>	$\text{Estimated Profit} \times \frac{\text{Cost of Contract to date}}{\text{Total Estimated Cost}} = ₹ 4,00,000 \times \frac{₹ 19,80,000}{₹ 21,00,000} = ₹ 3,77,143$

<b>Method 4</b>	$\text{Estimated Profit} \times \frac{\text{Cost of Contract to date}}{\text{Total Estimated Cost}} \times \frac{\text{Cash Received}}{\text{Work Certified}}$ $= ₹ 4,00,000 \times \frac{₹ 19,80,000}{₹ 21,00,000} \times \frac{₹ 21,60,000}{₹ 24,00,000} = ₹ 3,39,429$
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**Recommendation:** - On conservative basis, it is recommended to transfer the least amount (i.e. ₹ 3,39,429) to Profit and Loss A/c.

**Answer to Question no.3:**

**Contract Account**

Particulars (Year 1)	Amount (₹)	Particulars (Year 1)	Amount (₹)
To Materials	5,25,000	<u>By WIP</u>	
To Wages	3,00,000	Work Certified $\left( \frac{11,25,000 \times 100}{90} \right)$	12,50,000
To Overheads	75,000	Work uncertified	NIL
To Notional profit c/d	3,50,000		
	<b>12,50,000</b>		<b>12,50,000</b>
To Profit and Loss A/c	1,05,000	By Notional Profit b/d	3,50,000
$\left[ \frac{1}{3} \times 3,50,000 \times \frac{11,25,000}{12,50,000} \right]$			
To Reserve (WIP)	2,45,000		
	<b>3,50,000</b>		<b>3,50,000</b>
<b>Particulars (Year 2)</b>	<b>Amount (₹)</b>	<b>Particulars (Year 2)</b>	<b>Amount (₹)</b>
<b>To WIP b/d</b>		By Reserve (WIP)	2,45,000
Work certified	12,50,000	By Contractee's A/c	30,00,000
Work uncertified	NIL		
To Materials	7,50,000		
To Wages	6,00,000		
To Overheads	1,50,000		
To Profit and Loss A/c	4,95,000		
	<b>32,45,000</b>		<b>32,45,000</b>

**Contractee's Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
<b>Year 1 : To Balance c/d</b>	11,25,000	<b>Year 1 : By Bank Account</b>	11,25,000
<b>Year 2: To Contract Account</b>	30,00,000	<b>Year 2 : By Balance b/d</b>	11,25,000
		By Bank Account	18,75,000
	<b>30,00,000</b>		<b>30,00,000</b>

**Answer to Question no.4:**

**Contract A/c from 1-4-2008 to 31-3-2009**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Materials issued	3,00,000	By Plant returned (50,000-12,500)	37,500
To Labour	2,00,000	By Plant at site c/d (1,00,000-25,000)	75,000
(+) outstanding	20,000	By Materials at site c/d	20,000
To Plant Purchased	1,50,000	By Cost of contract to date c/d	5,97,500
To Expenses	75,000		
(-) Prepaid	15,000		
	<b>7,30,000</b>		<b>7,30,000</b>
To Cost of Contract to date b/d	5,97,500	By WIP	
To Notional Profit c/d	2,27,500	- Work certified	8,00,000
		- Work Uncertified	25,000
	<b>8,25,000</b>		<b>8,25,000</b>
To P & L A/c	63,321	By Notional Profit b/d	2,27,500
To WIP (Reserve)	1,61,179		
	<b>2,27,500</b>		<b>2,27,500</b>

**Amount transferred to Profit and Loss A/c: -**

$$\text{Estimated Profit} \times \frac{\text{Work Certified}}{\text{Contract Price}} \times \frac{\text{Cash Received}}{\text{Work Certified}} = 1,93,437 \times \frac{8,00,000}{17,50,000} \times \frac{6,00,000}{8,00,000}$$

**Estimated Profit** = Contract Price – Total estimated cost = 17,50,000 – 15,56,563 = ₹ 1,93,437

Total Estimated Cost	Amount (₹)
Cost of contract to date	5,97,500
<b>(+) Estimated additional Cost</b>	
Materials (20,000 + 5,50,000 - 50,000)	5,20,000
Labour [(2,50,000–20,000) + 30,000]	2,60,000
Expenses (1,50,000 + 15,000)	1,65,000
Depreciation $\left[ 75,000 \times \frac{25}{100} \times \frac{9}{12} \right]$	14,063
	<b>15,56,563</b>