A STUDY OF TERMINAL COSTING

Dr. Pandurang Korde
Principal, Jog College, Pune, India
Email: pbarke@gmail.com

ABSTRACT

The Contract Costing being the costing method applied to determine the cost of construction work performed as per a customer's specification. Also called TKMINAI, COSTING, it terminates with the discharge of contract work. It is related to the tracking of costs associated with a particular contract with a customer i.e. when the company bids on a project with a prospective customer, the parties need to be in agreement for a certain type of reimbursement to the company for the service provided.

Keywords: Terminal Costing; Contract-Costing

INTRODUCTION

Company

Media Analytics & Designs P Ltd. is a company which deals in defecting and improvising on situations, scenarios for modernization of places and cities (smart-cities). Unlike Social Media Analytics, they not only gather information from various blogs and web sources but also re-evaluate to offer services for the beautification / betterment of the bites.

They utilize Green Material and products as far as possible and also use LED for lighting and alternate power sources like Solar & Wind wherever feasible.

RATIONALE OF THE STUDY

The case-study is a brief-insight in the steps, rules and procedures involved in procuring contracts. The number of personages involved in the handling of contracts along-with the liabilities and assets pushed forth for die completion of the Contract.

RESEARCH METHODOLOGY

Research comprises of "creative work undertaken on a systematic basis in order to increase the stock of know/edge, including knowledge of humans, culture and society, and the use of tins stock of knowledge to devise new applications."

It is used to establish or confirm facts, reaffirm the results of previous work, solve new or existing problems, support theorems, or develop new theories.

The data collected for the purpose of this project was to observe the changes in the current and previous years' resemblances, differences and additions made in Contract Costing according to the Companies Act, 1956 and the Companies Act, 2013. Though mostly based on secondary data, and partly on first-hand information, collected from various sources available at hand or us permitted, the research is a compilation of facts and figures of the notations used by firms.

OBJECTIVES OF THE STUDY

1. To know the meaning and scope of Contract Costing.
2. To understand the internal working and be able to interpret the precise.
3. To project the statistics in the formation of a contract.

4. To find relationship between the Contractor and the Contractee in case of Expenditures and Income.

5. To find Limitations / Obstacles fared in the rendering of the contract.

LIMITATIONS OF THE STUDY

- Restriction of Place and Time for conducting the study.
- Selection of Unit needed for research.
- Restricted access to first-hand information required for the project.
- Vague understanding of the specifications of the project leading to more reliance on secondary data.

SCOPE OF THE STUDY

- Understanding areas where Contract Costing is applied.
- Differentiate between application and reference of Contract Costing in the study.
- Brief understanding of strategies involving two parties and third-panics i.e. in case of guarantor/guarantee.
- Brief study of hiring labor and procuring materials, equipment, etc.
- The areas / entities the firm deals in - which induce application of Contracts in the economy.

HYPOTHESIS

The assumptions are based on the known provisions viz., there are two parties involved - the Contractor (the party with whom the contract is conferred upon / who provides the service of the contract) and the Contractee (the party whom the service of the contract is rendered to). The procedure of payments depends after confirmation of the contract residing on the choice to pay in installments as the contract progresses or to pay the full amount before/after the completion of the service. This is binding on both the parties upon agreement.

DATA COLLECTION AND INTERPRETATION

Contract costing: It is one form of application of the principles of job costing. In fact a bilker job is referred to as a contract. Contract costing is usually adopted by building contractors engaged in the task of executing Civil Contracts.

Sub-Contract: Sub-contract costs are also debited to the Contract Account.

Extra Work: The extra work amount payable by the Contractee should be added to the contract price. If extra work is substantial, it is better to treat it as a separate contract. If it is not substantial, expenses incurred should be debited to the contract account as "Cost of Extra work".

Cost of Work Certified: All building contractors received payment periodically known as "running payment" on the basis of the architect's or surveyor's certificates. But payments are not equal to the value of the work certified; a small percentage of the amount due is retained as security for any defective work which may be discovered later within the guarantee period.

Work Uncertified: It represents the cost of the work which has been carried out by the contractor but has not been certified by the Contracted architect. It is always shown at cost price.

Retention Money: A contractor does not receive full payment of the work certified by the surveyor. Contractee retains some amount (say 10% to 20%) to be paid, after sometime, when it is ensured that there is no fault in the work carried out by Contractor.
**Work-in-progress:** In Contract Accounts, the value of the work-in-progress consists of:

- The cost of work completed, both certified and uncertified;
- The cost of work not yet completed; and
- The amount of profit taken as credit. In the Balance Sheet, the work-in-progress is usually shown fewer than two heads, viz., certified and uncertified.

**Notional Profit:** It represents the difference between the value of work certified and cost of work certified.

**Formulas Used For Calculations**

- When work on contract has not reasonably advanced, no profit is taken into account. In practice, no profit is calculated when work certified is less than 1/4th but less than ½ of the contract price.
- When work certified is more than 1/4th but less than ½ of the contract price, following formula is used to determine the figures of profit to be credited to profit and loss account; \[\frac{1}{3} \times \text{Notional profit} \div \text{Work certified} \div \text{Cash received}\]
- When work certified is more than ½ of the contract price, but it is still not in the final stage, following formula is used to determine the figure of profit to be credited to profit and loss account: \[\frac{12}{3} \times \text{Notional profit} \div \text{Work certified} \div \text{Cash received}\]
- When the contract is almost complete, an estimate total profit is determined by deducting aggregate of cost to date and estimated additional expenditure from contract price. A portion of this estimated total profit is credited to profit and loss account. The figure to be credited to profit and loss account is ascertained by adopting any of the following formulae: [Estimated total profit \times \text{Contract price} \div \text{Work certified}] [Estimated total profit \times \text{Contract price} \div \text{Cash received}] [Estimated total profit \times \text{Estimated total cost} \div \text{Cost of Work to date}]

**CONCLUSION**

As the observations, the researcher's evaluation for now depends upon the facts retaining to contract costing, its basic concepts and the procedure carried out by the specified firm for the procuring and working of the contracts.

Time and material contract are not common because of a lack of an upper limit for the price paid by the buyer, However, if there is no time to complete the job, an agreement concerning the time & materials should lie arranged or discussed if possible which may or may not result in the validity or extension of die contract.

**BIBLIOGRAPHY**