

Important points in contract costing:

1. Notional loss is fully considered as an actual loss.
2. In contract account, work-in-progress is carried forward at the value arrived at after deducting Reserve. Here, reserve is deducted to bring work-in-progress at cost for the next period. But, amount credited to profit and loss account in the previous period is not deducted to arrive at the value of work-in-progress in order to prevent the same amount getting included in the current period's profit or loss as well.
3. When shown in the balance sheet, cash received is also deducted from the figure arrived in point 2. This is done because cash will be shown as a separate item in the balance sheet.
4. Contract account is credited with full contract price at the end of the contract. Cash received from contractee in the periods prior to the period when contract gets over is shown in contractee account only. Contractee account is closed by transferring the total balance to contract account at the end of the contract.
5. New points have been marked and explained for last three questions. Check once even if you have solved the questions.