

Subject - Cost Account

Topic - Contract Costing, Definition, Features

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Contract Costing is a special type of job costing where the unit of cost is a single contract. The contract itself is a cost centre and is operated under the customer's specifications.

Contract costing is a variant of job costing system. It is also known as Terminal Costing. Each contract short term or long term is treated as a job.

It is understood from common sense that construction work involves massive investment and labour employment. So no organisation can undertake a large no. of contracts at a time.

Features

There are many special features of Contract Costing in respect of other job costing. We can distinguish it in the basis of followings:

① Material: The bulk of the material purchased and delivered direct to the contract site, or obtained from the central stores through the requisition.

② Wages: The wages which cannot be charged directly to any contract are treated as indirect wages that require apportionment.

③ Direct Charges: Most of the costs which are normally treated as indirect can be identified specifically with a particular contract and are charged to it as direct costs.

④ Certificate of Completion: The contracts do not pay the full value of the work certified as completed but retain a certain percent under the term of the agreement.