

Accounting 460
CPA Problems
Construction Contracts

In 1995, Soft Hat Construction Corp. began construction work under a 3 year contract. The contract price was \$1,000,000. Soft Hat uses the percentage-of-completion method for financial accounting purposes. The income to be recognized each year is based on the proportion of cost incurred to total estimated costs for completing the contract. The financial statement presentations relating to this contract at December 31, 1995, follows:

Balance Sheet

Accounts receivable-construction contract billings		\$21,000
Construction in progress	\$65,000	
Less: contract billings	<u>61,500</u>	
Cost of uncompleted contract in excess of billings		\$3,500

Income Statement

income (before tax) on the contract recognized in 1995	\$19,500
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a. How much cash was collected in 1995 on this contract?

b. What was the initial estimated total income before tax on this contract?