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Number (4)

(4i) terminology

A) contract price: The agreed price of contract between contractor and contractee

B) cost of work certified: Total cost incured on the portion of work certified.

C) estimated profit: contract price - estimated cost of the contract

D) cost of date: addition / sum of all cost incured to date on the contract.

E) work certified: It is work done for which certificate of work done is issued.

Features (4i)

1) A formal contract is made between the Cutomer and the Supplier or contractor and contratee

2) Work is undertaken to customers special requirements

3) The work are usually for long duration often more than one accounting period.

4) There maybe Sub-contract

5) The work is frequently contructional in nature.

(iii)

(i) planned cost should be compared with actual and the difference be investigated for corrective actions as necessary.

(ii) The cost per unit of service should be used as part of control function.

iii) A cost per unit of service should be computed

iv) prices should computed for services being sold to third parties.

v) In other to help management plan, control, and make cost should be analyed into fred valuable and mixed costs.

(4iii)

A) Engineering method: Engineering method is used when there is engineering analysis of technological relationship between input and output eg this method is commonly used for motion studies etc processes with clearly defined input or output relationship.

B) Account classfication method: This is subjective way of classifying mixed cost into fixed and variable cost using personal experience by cost accountant: Items of expenditure within the account for some level are inspected and classified as fixed variable or semi variable cost.

C) High low method: This is object method of segregation mixed cost into fixed and variable cost through the following process.

(A) pick the highest and least activity level among the observed data.

(B) Calculate the difference between two activity levels

(C) picks the corresponding cost of the highest and lowest activity level

Number 3

Kekemeke Ltd

Process Account

Narration	Qty	Rate	Amount	narration	Qty	rate	Amount
Input met	6,000	2	12,000	normal loss	600	3	1,800
Add: material			7,000	out put	5,000	6·3	31,500
labour			8,000	Abnormal loss	400		2,500
Expenses			3,000				
other expenses			800				
production overhead			5,000		6,000		35,800
	6,000		35,800				

Cost per unit [cpu] = $\frac{\text{Cost} - \text{scrap}}{\text{Input material unit} - \text{normal loss unit}}$

$= \frac{35,800 - 1,800}{6,000 - 600} + \frac{34,000}{5,400}$

$= ₦6.3$

Process II Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
product transfer	5,000	6·3	31,500	normal loss	500	3	1,500
Add: material			8,000	output	600	13·9	83,400
labour			10,000				
expenses			4,500				
other expenses			1,200				
production overhead			1,000				
Abnormal profit	1,500		20,700		6,500		84,900
	6,500		84,900				

Cpu = $\frac{\text{Cost} - \text{Scrap}}{\text{Input Material} - \text{normal}}$

$= \frac{64,200 - 1,500}{6,000 - 500} = \frac{62,700}{4,500}$

$= 13·9$

Abnormal loss account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process I	400		2,500	scrap	2,000	3	6,000
Process II	1,600		29,600	P/L			26,100
	2,000		32,100		2,000		32,100

Abnormal Gain Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
scrap	1,500	3	4,500	process II	1,500		20,700
P/L			16,200				
	1,500		20,700		1,500		20,700

Process II Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process I scrap	6,000	13+	83,400	Normal loss	400	3	1,200
Add material			5,000	output	4,000	18+	73,600
labour			7,000	Abnormal loss	1,600		29,600
expenses			2,500				
other expenses			500				
production overhead			6,000				
	6000		104,400		6,000		104,400

$$CPU = \frac{\text{Cost} - \text{Scrap}}{\text{Input material} - \text{normal}}$$

$$= \frac{104,400 - 6,200}{6,000 - 400} = \frac{103,200}{5,600}$$

$$= 18.4$$

(D) Graphical or scattergraph method; As a result of over reliance on high and low values of the high - low method of segregating mixed cost into fixed and variable costs, it was observed that all the observations are not considered in arriving at the cost estimate. This led to the discovery of graphical method; graphical method uses all observations in arriving at the cost estimate.

Question (1)

Salamander plc

Contract Account as at February 28, 2011

Direct material issued	75,000	materials c/f	25,000
materials bought on site	195,000	cost to date c/f	486,650
Direct Expenses	55,000		
wages paid	150,000		
Head office expenses	10,500		
plant Depreciation (60%x100,000)	20,000		
Accrued expenses			
wages 5,000			511,650
Director expenses 1150	61,150		
	511,650	Value of work certified	545,000
cost to date b/f	486,650		
notional profit			
profit taken 35,010	58,350		545,000
profit not taken 23,340	545,000	profit b/f	23,340

(b) Calculation of work in progress

	₦
cost to date	486,650
profit taken	35,010
	521,660
cash received	[490,500]
work in progress	31,160

Workings

cash received 490,500

value certified = $\frac{490,500}{90} \times 100 = 545,000$

notional profit = 58,350

profit taken = $\frac{2}{3} \times$ notional profit $\times \frac{\text{cash received}}{\text{value certified}}$

$= \frac{2}{3} \times 58,350 \times \frac{490,500}{545,000}$

$= ₦35,010$

profit not taken = [58,350 - 35,010]

$= ₦23,340$