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Level: 300 level

Course: ACC 204

Kekemeke Ltd.

Process 1 Account.

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Input material	6,000	2	12,000	Normal loss	600	3	1,800
Add: Material			7,000	output	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		35,000

$$\text{Cost per unit (Cpu)} = \frac{\text{Cost} - \text{Scrap}}{\text{Input material unit} - \text{Normal loss unit}}$$
$$= \frac{35,800 - 1,800}{6,000 - 600} = \frac{34,000}{5,400}$$

= 6.3

Process II Amount.

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process I Acc	5,000	6.3	31,500	Normal loss	500	3	1,500
Abnl. Material			8,000	Output	6,000	13.9	83,400
Labour			10,000				
Expenses			4,500				
Other expenses			1,200				
Product overhead			9,000				
Abnormal Profit	1,500		20,700				
	6,500		84,900		6,500		84,900

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

$$= \frac{64,200 - 1,500}{5,000 - 500} = \frac{62,700}{4,500}$$

$$= \text{₹ } 13.9.$$

Process II - Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process II transfer	6,000	13.9	83,400	Normal loss	4,000	3	1,200
Add: Material			5,000	Output	4,000	18.4	73,600
Labour			7,000	Abnormal loss	1,600		29,600
Expenses			2,500				
Other expenses			500				
Production Over head			6,000				
	6,000		104,400		6,000		104,400

C.P.U = $\frac{\text{Cost} - \text{Scrap}}{\text{Input material} - \text{normal}}$

= $\frac{104,400 - 1,200}{6,000 - 4,000} = \frac{103,200}{5,600} = 18.4$

Abnormal Loss Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process I	400		2,500	Scrap	3,000	3	6,000
Process II	1,600		29,600	P/L			26,100
			32,100		4,000		32,100
	2,000						

Question 4

Features of contract costing

- i. There may be sub-contractors.
- ii. They work frequently constitutional in nature.
- iii. The method of costing is similar to job costing.
- iv. A formal contract is made between the customer and the supplier.
- v. The contractor work is often based on size.
- vi. Work is undertaken to customer's specific requirement.
- vii. The work is usually for long durations, often more than one accounting period.

Terminologies Used in Contract Costing

- i. Contract price: This is the amount or price agreed between contractor and contractee.
- ii. Progress payment: This is the money paid on continuous progress.
- iii. Retention fee: This is the money deducted for the progress ^{payment} which is guaranteed for, bad work. It is the amount agreed to be withheld on every progress payment as guaranteed against bad work ~~or import~~ which will be released to the contractor at a specific period.

Cost to date: This is the amount which has been spent till present date. Total sum and addition of all cost incurred till date on the contract.

Estimated profit: The ~~contract~~ contract price minus the estimated cost of the contract

4 ii)

Objectives of service costing

Derived cost should be compared to actual cost and differences should be investigated for corrective action when necessary.

The cost per unit of service should be used as a part of control function

A cost re-unit of service be computed.

4 iii)

Methods of cost estimation

Engineering Method: This method is used when there is engineering analysis of the technological relationship between input and output e.g work sampling, methods study and time motion studies. Costs are estimated based on observation of underlying physical quantities needed for an activity.

This method is commonly used for estimating of repetitive processes with clearly defined input-output relationship, costs that often associate with direct materials, labour and machine time which can be observed and measured directly.

High Low Method: This is object method of Segregation mixed cost into fixed and variable cost through the following processes:

- pick the highest and least activity level among the observed data.
- calculate the difference between the two activity levels.
- Pick the corresponding cost of the highest and lowest

activity levels.

Calculate the difference between the costs of the highest and lowest activity levels

Divide the cost difference between the costs of highest and lowest activity levels.

Use the variable cost per unit to determine total cost or fixed cost using cost formula.

Account classification: This is a subjective way of classifying mixed cost into fixed and variable costs using personal experience by cost accountant. Items of expenditure within the accounts of some output level are inspected and classified as fixed, variable or semi-variable cost.

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

Least square or linear Regression method: ~~The application~~ Linear regression analysis is used to estimate fixed and variable costs, a further statistic, the coefficient of Correlation, can be used to measure the accuracy of the estimates. The assumption between shipping expenses and quantity sold may be slight, or it may be non-existent, so that another cost driver might be a more appropriate basis for estimating the costs.

No 1

Salamander alc

CONTRACT ACCOUNT AS AT FEBRUARY 28, 2011

Direct materials issued	75,000 ^A	Materials c/f	25,000 ^A
Materials bought on site	195,000	Cost to date c/f	486,650
Direct expenses	55,000		
Wages paid	150,000		
Head office exp.	10,500		
Plant dep. (20% x 100,000)	20,000		
Accrued expenses:			
Wages	5,000		
Direct exp.	<u>1,150</u>		
	<u>61,150</u>		
	<u>511,650</u>		
			<u>511,650</u>
Cost to date b/f	486,650	Value of work certified	545,000
National profit:			
Profit taken	35,010		
Profit not taken	<u>23,340</u>		
	<u>58,350</u>		
	<u>545,000</u>		<u>545,000</u>

Calculation of work in progress

Cost to date	₹ 486,650
Profit taken	<u>35,010</u>
	521,660
Cash received	<u>(490,500)</u>
Work-in-progress	<u><u>31,160</u></u>

Workings:

Cash received 490,500

$$\text{Value certified} = \frac{490,500}{0.90} = 545,000$$

National profit = 58,350

$$\text{Profit taken} = \frac{2}{3} \times \text{National profit} \times \frac{\text{Cash received}}{\text{value certified}}$$

$$= \frac{2}{3} \times 58,350 \times \frac{490,500}{545,000} = ₹ 35,010$$

$$\text{Profit not taken} = (58,350 - 35,010) = ₹ 23,340$$