OBUROH OLAKUNLE

BUSINESS ADMINISTRATION

18/SMS03/021

9TH OF JULY 2020

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COST ACCOUNTING TEST

QUESTION 4

i) Terminologies used in contract costing

(a) Contract Price: This is the agreed Price of a contract between the contractor & contractee.

(b) Architect Certificate: This is the certificate of work done at every stage of valuation by an architect.

(c) Progress Payment: Payment made at specific stages of the contract based on certificate of work done.

(d) Retention fee: Amount agreed to be withheld on every Progress Payment as guarantee against bad or imperfect work which will be released the contractor after a specific Period.

(e) Work Certified: This is the work done up on which certificate is issued.

Features of contract costing
i) Work is undertaken to customers special requirement
ii) There may be sub contracts
iii) The work is frequently constructional in nature
v) The method of costing is similar to job costing

4i) Objectives of service costing
1) A cost per unit of service should be computed
2) The cost per unit of service should be used as part control function
3) Prices should be computed for services being sold as third parties
4) In order to help management plans, decisions & cost should be analysed into fixed, variable & mixed cost.

4ii) methods of cost Estimation
1) Engineering method is used when there is engineering analysis of technological relationship between input & output e.g work sampling, methods study & time motion studies. cost are estimated based on observations of the underlying physical quantities needed for an activity

2) GRAPHICAL OR SCATTERGRAPH METHOD.
As a result of over reliance on high & low values of the high-Low method of segregating mixed cost into fixed & variable costs, it was observed that all the observations are not considered in driving at the cost estimate & this led to the discovery of graphical method.

NUMBER 4 CONTINUATION

iii ACCOUNT CLASSIFICATION

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

iv least square or Linear regression method

The application of linear equation formula:

$y = a + bx$ is used to derive the regression equation

y stands for total or mixed cost

a - stands for constant factor

b - stands for variable cost

x - stands for activity level or independent variable

18/SMS 03/021

QUESTION (1)

SALAMANDER PLC.

CONTRACT ACCOUNT — FEBRUARY 28, 2011

Direct Materials 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	190,000		
Head Office Expenses	9,500		
Plant Depreciation (25% x 100,000)	2,000		
Accrued Expenses			
Wages 5,000			
Direct Expenses 1,150	61,650		511,650
	511,650		
cost to date b/d	486,650	value of work certified	545,000
Notional Profit			
Profit taken 35,010			
Profit not taken 23,340	58,350		
	545,00		545,000
material b/f	25,000	profit b/f	23,340

b) calculation of Work in Progress

cost to date	486,650
Profit taken	350,010
Cash received →	521,660
	(490,500)
Work-in-Progress →	31,160

Workings

Cash received 490,500

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

Notional Profit = 58,350

Profit taken $= \frac{2}{3} \times$ Notional Profit $\times \frac{\text{Cash received}}{\text{Value certified}}$

$= \frac{2}{3} \times 58,350 \times \frac{490,550}{545,000}$

$= 35,010$

Profit not taken $= (58,350 - 35,010) = 23,340$

18/SMS/03/021

NUMBER 3

Mekemeke Ltd

Process Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Input Mat	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			5,000				
	6,000		35,800		6,000		35,800

Cost per unit (CPU) = $\frac{\text{cost - scrap}}{\text{Input material cost - Normal cost}}$ / Unit

$= \frac{35,800 - 1,800}{6,000 - 600} = \frac{34000}{5400}$

$= ₦6·3$

Process II Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process I Transfer	5,000	6·3	31,500	Normal Loss	500	3	1,500
Add: Material			8,000	Output	6,000	13·9	83,400
Labour			19,000				
Expenses			4,500				
Other ✓			1,200				
Production Overhead			9,000				
Abnormal Profit			2,700				
	6,500		84,900		6,500		84,900

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

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

$$= ₦13·9$$

Process III account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process II transfer	6,000	18-9	83,400	Normal loss	400	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 "			500				
Production overhead			6,000				
	6,000		104,400		6,000		104,400

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

$$= \frac{104,400 - 1,200}{6,000 - 400} = \frac{103200}{5,600}$$

$$= 18.4$$

Abnormal Loss ACC

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

Abnormal gain ACC.

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Scrap	1,500	3	4,500	Process II	1,500		29,700
P/L			16,200				
	1,500		29,400		1,500		29,700