KENAN LESSO ACC 204 BUS ADMIN
18/SMS 03/020 TEST

1.

SALAMANDER PLC

CONTRACT ACCOUNT AS AT FEBUARY 28, 2011

		₦		₦
Direct Materials issued		75000	Materials c/f	25000
Materials bought on site		195000	Cost to dat c/f	486,650
Direct Expenses		55000		
Wages paid		150 000		
Head office expenses		10,500		
Plant Depreciation (20% x100,000)		20000		
Accrued Expenses:				
Wages	5000			
Direct expenses	1150	6,150		
		511,650		511 650
Cost to date b/f		486,650	Value of work certified	545,000
Notional profit:				
Taken	35,010			
Not taken	23,340	58,350		
		545,000		545,000
Material b/f		25000	Profit b/f	23,340

b) Calculation of Work in progress

	₦
~~Cost to date~~	~~486,650~~
~~Profit taken~~	~~35,010~~
	~~521660~~
~~Less cash received from~~	~~(490,500)~~
~~Work in progress~~	~~31,160~~

	₦
Cost to date	486,650
Profit Taken	35,010
	521,660
Less cash received from contractee	(490,500)

18/SMS03/020 KENAN CESSO

1b. Calculation of Work in progress

	₦
Cost to date	486,650
Profit taken	35,010
	521 660
Less cash received from contractee	(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 $\times \frac{\text{Cash Received}}{\text{Value certified}}$

$$= \frac{2}{3} \times 58350 \times \frac{490500}{545000}$$

$= 35,010$

Profit not taken $= (58350 - 35,010) =$ ₦23,340

3 18/SMS03/020 KENAN LESSO ACC 204 TEST

KEMEKE LTD

	~~Units~~
~~Input~~	~~6000~~

KEMEKE LTD
Process I Account

~~Input Materials~~	Qty	Price ₦	Amount ₦	~~Qty~~ Particulars	Qty	Price ₦	Amount ₦
Input materials	6000	2	12000	Normal loss	600	3	1,800
Add: Material	~~7000~~		7000	Output	5,000	6.3	31,500
Labour			8000	Abnormal loss	400		2,500
Direct Expenses			3000				
Other Expenses			800				
Production overhead			5000				
~~Abnormal gain~~	6000		35800		6000		35800

$$\text{Cost per unit (CPU)} = \frac{\text{Cost} - \text{Scrap}}{\text{Input material unit} - \text{Normal loss unit}}$$

$$= \frac{35800 - 1800}{6000 - 600} = \frac{34000}{5,400}$$

$$= ₦6.3$$

18/SMS03/020 KENAN LESSO

KEMEKE LTD

Process II Account

3

	Qty	Price ₦	Amount ₦		Qty	Price ₦	Amount ₦
Process I transfer	5000	6.3	31500	Normal loss	500	3	1500
Add: Material			8000	Output	6000	13.9	83,400
Labour			10000				
Expenses			4500				
Other Expenses			1200				
Production overhead			9000				
Abnormal profit/gain	1500		20700				
	6500		~~84,900~~ 84,900		6500		84900

$$\text{Cost per unit (CPU)} = \frac{\text{Cost} - \text{Scrap}}{\text{Input material} - \text{Normal loss}}$$

$$= \frac{64200 - 1500}{5000 - 500}$$

$$= \frac{62,700}{4500}$$

$$= ₦13.9$$

18/SMS03/020 KENAN LESSO ACC 204 TEST

KEMEKE LTD

PROCESS III ACCOUNT

3

	Qty	Price ₦	Amount ₦		Qty	Price ₦	Amount ₦
Process II transfer	6000	13.9	83,400	Normal loss	400	3	1200
Add: Material			5000	Output	4000	18.4	73,600
Labour			7,000	Abnormal loss	1600		29600
Expenses			2,800				
Other Expenses			500				
Production overhead			6000				
	6000		104,400		6000		104,400

$$\text{Cost per unit} = \frac{\text{Cost} - \text{Scrap}}{\text{Input material} - \text{Normal loss}}$$

$$= \frac{104,400 - 1200}{6000 - 400} = \frac{103,200}{5,600}$$

$$= ₦18.4$$

18/SMS 03/020 Ab
KENAN LESSO
ACC 204

3

KEMERE LTD

Abnormal Loss Account

	Qty	Price ₦	Amount ₦		Qty	Price ₦	Amount ₦
Process I	400		2500	Scrap	2000	3	6000
							26100
Process III	1600		29600	P/L			
	2000		32,100		2000		32100

Abnormal gain account

	Qty	Price ₦	Amount ₦		Qty	Price ₦	Amount ₦
Scrap	1500	3	4500	Process II	1500		20,700
Statement of P/L			16200				
	1500		20,700		1500		20,700

Kenan Lesso

Business Admin

18/SMS03/020

ACC 204

Test

Question 4

i) Features of contract costing

- Work is undertaken to customer's special requirement: The work being of a constructional nature, The same is executed at the customer's site, as per the customer's specifications.
- Payment on account are usually made against work certified: The contracts ~~do~~ not pay the full value of the work certified as completed but retain a certain percent under the terms of the agreement.
- There may be sub-contractors: Parts of large contracts are often done by third parties under sub-contracts.
- The work is usually for long duration: It is often more than one accounting period.
- Retention fund/fee may be deducted from progress payment: It is agreed to be withheld and serves as guarantee against bad work or damage caused by the contractor.

Terminologies in contract costing

- Notional profit or loss: This is the profit earned on contract to date. It is calculated as the difference between the value of work certified to date.
- ~~Artiche~~ Architect certified issued by experts certifying the work or any portion of the work satisfactorily completed. It shows the work done at selling price and this certificate accompanies the invoice sent to the customer
- [illegible]: This refers to the price of the contract as may

18/SMS03/020
KENAN LESSO
ACE 204 TEST

- Progress payment: The contract normally provides for the client to make payment either at specific stages of work e.g when foundation is completed or at a particular agreed interval.

iii. High Low Method - This represents an objective way of segregating the mixed cost into fixed and variable element. ~~by applying the f~~ It involves taking the highest level of activity and lowest level of activity & comparing the total costs at each level

Engineering Method: This approach is based on the use of engineering analysis of technological relationship between inputs & outputs e.g methods study, work sampling and time motion series.

Least square or Linear Regression Method: The least square method is a statistical procedure to find the best fit for a set of data by minimizing the sum of the offsets or residuals of points from the plotted curve.

Graphical or Scattergraph Method: This method uses all observations against activity level on graph and a line of best-fit is drawn diagonally across the observed graph by equally dividing them into equal part by the line.

4
ii. Objectives of Service costing
- It is used for computing the related operating cost.
- To collect actual cost under different heads.
- To fix up the rate to be charged for providing service