

SALAMANDER PLC

CONTRACT ACCOUNT AS AT FEBRUARY 28, 2011

Direct materials issued	75,000	Materials c/f	25,000
Materials bought on site	195,000	Cost to date Y/F	486,650
Direct expenses	55,000		
Wages paid	150,000		
Head office expenses	10,500		
Plant depreciation	20,000		
(20% x 100,000)			
Accrued expenses			
Wages	5000		
Direct expenses	1,150	6150	
		<u>511,650</u>	<u>511,650</u>
Cost to date b/f	486,650	Value of work certified	545,000
Motional profit			
Profit taken	35,010		
Profit not taken	23,340	<u>58,350</u>	<u>545,000</u>
		<u>545,000</u>	<u>545,000</u>
Material b/f	25,000	Profit b/f	23,340

b) Calculation of work in progress

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

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Cash received : 490,500

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

Notional profit = 58,350

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

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

$$= 435,010$$

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

Number 4

- a) Contract price: Agreed price of the contract between the contractor or contractee
- b) Cost-to-date: The addition of all cost incurred till date on the contract
- c) Estimated profit: Contract price - Estimated cost of contract
- d) progress payment: payment made at a specific stage of the contract
- e) Retention fee: Amount agreed to be retained on every progress payment as guaranteed against bad work

iii Objectives of service costing

- a) Planned cost should be compared with actual cost and the difference ~~shd~~ be investigated for corrective action as necessary
- b) The cost per unit of service should be used as part of the control function
- c) The cost per unit of service should be computed
- d) Prices should be computed for services being sold to third parties
- e) In order to help management plan, control and make decision, cost should be analysed into fixed, variable & mixed cost

iii Methods of cost estimation

Engineering method: is used when there is engineering analysis of technological relationship between input and output e.g. work sampling, methods study etc. 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.

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

Scattergraph method / Graphical method: This method uses all observations in arriving at the cost estimate. It is used by plotting the 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

Kekemeke Ltd

Process I Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Input	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		
Expenses			3,000				
Other Expenses			800				
Production order			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
Process I transfer	5,000	6.3	31,500	Normal loss	500	3	1,500
Add: material			8,000	Output	6,500	13.9	83,100
Labour			10,000				
Expenses			4,500				
Other expenses			1,200				
Production overhead			9,000				
Abnormal profit	1,500		20,700				
	6,500		84,900		6,500		84,900

$$\begin{aligned}
 \text{CPU} &= \frac{\text{Cost} - \text{Scrap}}{\text{Input material} - \text{normal}} \\
 &= \frac{64,200 - 1,500}{5,000 - 500} \\
 &= 62,700 \\
 &\quad 4,500 \\
 &= \text{₹} 139
 \end{aligned}$$

Abnormal loss Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount (₹)
Process I	400		2,500	Scrap	2000	3	6,000
Process II	1,600		29,600	P/L			26,100
	2,000		32,100		2000		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