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## TEST

### 4) Features

- 1) A formal contract is made between two customers and the supplier or the contractor and the contractor.
- 2) Work is undertaken to customer's special requirements.
- 3) The works are usually for long duration often more than one accounting period.
- 4) There may be sub-contract.
- 5) The work is frequently contractual in nature.

### Terminologies

- 1) Contract Price: The agreed price of contract between contractor and contractor.
- 2) Certificate of work done / Architect Certificate is a certificate issued for work done to the contractor by an architect.
- 3) Estimated Profit: Contract price - estimated cost of the contract.
- 4) Work Certified: It is work done for which certificate of work done is issued.
- 5) Cost of work certified: Total cost incurred on the portion of work certified.

a) Planned cost to be compared with actual cost and differences to be investigated for corrective actions as necessary.

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

c) A cost per unit of service should be computed.

d) Prices should be computed to services being sold to third parties.

e) In order to help management plan, control and make decision, cost should be analysed as fixed variables and fixed cost.

4) Engineering Methods: Engineering method is used when there is engineering analysis of technological relationship between input and output - e.g. work sampling, method studies etc. This method is commonly used for estimating of repetitive processes with clearly defined input or output relationships.

b) Account Classification Method: This is a subjective way of classifying mixed cost into fixed and variable cost using personal experience by cost accountant. (Hand of

variable or semi-variable

High low Method's This is Object Method of Segregation mixed

Variable Costs through the following process.

\* Pick the highest and least activity level among the observed data.

\* Calculate the difference between two activity levels.

\* Pick the corresponding cost of the highest and lowest activity level.

Graphical and Scattergraph Method's 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 deriving of the cost

estimate and this led to the discovery of graphical method, graphical method uses all observations in arriving at the cost estimate

### Salamander Plc

Contract Account As At 28th February, 2011

Direct material issued		75,000	Material b/f	25,000
Materials bought on site		195,000	Cost to date c/d	486,650
Direct expenses		55,000		
Wages paid		150,000		
Head Office Expenses		10,500		
Plant depreciation (20% x 100,000)		20,000		
Accrued expenses				
Wages	5,000			
Direct expenses	1,150	6,150		
		511,650		
Cost to date b/f		486,650	Value of work certified	511,650
Optimal Profit				545,000
Profit taxon	35,000			
Profit non-taxon	23,850	58,850		
		545,000		
Material b/f		25,000	Profit b/f	545,000

2) Calculation of work in Progress:

Cost to date 486,650  
 Profit taken 35,010

Cash received 521,660  
 (490,500)

Work-in-Progress 31,160

Workings

Cash received 490,500

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

Normal Profit = 58,850

Profit taken =  $\frac{2}{3} \times \text{Normal Profit} \times \frac{\text{Cash received}}{\text{Value Certified}}$   
 $= \frac{2}{3} \times 58,850$   
 $= \frac{2}{3} \times 58,850 \times \frac{490,500}{545,000} = 85,010$

Profit not taken =  $(58,850 - 85,010) = 23,340$

Kekeneke Ltd

Narration	Process 1		Account	Narration		
	Qty	Rate		Qty	Rate	A. #
Input mat	6,000	2	12,000			
Add: Material			7,000			
labour						



Process II Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process I transfer	5000	6.5	31,500	Normal loss	500	3	1,500
Add: material			8,000	Output	6,000	13.9	83,400
Labour			6,000				
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

$$CPU = \frac{\text{Cost} - \text{Scrap}}{\text{Qty}}$$

Input material - normal

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

$$= 13.94$$

Process III Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process II transfer	6,000	13.9	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		
Expenses							

Process I	400	2,800	Scrap	2000
Process II	1,600	29,600	P/L	
	2000	32,400		2,000

### Abnormal Gain Account

Narration	Qty	Rate	Amount	Narration	Qty
Scrap	1,500	3	4,500	Process II	1,500
P/L			16,200		
	1,500		20,400		1,500

2) 
$$\left[ \frac{50 \times 2 \times 2 \times 8 \times 50}{8} \right]$$

Repairs (120 x 8)

Depreciation on lorry 
$$\left[ \frac{20,000 - 2,000 \times 5,000}{100,000} \right]$$

Depreciation on outages 
$$\left[ \frac{2000 \times 5000}{20,000} \right]$$

Running Cost

Drivers wages

Garage bills (5 x 10 x 8)

Insurance 
$$\left[ \frac{2000 \times 8}{82} \right]$$

Vehicle licence 
$$\left[ \frac{5,200 \times 8}{82} \right]$$

etc. (Independent of ...)