

## Agbaro Oghenelege

Accounting

(Blomsofoot)

8/10/9

Features of contract costing.

- There may be sub-contract.
- Work is undertaken to ~~from~~ Customer special requirement.
- The work is frequently constructional in nature.
- Payment on account are usually made against work certificates.
- In some contract, retention fund may be deducted from the progress payment.

Terminologies used in contract costing.

- Notional profit or loss - This is the profit earned on the contract to date.
- Estimated profit - This is the contract price minus estimate cost of the contract.
- Cost to date - This is the addition of all cost incurred to date on the contract.
- Cost of work certified.
- Value of work certified ÷ This is the market value of cost certified by ~~the~~ cost accountant.
- Progress payment - The money gotten from the progress of the contract.

## B. Objectives of Services costing.

- The cost per unit of services should be used as part of the control function.
- A cost per unit of service should be completed.
- prices should be completed for services being sold to third parties.
- Planned cost should be compared with ~~the~~ actual cost and the difference manufactured for corrective action as necessary.

Services cost analysis in internal service situation.

Question 3  
Kahurangi Ltd

Narration	Process 1		Amount
	Qty	Rate	
Input mat	6000	2	12000
All material			4000
Labour			8000
Expenses			3000
Other expenses			800
Production over			5000
	6000		35000

Narration	Qty	Rate	Amount
Normal loss	600	2	1200
Out put	5000	6.2	31000
Abnormal loss	400		8000
	6000		35000

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

$$= \frac{35000 - 1200}{6000 - 600} = \frac{33800}{5400}$$

Process II A/c

Narration	Qty	Rate	Amount
Process I transfer	5000	6.3	31500
All material			8000
Labour			10000
Expense			4500
Other Expenses			1200
Production over			9000
Abnormal profit	1500		90700
	6500		84900

Narration	Qty	Rate	Amount
Normal loss	500	3	1500
output	6000	13.9	83400
	6500		84900

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

$$= \frac{84900 - 1500}{6000 - 500} = \frac{83400}{5500} = 15.16$$

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

→ Account classification method: This is a subjective way of classifying mixed cost into fixed and variable cost using personal experience by cost accountant. Items of expenditure with the account for some level are inspected and classified as fixed variable or semi-variable cost.

→ High low method: This is object method of segregating mixed cost into fixed and variable cost through the following process

→ Pick the highest and lowest 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 or Scattergraph method: As a result of over reliance on high and low value of the high-low method of segregating mixed cost into fixed and variable cost it was observed that all the observation are not considered in deriving of the cost estimate and this led to the discovery of graphical method, and uses all observation to arrive the cost estimates.

## Process III A/c

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process II transfer	6000	15.7	95100	Abnormal loss	1200	2.00	2400
Mat. material			5000	Oil put	1000	1.00	1000
Labour			2500	Abnormal loss	6000		21600
Expenses			500				
Other exp			6000				
Product available	6000		104400				

C.P.U =  $\frac{\text{cost} - \text{scrap}}{\text{input natural normal}}$

$$= \frac{104,400 - 1200}{6000 - 400} = \frac{103,200}{5600} = 18.4$$

### Abnormal Loss A/c

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process 1	400		2580	Scrap	2000	3.00	6000
Process 2	600		29600	PLL	1000	21.00	21000
	2000		32100				

### Abnormal Gain A/c

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Scrap	1500	3.00	4500	Process II	1500		20970
PLL			16200				
	1500		20700		1500		20970

Ajiboro Teges  
18/08/2004

1.

SALAMANDER PLE

CONTRACT ACCOUNT AS AT FEBRUARY 24, 2001

Direct material used	7500	material c/d	20000
material bought on c/d	18000	cost to date c/d	426650
Direct expenses	50000		
Wages paid	250000		
Plant office exp.	10000		
Plant Depreciation (10% x 10000)	20000		
Accrual Account exp			
Wages	5000		
Direct expenses	1150	6150	
		<u>516650</u>	<u>516650</u>
Cost to date bill		426650	
Notional profit			
profit taken	35010		
profit not taken	2380	58350	
		<u>545000</u>	<u>545000</u>
material c/d		20000	profit c/d
			2380

b Calculation of work in progress

cost to date	426650
profit taken	35010
	<u>501660</u>
Cash Received	<u>(490500)</u>
	<u>31160</u>
work-in-progress	31160

Workings

Cash Received 490,500

Value Certified =  $\frac{490000}{0.9} = 545000$

profit = 58,350

$$\text{Profit taken} = \frac{2}{3} \times \text{National profit} \times \frac{\text{Cash Received}}{\text{Value Certified}}$$

$$= \frac{2}{3} \times 58350 \times \frac{440550}{545000}$$

$$= 235,070$$

$$\text{Profit after failure} = (58350 - 25000) = 33350$$

$$= 23,340$$