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Matric No: 18/SMS02/043

Course: ACC204

Dept: Accounting

Number 1

QUESTION 1

Contract account for the year ended February 28, 2011

Direct materials issued	75000	Materials c/p	25000
Materials bought on site	195000	Cost to date c/f	486,650
Direct exp	55000		
Wages paid	150000		
Head office exp	10500		
Plant depreciation (20% x 100000)	20000		
Accrued exp: Wages	5000		
Direct exp	1150		
	<u>511650</u>		<u>511650</u>
Cost to date b/p	486650	Value of work certified	545000
Notional profit			
Profit taken	35010		
Profit not taken	23340		
	<u>58350</u>		<u>58350</u>
Material b/p	25000	Profit b/p	23340

b. Calculation of work in progress

Cost to date	486650
Profit taken	35010
	<u>521660</u>
Cash received	(490500)
Work in progress	<u>31160</u>

Workings

$$\begin{aligned} \text{Cash received} &= 490500 \\ \text{Value certified} &= \frac{490500}{0.90} = 545000 \\ \text{Notional profit} &= 58350 \\ \text{Profit taken} &= \frac{2}{3} \times \text{N.P.} \times \frac{\text{Cash received}}{\text{Value certified}} \\ &= \frac{2}{3} \times 58350 \times \frac{490500}{545000} \\ &= \text{N}35010 \end{aligned}$$

$$\begin{aligned} \text{Profit not taken} &= 58350 - 35010 \\ &= \text{N}23340 \end{aligned}$$

Question 4

Question 4

- (ii) a. Contracts are generally of large size and, therefore, a contractor usually carries out a small number of contracts in the course of one year.
- b. A contract generally takes more than one year to complete.
- c. Each contract undertaken is treated as a unit cost.
- d. Work on contract is carried out on the sites of contracts and not in factory premises.
- e. Generally, all labourers are treated as direct labourers.

Terminologies

- a. Contract price: The agreed price of contract between the contractor and contractee.
- b. Cost of work certified: Total cost incurred on the portion of work certified.
- c. Cost to date: Addition/sum of all costs incurred to date, on the contract.
- d. Estimated profit: Contract price - Estimated cost of the contract.
- e. Work certified: It is the work done for which certificate of work done is issued.

- (ii) a. Planned costs to be compared with actual costs and differences be investigated for corrective measures as necessary.
- b. A ~~the~~ cost of service per unit should be used as part of control function.
- c. A cost per unit of service should be computed.
- d. Prices should be computed for services being sold to third parties.

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Question 4 III

- Account analysis method: This is a subjective way of classifying mixed costs into fixed and variable costs using personal experience by cost accountants.
- High low method: This is an objective method of segregation mixed costs into fixed and variable costs by:
 - a. Pick the highest and least activity level among the observed data.
 - b. Calculate the difference between two activity levels.
 - c. Pick the corresponding cost of the highest and lowest activity level.
- Scattergraph method: As a result of over reliance on high and low values of the high low method, it was noticed that all observations are not considered in deriving the cost estimate and this led to the discovery of the scattergraph method.
- Linear regression method: This is the application of the linear equation formula ($y = a + bxc$) where y stands for mixed or total cost, a stands for constant factor or total fixed costs, b stands for variable cost and xc serves as the independent variable or activity level.

Question 3

Process account

Process 1

Particulars	Unit	Rate	Amount	Particulars	Unit	Rate	Amount
Direct material			7000	Scrap	600	3	1800
Direct labour			8000	Finished output	5000	6.8	34500
Direct expenses			3000	Abnormal loss	400		2500
Other expenses			800				
Production overhead			5000				
Cost of material	6000	2	12000				
			35800				35800

Question 3

Process 2

Particular	Unit	Rate #	Amount #	Particular	Unit	Rate #	Amount #
Process II	5000	6.3	31500	Normal loss	500	3	1500
Direct material			8000	Output	6000	13.9	83400
labour			10000				
exp			4500				
Other exp			1200				
Production overhead			9000				
Abnormal profit	1500		20700				
	6500		84900		6500		84900

Process 3

Particulars	Unit	Rate #	Amount #	Particulars	Unit	Rate #	Amount #
Process II	6000	13.9	83400	Normal loss	400	3	1200
Direct material			5000	Output	4000	18.4	73600
labour			7000	Abnormal loss	1600		29600
exp			2500				
Other exp			500				
Production over.			6000				
	6000		104400		6000		104400
	6						

Abnormal loss a/c

Particular	Unit	Rate #	Amount #	Particular	Unit	Rate #	Amount #
Process I	400		2500	Scrap	2000	3	6000
Process II	1600		29600	P/L			26100
	2000		32100		2000		32100

Abnormal gain a/c

Particular	Unit	Rate #	Amount #	Particular	Unit	Rate #	Amount #
Scrap	1500	3	4500	Process III	1500		20700
P/L			16200				
	1500		20700		1500		20700

Question 2

Running Cost	₹	
$\text{Petrol } \left(\frac{50 \times 2 \times 2 \times 8 \times 50}{8} \right)$	10000	
$\text{Depreciation on lorry } \left(\frac{20000 - 2000 \times 5000}{100000} \right)$	900	
Repairs	960	
$\text{Depreciation on tyres } \left(\frac{2000 \times 5000}{20000} \right)$	500	12360

Running cost		
Drivers wages	200	
Garage bills (5 × 10 × 8)	400	
$\text{Insurance } \left(\frac{2000 \times 8}{52} \right)$	308	
$\text{Vehicle license } \left(\frac{5200 \times 8}{52} \right)$	800	
$\text{Other overhead cost } \left(\frac{7800 \times 8}{52} \right)$	1200	2908