

SOLUTION TO THE ASSIGNMENT

NAME: SALAU BLESSING
OMOLARA

MATRIC NO: 17/SMS 02/058.

DEPARTMENT: ACCOUNTING

CODE: ACC 204

Question One
Saleman, dr Plc

Contract Account as at February 28, 2001

	Dr	Cr
	₹	₹
Direct materials issued	75,000	
Materials bought on site	195,000	
Direct Expenses	55,000	
Wages Paid	150,000	
Head office expenses	10,500	
Plant Depreciation (20% x 100,000)	20,000	
<u>Accrued Expense</u>		
Wages	5,000	
Direct Expenses	<u>1,150</u>	
	<u>6,150</u>	
	₹51,650	
Materials c/f		25,000
Cost of work		<u>486,650</u>
	<u>511,650</u>	<u>511,650</u>
Cost of work b/f	486,650	
Notional Profit	35,000	
Profit taken	23,340	
Profit not taken	<u>58,350</u>	
		545,000
Value of work Certified		
	<u>545,000</u>	<u>545,000</u>
	25,000	
Material b/f		23,340
Profit b/f		

• Engineering methods 14 involves using engineering analysis of technological relationship between input and output eg work sampling, motion studies etc. This method is commonly used for estimating repetitive processes with clearly defined input & output relationships.

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Question Two (2)

	₦	₦
Petrol $(50 \times 2 \times 2 \times 5 \times 8) \times 50$	20,000	
Repairs Oil (120×8)	960	
Depreciation on lorry $\frac{20,000 - 2,000 \times 5,000}{100,000} \times 1$	900	
Depreciation on tyre $\frac{2,000 \times 5,000}{20,000}$	500	
Standing cost	1,600	
Driver's wages (200×8)	1,600	
Gangging $(5 \times 10 \times 8)$	400	
Insurance $\frac{20,000}{52} \times 8$	308	
Vehicle licence $(5,200 \times 8)$	800	
Other overhead cost $\frac{1,700 \times 8}{52}$	1,200	4,508
Total Cost		26,668

b. Vehicle cost per km = $\frac{26,668}{5,000} = 5.33$

Total cost / ton/km = $\frac{26,668 \times 2,500}{5,000} = 6,667$ ₦/km

c. On mileage = $200 \text{ km} \times 2 \times 5.3 = \text{₦} 2,120$ / mile

On Tonne = $200 \text{ km} \times 6 \times 6,667 \text{ km} = \text{₦} 8,000,400$

4ii The Objectives of Service Costing are:

- To control the cost in service department
- To help user department to achieve cost efficiency by sourcing for lower cost service externally.
- To checkmate the existence of wasteful use of service department
- To accurate the establishment of overhead cost of user department.
- To control the cost of user department

4iii The methods of cost estimation are

- Account Classification method
- High and low method or Range method
- Regression Analysis or Statistical method
- ~~Account Classification method~~ Engineering method

• Account Classification method: It involves examination of each item of expenses and classifying them into variable and fixed cost by reference to the most recent historical cost data using the subjective judgment of the accountant

• High and low method: It involves a process of checking a set of past data from previous accounting period so as to extract from the historical records two sets of data corresponding to the highest output and lowest with their associate costs respectively

• Regression Analysis: It involves one independent variable but called "multiple regression" when more than one independent variables are involved

b. Calculation of work-in-progress

Cost of sale	480,650
Profit taken	<u>35,010</u>
	515,660
Cash received	(490,500)
Work in Progress	<u>31,160</u>

Workings

Cash received 490,500

Value certified = 490,500

$$0.90 = 545,000$$

Notional Profit = 58,350

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

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

$$= 35,010$$

Profit not taken

$$= (58,350 - 35,010) = \text{£ } 23,340$$

Question Four:

4i. The features of contract costing are:

- The work is frequently constructional in nature
- The method of costing is similar to job costing
- A formal contract is made between the customer and the suppliers. i.e. a legally binding contract made between the contractor and contractor.
- Work is undertaken to customer's special requirement.
- The work is usually of long duration often more than one accounting period.
- There may be sub-contract
- The contract is often based on size
- There is often an architect engaged by the contractor to monitor the job and issue certificates of work done at every stage of valuation. In other words, the certificate of work done is also known as work certificate or architect valuation.
- Retention fund/money may be deducted from progress payment.
- Contract may contain clause for penalty for delay in completion and bonus for any completion.

Terminologies of Contract Costing

- Contract Price: Agreed price for the contract between the contractor and the contractor.
- Architect Certificate: Certificate of work done issued by an architect at every stage of valuation.
- Progress Payments: This is the money gotten from the continuous progress of the contract or payment made at specific stage of the contract based on certificate of work done.
- Retention fees: Amount agreed to be withheld on every progress payment as guaranteed against bad or imperfect work which would be released to the contractor after a specific period.