NAME : IJUWO NORA ANTALE

MATRIC NO : 18/SMS05/005

DEPT : ACCOUNTING

COURSE CODE : ACC204

1.

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 c/f	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		511,650
Cost to date b/f	486,650	Value of work certified	545,000
Notional Profit			
Profit taken 35,010			
Profit not taken 23,340	58,350		
	545,000		545,000
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
	521,660
Cash Received	(490,500)
Work-in-Progress	31,160

Workings

Cash Received 490,500

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

Notional Profit = 58,350

Profit taken = $\frac{2}{3}$ x Notional Profit x $\frac{\text{Cash received}}{\text{Value certified.}}$

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

= ₦ 35,010

Profit Not taken = (58,350 − 35,010) = ₦ 23,340

3. KEKE MEKE LTD.

PROCESS I ACCOUNT.

Particulars	Qty.	Rate	Amount (₦)	Particulars	Qty	Rate	Amount (₦)
Input mat	6000	2	12,000	Normal loss	600	3	1800
Add: material			7000	Output	5000	6.3	31,500
labour			8000	Abnormal loss	400		2,500
Expenses			3000				
Other expenses			800				
Production over. head			5,000				
	6000		35,800		6000		35,800

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

$= \frac{₦35,800 - 1800}{6000 - 600} = \frac{34,000}{5400}$

$= 6.296$

$= ₦6.3$

PROCESS II ACCOUNT

Particulars	Qty	Rate	₦ Amount	Particulars	Qty	Rate	₦ Amount
Process I Transfer	5000	6·3	31,500	Normal loss	500	3	1500
Add : material			8000	Out put	6000	13·9	83,400
Labour			10,000				
Expenses			4,500				
Other Expenses			1200				
Production overhead			9000				
Abnormal Profit	1500		20 29700				
	6500		84,900		6500		84,900

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

$$= \frac{64,200 - 1500}{5000 - 500} = \frac{62,700}{4500}$$

$$= ₦13·9$$

PROCESS III ACCOUNT

Particulars	Qty	Rate	Amount ₦	Particulars	Qty	Rate	Amount ₦
Process II Transfer	6000	13·9	83,400	Normal loss	400	3	1200
Add : material			5000	Out put	4000	18·4	73,600
labour			7000	Abnormal loss	1600		29,600
Expenses			2500				
Other Expenses			500				
Production overhead			6,000				
	6000		104,400		6000		104,400

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

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

$= ₦ 18.4$

Abnormal loss Account.

Narration	Qty	Rate	Amount (₦)	Narration	Qty	Rate	Amount (₦)
Process I	400		2 500	Scrap	2000	3	6000
Process III	1600		29,600	P I A			26,1000
	2000		32,000		2000		32,000

Abnormal Gain Account

Narration	Qty	Rate	Amount (₦)	Narration	Qty	Rate	Amt (₦)
Scrap	1500	3	4 500	Process II	1500		20,700
P I L			16,200				
	1500		20,700		1500		20,700

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4. The Features of contract costing are:

i. There may be sub-contracts.

ii. Work is undertaken to customers special requirements

iii. The work is frequently constructional in nature.

iv. A formal contract is made between the customer and the supplier ie a legally binding contract between the Contractee and the contractor.

v. The method of costing is similar to job costing.

vi. The contract work is often based on size.

vii. There is often an architect engaged by the contractee to monitor the job and issue certificate of work done at every stage of valuation.

- Certificate of work done is also known as architect valuation of ~~Certif~~ work certified.

viii. Retention fund money may be deducted from progress payment

ix Contract may contain clause for penalty in delay of completion, and bonuses for early completion.

x. The work is usually for long duration often more than one accounting period

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1. The five terminologies in contract costing are

i. Architect certificate: certificate of workdone issued by Architect at every stage of valuation

ii. Contract price: Agreed price of contract between Contractor and contractee.

iii. Estimated profit: This is contract price - estimated cost of the contract.

iv. Work certified: It is work done for which certificate of work done is issued.

v. Cost of work certified: total cost incurred on the portion of work certified

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ii. Objectives of service costing.

1). The objective to be achieved in performing service costing are :

i. Planned cost should be compared with actual and the difference beinvestigated for corrective actions as necessary.

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

iii. A cost per unit of service should be computed

iv. Prices should be computed for services been sold to third parties.

v. In other to help management plan, control and make decisions

A cost shold be analyzed into fixed, variable and mixed cost

(iii. The four Methods of cost estimation are:-

1.) ~~Engineering Methods~~ :

1. High - Low Method This is object method of segregation of mixed cost into fixed and variable cost through the following

a Pick the highest and least activity level among the observed data

b. Calculate the difference between the two activity levels

c. Pick the corresponding cost of the highest and lowest activity levels

d. calculate the difference between the cost of highest and lowest activity levels.

~~e. Divide the cost difference between the costs of highest and lowest activity levels~~

e. Divide the cost difference by the difference in activity levels i.e divide d by b.

f use "e" which is the variable cost per unit to determine total cost or fixed cost using the formula

$TC = FC + VC$ which can be expressed as

$Y = a + bx$.

$Y = TC$, $a = FC$ $b = VC$ per unit and

$x =$ unit of output.

b. Least square or linear Regression Method.

the application of linear equation formula = $Y = a + bx$ is used to derive the regression equations

Y = total or mixed cost

a = constant factor or total fixed cost

b = variable cost

x = activity level or independent variable

C. GRAPHICAL OR SCATTER GRAPH METHOD

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 arriving at the cost estimate and this led to the discovery of Graphical method. Graphical 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 parts by the line.

the interception of the line of best fit on Y-axis is fixed cost (a) while the gradient (slope is

the variable cost (b)

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

2. LEKE LEKE PLC.

	₦
Running Cost:	
Petrol $\left(\left[\frac{50 \times 2 \times 2 \times 8}{8}\right] \times 50\right)$	10,000
Oil	
Repairs (₦120 × 8wks)	960
~~Garage bill (10 × 5 × 8wks)~~	
Depreciation on lorry $\left(\left[\frac{(20,000 - 2000}{100,000} \times \frac{5000}{1}\right]\right.$	900
Depreciation on tyres $\left[\frac{2000}{20000} \times \frac{5000}{1}\right]$	500
Running cost:	
Drivers wages	200
Garage bills (10 × 5 × 8)	400
Insurance $\left[\frac{2000}{52} \times 8\right]$	
Vehicle license $\left[\frac{5200}{52} \times 8\right]$	
Other overhead cost $\left[\frac{7800}{52} \times 8\right]$	