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Department: Accounting

Question 4

(1) Explain the features and five terminologies used in contract costing

Features of Contract Costing

- (i) The method of costing is similar to job costing.
- (ii) Work is undertaken to customer's special requirement.
- (iii) The work are usually for long duration of ten more than one accounting period.
- (iv) In contract costing there may be sub contract.
- (v) The contract is often based on size.
- (vi) Payment on account are usually made against work certified.
- (vii) The work is frequently constructional in nature.

Terminologies of Contract Costing

- (i) Contract price:
Agreed price of the contract between the contractor or contractee.
- (ii) Architect certificate:
This is the certificate of work done at every stage of valuation issued by an expert.
- (iii) Work certified:
This is the total work done upon which certificate is issued on work done by an expert.
- (iv) Value of work certified:
Value of work certified by cost accountant.
- (v) Actual profit/loss:
This is the profit earned on the profit to take. The difference between market value of work certified and cost of work certified.

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SALAMINDER PLC
 Contract Account for the period ended 31/02/2011

Direct material 75000 Material c/d 25000
 In transit on 31/02/11 10000

- (ii) Discuss the objective of service costing
- (i) It is used for computing the related operating cost
- (ii) To collect actual cost under different heads
- (iii) To fix up the rate to be charged for providing service to customers
- (iv) To decide the definite policy either to use own source or hire from outside for providing services especially in case of transport costing.
- (v) To help the concern to take appropriate decision for reducing the service cost
- (vi) A cost per unit of service should be computed.
- (vii) The cost per unit of service should be used as part of control service function.
- (iii) Explain 4 methods of cost estimation
 - i) Account analysis.
 - ii) High-low method.
 - iii) Scattergraph method.
 - iv) Regression analysis.

Account analysis

The method requires that an experienced employee or group of employees review the appropriate accounts and determine whether the cost in each account are fixed or variable.

High - low method

This represents an objective way of segregating the mixed cost into fixed and variable element by applying the following procedures:

- 1) Identify the highest and least activity levels among the observed data.
- 2) determine the difference between the activity levels.

Scattergraph method

This method does not simply use the highest and lowest data points.

Regression Analysis

Regression Analysis is similar to the scattergraph approach in that both fit a straight line to a set of data points to estimate fixed and variable cost

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SALAMANDER PLC
Contract Account for the period ended 28/02/2011

Direct material	75,000
Materials bought on site	195,000
Direct expenses	55,000
Wages paid	150,000
Head office expenses	10,500
Plant depreciation (2090 x 100,000)	29,000
Accrued expenses	
Wages 5,000	
Direct expenses 1,150	6,150
	<u>511,650</u>

Material c/d 25,000
Cost to date c/f 486,650

Cost to date b/d	486,650
Notional profit	
Profit taken 35,010	58,350
Profit not taken <u>23,340</u>	<u>545,000</u>
Materials b/d	25,000

Value of work certified 545,000

profit b/d 23,340

2) Calculation of work-in-progress

Cost to date	486,650
Profit taken	35,010
	<u>521,660</u>
Costs received	(490,500)
Work-in-progress	<u>31,160</u>

Workings

Costs received = 490,500
Value certified = $\frac{490,500}{0.90} = 545,000$
Notional profit = 58,350



Process Account
 Unit | Rate | Amount

Particulars	Qty	Rate	Amount	Particulars	Qty	Rate	Amount
Input mat	6,000	2	12,000	Normal loss	600	3	1,800
Act: material			7,000	Output	5,000	6.3	31,500
Labour			8,000	Abnormal loss	400		2,500
Expenses			3,000				
Other expenses			800				
Production overhead			5,000				
	6,000		35,800		6,000		35,800

$$\begin{aligned}
 \text{Cost per unit (CPU)} &= \frac{\text{Cost} - \text{Scrap}}{\text{Input material unit} - \text{normal loss unit}} \\
 &= \frac{35,800 - 1,800}{6,000 - 600} = \frac{34,000}{5,400} \\
 &= \text{At } 6.3
 \end{aligned}$$

PROCESS III ACCOUNT							
Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process II transfer	6,000	13.9	82,800				

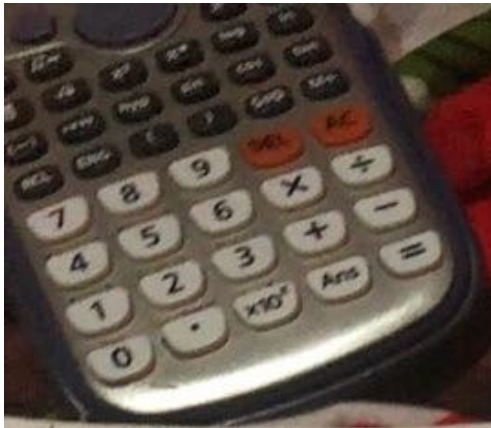
PROCESS II ACCOUNT				PROCESS III ACCOUNT			
Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process I transfer	5,000	6.2	31,500	Normal loss	500	3	1,500
Add: material			8,000	Output	8,000	13.9	83,400
Labour			10,000				
Expenses			4,500				
Other expenses			1,200				
Production overhead			9,000				
Abnormal profit	1,500		20,700				
	6,500		84,900		6,500		84,900
							400

$$\begin{aligned}
 \text{CPU} &= \frac{\text{Cost - Scrap}}{\text{Input method - normal}} \\
 &= \frac{64,200 - 1,500}{5,000 - 500} = \frac{62,700}{4,500} \\
 &= \underline{\underline{13.9}}
 \end{aligned}$$

Number 2

PROCESS II ACCOUNT							
Description	Qty	Rate	Input	Description	Qty	Rate	Amount
Process II Input	6,000	18.4	109,400	Normal loss	400	3	1,200
Add: material			5,000	Output	4,000	18.4	73,600
Labour			7,000	Abnormal loss	1,200		29,600
Expense			2,500				
Other exp			500				
Production overhead			6,000				
	6,000		104,400		6,000		104,400

$$\begin{aligned}
 CPU &= \frac{\text{Cost} - \text{Scrap}}{\text{Input} - \text{normal}} \\
 &= \frac{104,400 - 1,200}{6,000 - 400} = \frac{103,200}{5,600} \\
 &= \text{A } 18.4
 \end{aligned}$$



Kekemeje Ltd

Process Account

Narration | Amt

$$\text{It taken} = \frac{2}{3} \times \text{notional profit} \times \frac{\text{cost received}}{\text{value certified}}$$
$$= \frac{2}{3} \times 58,350 \times \frac{490,550}{545,000}$$

$$= \text{N} 26,010$$

$$\text{profit not take} = (58,350 - 26,010) = \text{N} 23,340$$

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Abnormal loss account

Description	Qty	Rate	Amount	Description	Qty	Rate	Amount
Process I	400		2,500	Scoop	2,000	3	6,000
Process II	1,600		29,600	PIL			26,100
	2,000		32,100		2,000		32,100

Abnormal Gain Account

Description	Qty	Rate	Amount	Description	Qty	Rate	Amount
Scoop	1,500	3	4,500	Process II	1,500		20,700
PIL			16,200				
	1,500		20,700		1,500		20,700

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