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Test
Question 4.

(a) A formal contract is made between the customer and the Supplier i.e a legally binding Contract made between the contractees and the contractor

b Contract costing is concerned with the costing of contruction work or repair works and not with the costing of any goods

c Contract costing the method is similar to job costing. It is used where the job is big and spread over a long period of time

d Contracts are generally on large size and, therefore, a contractor usually carries out a small number of contracts in the course of one year.

e The work frequently constructional in nature

f A contract generally takes more than a year to complete.

g Contract may contain clause for penalty for delay in completion and bonus for any completion

Terminalogies

a) Value of work satisfied :- This is the market value of work certified by cost accountant.

b) Estimated Price :- This is the contract price minus the estimated cost of contract

c) Cost of work certified :- This is the total cost incurred on the portion certified

d) ~~Re~~ [illegible]

d) Architecture Certificate :- This is the Certificate of work done issued by an architecture at every stage of valuation

e) Contract price :- Agreed price for the contract between the Contractor and the contractee.

ii Objectives of service costing

a) The cost per unit of service should be computed.

b) The cost per unit of service should be used as part of control function

c) Prices should be computed for services being sold to third parties services rendered from one department to another.

d) Planned cost should be compared with actual cost and the ~~differences~~ differences should be investigated for corrective actions necessary.

(ii) Methods of cost estimation:-

(1) Engineering method:- Engineering method is used when there is engineering analysis of technological relationship between input and output e.g. work sampling, Methods study and time motion studies costs are estimated based on observation s of the underlying physical quantities needed for an activity. One of the advantages of engineering method is that is good when direct costs form a large part of the total cost, but one of the disadvantages is that it is expensive to apply

(2) Account classification method:-
This is also called account analysis, this approach requires that an experienced employee or group of employee review the appropriate accounts and determine whether the costs in each accounts and determine whether the cost sin each account are fixed or variable. Items of expenditure within the accounts for some level are inspected and classified as fixed variable or semi-variable cost. It is very fast.

3 High low method:- It uses historical information from several reporting periods to estimate costs. It is the object method of segregation mixed cost into fixed and variable costs through the following process:

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 levels.
d. Calculate difference between the costs of highest and low activity levels.
e. Divide the cost difference by the difference in activity levels (divide (d) by (b))

f Use "b" which is the variable cost per unit to determine the cost of or fixed cost using cost formula: $TC = FC + VC$ which can also be expressed as $Y = a + bx$

$Y = TC$, $a = FC$, $b =$ variable cost

Unit and $x =$ unit of output.

Question 1

Statement P/C

CONTRACT ACCOUNT ~~A/C~~ AT 28 February, 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 Dep'. (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 W.I.P

	₦
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 $\frac{\text{Cash Rec'd}}{\text{Value certified}}$

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

= ₦35,010

Profit Not taken = (58,350 - 35,010) =

= ₦23,340,,

Question 3

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Process I Account

Particular	Qty	Rate ₦	Amount ₦	Particular	Qty	Rate ₦	Amount ₦
Input Met	6,000	2	12,000	Normal loss	600	3	1,800
Add'l Material			7,000	Output	5,000	6.3	31,500
Labour			8,000	Abnormal loss	400		2,500
O/E			3,000				
O/t			800				
			6,000				
	6,000		35,800		6,000		35,800

Cost per unit (CPU) = Cost − Scrap
Input material unit − Normal loss units

= 35,800 − 1800 / 6,000 − 600 = 34,000 / 5,400 = ₦6.2963

Process II Account

Particular	Qty	Rate	Amount	Particular	Qty	Rate ₦	Amount ₦
Process II trans	5,000	6.2963	31481.5	Normal loss	600	3	1,500
b/d: Met			18,000	Output	6,000	13.9292	83575.2
D/Labour			10,000				
Expenses			4,500				
Other Exp.			1,200				
Prod. Overhead			9,000				
Normal gain	1,500	13.9292	20,893.8				
	6,500		85,075		6,500		85,075

CPU = Cost − Scrap / Input met − Normal loss = 64181.5 − 1500 / 6,000 − 600 = 62681.5 / 4,500

= ₦13.9292

Process III Account

Particular	Qty	Rate	Amount	Particular	Qty	Rate	Amount
		₦	₦			₦	₦
Process I transfer	61000	139292	83575·2	Normal loss	400	3	1,200
Add! Material			5,000	Output	41000	18·4	738392
D/L			7,000	Abnormal loss	1,500	18·4	29535
O/E			21500				
O/E			500				
Prod. Overhead			61000				
	6						
	61000		104575		61000		104575

$$CPU = \frac{\text{Cost} - \text{Scrap}}{\text{Input} - \text{Normal loss}} = \frac{104575 - 1200}{61000 - 400}$$

$$= \frac{103375}{5,600} - 2 = ₦18.4598$$

Abnormal Gain Account

Particular	Qty	Rate	Amount	Particular	Qty	Rate	Amount
		₦	₦			₦	₦
Scrap	1,500	3	4,500	Process II	1,500	13·9292	20893·8
P/L							
	11500		20893·8		1500		20893·8

Abnormal Loss Account

Particular	Qty	Rate	Amount	Particular	Qty	Rate	Amount
						₦	₦
Process I	400	62963	31481·5	Scrap	1200	3	3600
Process II	1600	18·4698	29535·68	P/L	800		
	21000		61017·18		2000		61017·18