

OMOTOSO OLUWAFUNKE

18/1/2021/045

Salamander PLC

Contract account for the period ended 28/2/11

	₦		₦
Direct material issued		<del>Materials</del>	
Materials bought on site	75,000	Materials c/f	25,000
Direct expenses	195,000	Cost to date c/f	486,650
Wages paid	55,000		
Head office expenses	150,000		
Plant depreciation (20% x 100,000)	10,500		
Accrued expenses:	20,000		
Wages	5,000		
Direct expenses	1,150		
	<u>6,150</u>		
	<u>511,650</u>		
Cost to date b/d	486,650	Value of work certified	<u>511,650</u>
Notional profit:			545,000
Profit taken	35,010		
Profit not taken	<u>23,340</u>		
	<u>58,350</u>		
	<u>545,000</u>		
Material b/f	25,000	Profit b/f	<u>545,000</u>
			<u>23,340</u>

6) Calculation of work in progress

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

Workings for no 1

Cash received 490,500

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

Notional profit = 58,350

$$\begin{aligned} \text{Profit taken} &= \frac{2}{3} \times \text{notional profit} \times \frac{\text{Cash received}}{\text{Value certified}} \\ &= \frac{2}{3} \times 58,350 \times \frac{490,500}{545,000} \\ &= 35,010 \end{aligned}$$

$$\text{Profit not taken} = (58,350 - 35,010) = 23,340$$

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MATRIC NO: 18/SMS02/045

### Features of contract costing

- 4i) - A formal contract is made between the customer and the supplier or a contractee and contractor.
- Contract work is often based on size and the size is determined by the amount involved.
  - Certificate of work done is also known as work certified.
  - There is often an architect engaged by a contractee to monitor the job and issue certificate of work done at every stage of valuation.
  - Work are usually for long duration often more than one accounting period.
  - Retention money or fund may be deducted from progress payment.
  - Contract may contain clause of penalty for delay in completion.

### Terminologies of contract costing

- Contract price - This is also known as the agreed price
- Cost to date - This is the addition of all costs incurred to date on the contract.
- Progress payment - This is the payment made at every specific stage of contract based.
- Notional profit or loss - Profit earned on the contract to date
- Value of work certified - Market value of work certified by cost accountant

- 4ii) - Planned costs should be compared with actual cost and the differences should be investigated for corrective actions which is necessary.
- The cost per unit should be used as part of the control function
  - Prices should be computed for services being sold to third parties
  - In order to help management plan, control and make decisions, cost should be analysed into fixed, variable and mixed cost

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4iii) Engineering method

~~Least square  
Account classification method~~

High-low method

Graphical method.

Engineering method - Is used when there is engineering analysis of technological relationship between input and output. Eg work sampling, methods study and time motion studies. Costs are estimated based on observations of the underlying physical quantities needed for an activity. It is good when direct costs form a large part of total cost.

Least square - The application of linear equation formula is:  
 $y = a + bx$  is used to derive the regression equations.  $y$  stands for total or mixed costs,  $a$  stands for constant factor or total fixed cost,  $b$  stands for variable cost and  $x$  is for activity level.

High low method - This is object method of segregation mixed cost into fixed and variable costs through the following process:

- Pick the highest and least activity level
- Calculate the difference between two levels
- Pick corresponding cost of highest and lowest levels
- Calculate the difference between the costs of highest and lowest activity levels
- Divide the cost difference by difference in activity levels
- Use "e" which is the variable cost per unit to determine total cost or fixed cost

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(Continuation of 4iii)

Graphical method - Graphical method uses all observations in arriving at the cost 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.

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3)

Kekemeke Ltd

Process 1 account

Narration	Qty	Rate	Amount (₦)	Narration	Qty	Rate	Amount (₦)
Input mat	6,000	2	12,000	Normal loss	600	3	1,800
Add: 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 overheads			5,000				
	6,000		35,800		6,000		36,800

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

$\frac{35,800 - 1,800}{6000 - 600} = \frac{34,000}{5,400}$

= ₦6.3

## Process 2 Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process 1 transfer	5000	6.3	31,500	Normal loss	500	3	1,500
Add: material			8,000	output	6,000	13.9	83,400
Labour			10,000				
expenses			4,500				
other expenses			1,200				
Production overhead			9,000				
Abnormal profit	1500		29,700				
	6,500		84,900		6,500		84,900

$$C.P.U = \frac{\text{Cost} - \text{scrap}}{\text{Input material} - \text{normal}}$$

$$= \frac{64,200 - 1,500}{5,000 - 500} = \frac{62,700}{4,500}$$

$$= 13.9$$

$$= \text{₹ } 13.9$$

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Process III Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process II transfer	6,000	13.9	83,400	Normal loss	400	3	1,200
Add: material			5,000	output	4,000	18.4	73,600
labour			7,000	Abnormal loss	1,600		29,600
expenses			2,500				
other exp			500				
prod. overheads			6,000				
			104,400				
	6,000				6,000		104,400

C.P.U = Cost - scrap

Input material - normal loss

$$\frac{= 104,400 - 1,200}{6,000 - 400} = \frac{103,200}{5,600}$$

= ₦18.4



### Abnormal Loss account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process I	400		2,800	Scrap	2,000	3	6,000
Process III	1,600		29,600	P/L			26,100
	2,000		32,100		2,000		32,100

### Abnormal Gain account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Scrap	1,500	3	4,500	Process III	1,500		20,700
P/L			16,200				
	1,500		20,700		1,500		20,700

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2)

Running Cost

$$\text{Petrol } \left[ \frac{50 \times 2 \times 2 \times 8}{8} \times 50 \right]$$

₦  
10,000

₦

Repairs (120 × 8)

960

$$\text{Depreciation on lorry } \left[ \frac{20,000 - 2,000 \times 5,000}{100,000} \times 1 \right]$$

900

$$\text{Depreciation on tyres } \left[ \frac{2,000}{20,000} \times 5,000 \right] \times 1$$

500

12,360

Running cost

Drivers wages

200

Garage bills (5 × 10 × 8)

400

Insurance  $\left( \frac{2,000}{52} \times 8 \right)$

Vehicle license  $\left[ \frac{52,000}{52} \times 8 \right]$

Other overhead cost  $\left[ \frac{78,000}{52} \times 8 \right]$