

# 18/SM/S02/002 Adebayo Abiola Accounting

Salamanca plc construction Company.  
Contract Account for the period ended 30/2/11

	£	material b/f cost to date b/f.	£
material issued to site	75000		25000
material bought to site	195000		486650
Direct expenses	55000		
Wages	150000		
Head office	10500		
Plant depreciation (20% x 100 000)	20000		
Accrued expenses			
wages 5000			
Direct expenses 1150	6150		511650
Cost to date	<u>486650</u>	work certified	<u>4905000</u>
notional profit:			
taken: 294556.7			
not taken: 4123793.			
	4418350		
	<u>4905000</u>		<u>4905000</u>

$$\text{work certified} = \frac{\text{cash received}}{\text{cash collected rate}} = \frac{490500.00}{0.1} = 4905000$$

$$\text{profit taken} = \frac{2}{3} \times \text{notional profit} \times \frac{\text{Cash received}}{\text{work certified}}$$

$$\frac{2}{3} \times 4418350 \times \frac{490500.00}{4905000} = 294556.7$$

$$\begin{aligned} \text{work in progress} &= \text{Cost to date} + \text{profit taken} - \text{cash received} \\ &= 486650 + 294556.7 - 490500 \\ &= 290706.7 \end{aligned}$$

$$\therefore 490500 = \frac{10}{100} \text{ of } x$$

$$\frac{490500}{1} = \frac{10x}{100}$$

$$\begin{aligned} &= 10x = 100 \times 490500 \\ &= \underline{49050000} = 4905000 \end{aligned}$$

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narration	Qty	Rate	Account	Amount	narration	Qty	Rate	Amount
input mat	6000	2		12000	normal loss	600	3	1800
add. material				7000	output	5000	6.3	31500
labour				8000	abnormal loss	400		2500
expenses				3000				
other expenses				800				
production overhead				5000				
	6000			35800		6000		35800

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

$$\frac{35800 - 1800}{6000 - 600} = \frac{34000}{5400}$$

$$= 6.3$$

3) Adibayo Abiola IS (MS021002

Accounting			Abnormal loss Account				
narration	qty	rate	Amount	narration	qty	rate	Amount
Process I	400		2500	Scrap	2000	3	6000
Process III	1600		29600	PI L			26100
	<u>2000</u>		<u>32100</u>		<u>2000</u>		<u>32100</u>

Abnormal gain account

narration	qty	rate	Amount	narration	qty	rate	Amount
Scrap	1500	3	4500	Process III	1500		20700
PI L			16200				
	<u>1500</u>		<u>20700</u>		<u>1500</u>		<u>20700</u>



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Process II Account *Acetone Ltd*

Narration	Qty	Date	Amount	Narration	Qty	Rate	Amount
Process I Transfer	5000	6-3	31500	Normal loss	500	3	1500
Add: material			8000	Output	6000	13.9	83400
Labour			10000				
Expenses			4500				
Other expenses			1200				
Production overhead			9000				
Abnormal profit	1500		20700				
	<u>6500</u>		<u>84900</u>		<u>6500</u>		<u>84900</u>

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

$$\frac{64200 - 1500}{5000 - 500} = \frac{62700}{4500}$$

$$= \text{A } 13.9.$$

overheads

3) Adebayo Abiola 18/5/2021 Accounting

Process III Account

Narration	Qty	Date	Amount	Narration	Qty	Rate	Amount
Input mat	6000	2	12000	Normal loss	600	3	1800
Add: material			7000	output	5600	6.3	31500
labour expenses			8000	Abnormal loss	400		2500
Other expenses			3000				
production overhead			800				
			5000				
	6000		35,800		6000		35,800

cost per unit = Cost - Scrap

Input material unit - normal loss unit

$$\frac{35800}{6000} - \frac{1800}{600} = \frac{35800 - 1800}{6000 - 600} = \frac{34000}{5400} = 6.3$$



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Process II Account Reckemete Ltd

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process I Transfer	5000	6.3	31500	Normal loss	500	3	1500
Add: material			8000	Output	6000	13.9	83400
Labour			10000				
Expenses			4500				
Other expenses			1200				
Production overhead			9000				
Abnormal profit	1500		20700				
	6500		84900		6500		84900

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

$$\frac{64200 - 1500}{5000 - 500} = \frac{62700}{4500}$$

$$= 13.9$$

## features of contract costing

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- ① A formal contract is made between customer and supplier
- ② work is undertaken to customer's special requirement
- ③ the work are usually for long duration often more than 1 accounting period
- ④ there may be sub contract.
- ⑤ the work is frequently constructional in nature
- ⑥ it is similar to job costing
- ⑦ payment on account are usually made against work certified.
- ⑧ Retention fund may be deducted from progress payment
- ⑨ Contract may contain clause for penalty for delay in completion
- ⑩ the contract is often base on size and size is determined by price.

## Terminologies

- ① contract price agreed price of contract
- ② Architect certificate - certificate of work done at every stage
- ③ progress payment: money given / paid in continuous progress payment made at every specific base on certificate of work done
- ④ cost to date: addition of all cost incurred to date on all the contract.

## Objectives of service costing

- ① planned cost to be compared with actual cost and the differences can be investigated for corrective action
- ② A cost per unit of service should be computed
- ③ A cost per unit of service should be used as part of control function
- ④ prices should be computed for services be sold to third parties.
- ⑤ cost should be analysed into fixed, mixed and variable cost for management plan.

## method of cost estimation

- ① Account analysis  
high low method  
scatter graph method  
regression analysis

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(ii) High low method

The method requires way of segregating the mixed cost fixed and variable element by applying the highest and least activity level among observed data to determine the differences

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



Letelele PIC.  
Running cost

<del>Petrol (20000x)</del>		
Petrol $\frac{20 \times 2 \times 2 \times 8}{20} \times 50$		1600
Petrol cost		
Driver's wages (200x8)		160
Repairs (20x8)		160
Garage bill (5day-week) 5x8x8		320
Cost of long <del>when new</del> Depreciation $\frac{20000 - 2000}{20000} \times$		
Residual value of long life of long		
insurance		
cost of a set tyres		
cost of vehicle licence		
Other overhead cost $\frac{7800}{52} \times 8$		1200

Letelele PIC.  
Running cost

Petrol $\frac{20 \times 2 \times 2 \times 8}{20} \times 50$		1600
<del>Driver's wages (200x8)</del>		<del>160</del>
Repairs (20x8)		160
<del>garaging (5x8x8)</del>		<del>320</del>
Depreciation on vehicle $\frac{20000 - 2000}{20000} \times 5000$		4500
Depreciation of tyres $\frac{18750}{20000} \times 5000$		4687.5
running cost		
Driver's wages (200x8)		160
garaging (5x8x8)		320
insurance $\frac{2000}{52} \times 8$		307.7
Other overhead cost $\frac{7800}{52} \times 8$		1200
Vehicle licence $\frac{5200}{52} \times 8$		800
Standing cost		
vehicle cost per mile = $\frac{2787.7}{11747.5} = 0.237$ /mile.		2787.7