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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 |
| Wages paid | 55,000 | | |
| Head office | 10,500 | | |
| Plant Dep (20% x 100,000) | 20,000 | | |
| Accrued exp | | | |
| Wages | 5000 | | |
| Direct exp | 1,150 | | |
| | <u>511,650</u> | | <u>511,650</u> |
| Cost to date b/f | 486,650 | Value of work certified | 545,000 |
| National Profit | | | |
| Profit taken | 35,010 | | |
| Profit not taken | 23,340 | | |
| | <u>58,350</u> | | |
| | <u>545,000</u> | | <u>545,000</u> |
| Material | 25,000 | Profit b/f | 23,340 |

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- 4) Estimated Profit: This is the Contract Price - Estimated Cost of the contract.
- 5) Cost of work Certified :- This is the total Cost Incurred

(4ii)

Objectives of Service Costing.

- i) Planned Cost should be achieved in the process of service costing are investigated for corrective actions as necessary.
- ii) The Cost Per unit of service should be used as part of control function.
- iii) Prices should be computed for services being sold to third parties.
- iv) A cost per unit of service should be computed.
- v) In order to help management plan, control and make cost should be analyzed into fixed, variable and mixed cost.

(4iii)

Engineering methods :- This is used when there is engineering analysis of technological relationship between input and output eg work sampling, method studies etc. This method is commonly used for estimating of repetitive processes with clearly defined input or output relationships.

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$$\text{Cost Per unit (CPU)} = \frac{\text{Cost} - \text{Scrap}}{\text{Input material unit} - \text{normal cost unit}}$$

Input material unit - normal cost unit

$$= \frac{35,800 - 1,800}{6,000 - 600} = \frac{34,000}{5,400}$$

$$= \text{₹ } 6.3$$

$$= \text{₹ } 6.3$$

Process II Account

| Narration | Qty | Rate | Amount | Narration | Qty | Rate | Amount |
|-----------------|-------|------|--------|-------------|-------|------|--------|
| Process I trans | 5,000 | 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 Exp. | | | 1,200 | | | | |
| Production ov | | | 9,000 | | | | |
| Abnormal Profit | 1,500 | | 20,700 | | | | |
| | 6,500 | | 84,900 | | 6,500 | | 84,900 |

$$\text{CPU} = \frac{\text{Cost} - \text{Scrap}}{\text{Input material} - \text{normal}}$$

Input material - normal

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

$$= \text{₹ } 13.9$$

$$= \text{₹ } 13.9$$

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QUESTION 4

Features of Contract Costing

- 1) There maybe sub-contract
- 2) The work is frequently constructional in nature
- 3) The method of Contract costing is similar to Job costing.
- 4) The work are usually for long duration often more than one accounting period.
- 5) The Certificate of work done is also known as work satisfied or architect valuation.

Terminologies used in Contract Costing

1) Contract Price:- The agreed price of Contract between contractor and contractee

2) Certificate of work done / Architect Certificate
This is a certificate issued for work done to the Contractor by an architect

3) Progress Payment | Money gotten on continuous progress of the contract. Payment made at specific stage of the contract based on certificate of work done.

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Question (1)

Calculation of work in Progress

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

Workings

| | |
|-----------------|---------------------------------|
| Cash received | 490,500 |
| Value Certified | $490,500 \times 0.90 = 545,000$ |

National Profit = 58,350

Profit taken = $\frac{2}{3} \times \text{NP} \times \frac{\text{Cash Received}}{\text{Value Certified}}$

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

$$= \text{N} 35,010$$

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

QUESTION 3KeKeme 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 | Out Put | 5,000 | 6.3 | 31,500 |
| Labour | | | 8,000 | Abnormal loss | 400 | | |
| Expenses | | | 3,000 | | | | |
| Other Expen | | | 800 | | | | |
| Production overh | | | 5,000 | | | | |
| | 6,000 | | 35,000 | | 6,000 | | 35,000 |

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unit

| Narration | Qty | Rate | Amount | Narration | Qty | Rate | Amount |
|------------|-------|------|--------|-----------|------|------|--------|
| Process I | 400 | | 2,900 | Scrap | 2000 | 3 | 6000 |
| Process II | 1,600 | | 29,600 | P/L | | | 26,100 |
| | 2,000 | | 32,100 | | 2000 | | 32,100 |

Abnormal Cost Account

| Narration | Qty | Rate | Amount | Narration | Qty | Rate | Amount |
|-----------|-------|------|--------|------------|-------|------|--------|
| Scrap | 1,500 | 3 | 4,500 | Process II | 1,500 | | 20,700 |
| P/L | | | 16,300 | | | | |
| | 1,500 | | 20,400 | | 1,500 | | 20,700 |

Process III Account

| Narration | Qty | Rate | Amount | Narration | Qty | Rate | Amount |
|-----------------|-------|------|---------|---------------|-------|------|---------|
| Proc. II trans | 6000 | 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 | | | 2,900 | | | | |
| Other Exp. | | | 500 | | | | |
| Production cost | | | 6,000 | | | | |
| | 6,000 | | 104,400 | | 6,000 | | 104,400 |

$CPU = \frac{\text{Cost} - \text{Scrap}}{\text{Output}}$

Input material - Normal

$= \frac{104,400 - 1,200}{6000 - 400} = \frac{103,200}{5,600}$

$= 18.4$

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

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 among the observed data.

→ Calculate the differences between two activity levels.

→ Pick the corresponding cost of the highest and lowest activity level.

4) Graphical or scattergraph 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 driving at the cost estimated and this led to the discovery of graphical method, graphical method uses all observations in arriving at the cost estimate.