

Adeoye Anthony Oluwadamilola

Business Administration

181sm8031002

2 Lekanleke PLC

	₦	₦
Running Cost		
Petrol $\left[\frac{50 \times 2 \times 2 \times 8 \times 10}{8} \right] \times 50$	20,000	
Repairs (120 x 8)	960	
Depreciation on Lorry $\left(\frac{20,000 - 2,000}{100,000} \times 5000 \right)$	900	
Depreciation on tires $\left(\frac{2,000}{20,000} \times 5000 \right)$	<u>560</u>	
		24,420
Running cost		
Drivers wages	200	
Garage bill (10 x 5 x 8)	400	
Insurance $\left(\frac{2,000}{52} \times 8 \right)$	307.7	
Vehicle license cost $\left(\frac{5,200}{52} \times 8 \right)$	800	
Other overhead cost $\left(\frac{7,800}{52} \times 8 \right)$	<u>1,200</u>	2,307.8
		24,727.8

b Vehicle cost per mile = $\frac{24,727.8}{5000} = 2.9456$

Total cost / mile = $\frac{24,727.8}{5000} \times 12 = 35.34$ tone/km

Tonne mile travelled = $\frac{3000}{2} \times 12$ tones
= 30,000 tones/mile

4 Features of Contract Costing

- i There may be sub-contract
- ii Contracts are frequently constructional in nature
- iii The work is usually for a long duration of time more than 12 months
- iv The method of costing is similar to job costing
- v Payment on account are usually made against work certified

Terminologies in Contract Costing

- i Net actual profit/loss: Profit earned on the contract to date $\frac{\text{Difference of work certified and cost of work certified}}{\text{Contract price minus estimated cost of the contract}}$
- ii Estimated profit: $\frac{\text{Contract price minus estimated cost of the contract}}{\text{Contract price}}$
- iii Cost to date: Addition of all cost incurred to date during the contract.
- iv Contract Price: Agreed price between the contractor
- v Architect Certificate - Certified work done issued by the architect

4 Objectives of Service Costing

- The cost per unit of service should be used as part of Costal function
- Service costing is used for computing the related operating cost
- To collect actual cost under different heads. To help the concern to take appropriate decision for reducing the service cost.

4) Methods of cost estimation

I Engineering method is used where there is engineering analysis of technological relationship between input and output of work sampling, methods study. Cost are estimated based on observation of time and by physical quantities needed.

II High low method. This is the objective method of segregation mixed cost into fixed and variable cost through the following process

- Pick the highest and lowest activity level among the observed data
- Calculate the difference between 2 activity levels
- Pick the corresponding cost of the highest and lowest activity

III Graphical Method. This method uses all observations in arriving at the cost estimate. It is used by plotting the observations against activity level on graph and a line of best-fit drawn diagonally across the observed graph by equally dividing them into equal part by the line

IV Linear Regression method: The application of linear equation formula: $y = a + bx$ is used to derive the regression equation. y stands for total or mixed cost, a stands for constant factor, b stands for variable cost & x stands for activity level or independent variable.

i) Salamander P/Lc

Contract account AS AT 28 February, 2011

Direct material issued	75,000	Materials c/f	25,000
Materials bought on site	195,000	Cost to date "f	486,650
Direct expenses	55,000		
Wages Paid	150,000		
Head office expenses	10,500		
Plant Depreciation (20% x 100,000)	20,000		
Wages	5,000		
Direct expenses	1,150		
	<u>511,650</u>		<u>511,650</u>
Cost to date b/d	486,650	value of work certified	545,000
Profit not taken	35,010		
	<u>23,340</u>		

5,000
1,150
6,150

5) Calculation of work in progress

Cost to date	486,650
Profit taken	<u>35,000</u>
	521,650
Cash received	<u>(490,500)</u>
Work-in-progress	<u>31,150</u>

Computation of Profit taken

$$\text{Profit taken} = \frac{2}{3} \times \text{Notional profit} \times \frac{\text{cash received}}{\text{value of work certified}}$$

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

$$= \text{Rs } 35,000$$

$$\text{Profit not taken} = (58,350 - 35,000) = \text{Rs } 23,350$$

3) RETEMER LTD

Process 1 account

Particular	Qty	Rate	Amount	Particular	Qty	Rate	Amount
Input material	8000	2	12,000	Normal loss	600	3	1,800
Add materials			7,000	Output	5000	6.2963	31,481.5
Labour			8,000	Abnormal loss	400	6.2963	2,518.5
Direct Expenses			3,000				
Other expenses			800				
Profit overhead			<u>5,000</u>				
	<u>6,000</u>		35,800		<u>6,000</u>		<u>35,800</u>

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

$$= \frac{35,800 - 1,800}{6,000 - 600} = \frac{34,000}{5,400} = \text{Rs } 6.2963$$

Process II Account

Particulars	Qty	Rate (₹)	Amount	Particulars	Qty	Rate (₹)	Amount
Process I transfer	5,000	6.2983	31,481.5	Normal loss	500	3	1,500
bl'd material			18,000	Output	6,000	13.9292	83,575.2
Direct labour			10,000				
Direct expenses			4,500				
Other expenses			1,200				
Production overhead			9,000				
Normal loss	1,500	13.9292	20,893.8				
			20,893.8				
			8,507.5				
	<u>6,500</u>				<u>6,500</u>		<u>85,075.2</u>

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

Input material - Normal loss

$$= \frac{64,811.5 - 1,500}{5,000 - 500} = \frac{62,811.5}{4,500} = ₹ 13.9292$$

Process III Account

Particulars	Qty	Rate	Amount	Particulars	Qty	Rate	Amount
Process 2 transfer	6,000	13.9292	83,575.2	Normal loss	400	3	1,200
Material			5,000	Output	4,000	18.4598	73,839.2
Direct labour			7,000	Abnormal loss	1,600	18.4598	29,535.68
Direct expenses			2,500				
Overhead expenses			500				
Prod overhead			6,000				
	<u>6,000</u>		<u>104,575.2</u>		<u>6,000</u>		<u>104,575.2</u>

Cost per unit = $\frac{\text{Cost} - \text{Scrap}}{\text{Input} - \text{Normal loss}}$

Input - Normal loss

$$= \frac{104,575.2 - 1,200}{6,000 - 400}$$

$$= \frac{103,375.2}{5,600}$$

$$= ₹ 18.4598$$

Abnormal Loss Account

Particulars	Qty	Rate	Amount	Particulars	Qty	Rate	Amount
Process 1	400	6.2903	31481.5	Scrap	1200	3	3600
Process 2	1600	18.4598	29535.68	Profit or loss	800		57417.18
	<u>2000</u>		<u>61017.18</u>		<u>2000</u>		<u>61017.18</u>

4) Methods of cost estimation

I Engineering method is used where there is engineering analysis of technological relationship between input and output e.g. work sampling, methods study. Cost are estimated based on observation of the order by physical quantities made.

II High low method. This is the objective method of segregation mixed cost into fixed and variable cost through the following process

- Pick the highest and lowest activity level among the observed data
- Calculate the difference between 2 activity levels
- Pick the corresponding cost of the highest and lowest activity

III Graphical Method. This method uses all observations in arriving at the cost estimate. It is used by plotting the observations against activity level on graph and a line of best-fit drawn diagonally across the observed graph by equally dividing them into equal part by the line

IV Linear Regression method: The application of linear equation formula: $y = a + bx$ is used to derive the regression equation; y stands for total or mixed cost, a stands for constant factor, b stands for variable cost & x stands for activity level or independent variable.

1 Salamander P/Lc

Contract account AS AT 28 February, 2011

Direct material issued	75,000	Materials c/f	25,000
Materials bought on site	195,000	Cost to date "f	486,650
Direct expenses	55,000		
Wages Paid	150,000		
Head office expenses	10,500		
Plant Depreciation (20% x 100,000)	20,000		
Wages	5,000		
Direct expenses	1,150		
	<u>511,650</u>		<u>511,650</u>
Cost to date b/d	486,650	value of work certified	545,000
Provision for contract	35,010		
Profit not taken	23,340		