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— Terminologies of Contract Costing.

④ Contract Price: The agreed price of contract between contractor and contractee

- * Certificate of work done or Architect certificate is a certification used for work done to the contractor by an architect.
- * Progress Payment: Money gotten on continuous progress of the contract payment made at specific stage of the contract based on certificate of work done.
- * Cost of Date: addition/sum of all cost incurred to date on the contract.

— Features of Contract Costing

- * The works are usually for long duration often more than one accounting period
- * There may be sub-contract
- * The work is frequently constructional in nature
- * Retention money may be deducted from progress payment
- * Work is undertaken to customers special requirements.
- * The method of contract costing is similar to job costing.

④ Objectives of Service Costing.

- * Planned cost should be achieved in the process of service costing and investigate for corrective actions as necessary.
- * The cost per unit of service should be used as part of control function.
- * A cost per unit of service should be computed
- * Prices should be computed for services being sold to third parties
- * In order to help management plan, control and make cost should be analyzed into fixed, variable and mixed cost

④ ~~Price the highest and least activity level among the observed data.~~

Graphical or Scattergraph Method: As a result of over reliance on high and low value 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 arriving at the cost estimate and this led to the discovery of graphical method. Graphical method used all observations in arriving at the cost estimate.

- * Least Square or linear Regression method: The application of linear equation formula $y = a + bx$ is used to derive the regression equations. y stands for total or mixed cost, b stands for variable cost and x stands for activity level or independent variable.
- * Account Classification: This is a subjective way of classifying mixed cost into fixed and variable costs using personal experience by cost accountants. Items of expenditure within the accounts for some output level are inspected and classified as fixed, variable or semi-variable cost.
- * 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 observations of the underlying physical quantities needed for an activity.
- * High Low Method: This is object method of segregation mixed cost into fixed and variable cost through the following processes:
 - Pick the highest and least activity level among the observed data.
 - Calculate the difference between the two activity levels.
 - Pick the corresponding cost of the highest and lowest activity levels.
 - Calculate the difference between the cost of highest and lowest activity levels.

①

SALAMANDER PLC.

Contract Account As at February 28, 2011.

| | | | |
|------------------------------------|----------------|-------------------------|----------------|
| Direct materials issued | 75,000 | Material b/f | 25,000 |
| Materials bought on site | 195,000 | Cost of date of b/f | 486,000 |
| Direct Expenses | 55,000 | | |
| Wages paid | 150,000 | | |
| Head office expenses | 10,000 | | |
| Plant depreciation (20% x 100,000) | 20,000 | | |
| Accrued Expenses: | | | |
| Wages 5,000 | | | |
| Direct expenses 150 | 6,150 | | |
| | <u>516,650</u> | | <u>511,650</u> |
| Cost to date b/f | 486,650 | Value of work certified | 545,000 |
| Retained profit | | | |
| Profit taken 35,600 | 58,950 | | |
| Profit not taken 23,340 | <u>545,000</u> | | <u>545,000</u> |
| Material b/f | 25,000 | Profit b/f | 23,340 |

②

UKANA FAVOUR

18/5/2021

①

Calculation of work in progress

| | |
|------------------|---------------|
| Cost to date | 486,650 |
| Profit taken | 35010 |
| | <hr/> |
| | 521,660 |
| Cash Received | (490,500) |
| | <hr/> |
| work in progress | <u>31,160</u> |

Workings:

Cash Received = 490,500

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

National Profit = 58,350

Profit taken = $\frac{2}{3} \times \text{National Profit} \times \frac{\text{Cash Received}}{\text{Value Certified}}$
 $= \frac{2}{3} \times 58,350 \times \frac{490,500}{545,000}$
 $= \text{\#} 35,010$

Profit taken = $(58,350 - 35,010) = \text{\#} 23,340$

38900 0.9

0.67

③

Kekemeke Ltd

Process Account

| Narration | Qty | Rate | Amount | Narration | Qty | Rate | Amount |
|---------------------|-------|------|--------|---------------|-------|------|--------|
| Input met | 6,000 | 2 | 12,000 | Normal loss | 600 | 2 | 1,200 |
| Add: material | | | 7,000 | output | 5,000 | 6.3 | 31,500 |
| labour | | | 8,000 | Abnormal loss | 400 | | 2,500 |
| expenses | | | 3,000 | | | | |
| off expenses | | | 800 | | | | |
| Production overhead | | | 5,000 | | | | |
| | 6,000 | | 35,800 | | 6,000 | | 35,800 |

Cost per unit (cup) = $\frac{\text{Cost} - \text{Scrap}}{\text{Input material unit} - \text{Normal cost unit}}$
 $= \frac{35,800 - 1,200}{6,000 - 600} = \frac{34,600}{5,400}$
 $= \text{\#} 6.3$

③

Process # 11-11-11

| Narration | Qty | Rate | Amount | Narration | Qty | Rate | Amount |
|---------------------|-------|------|--------|-------------|-------|------|--------|
| Process | 5,000 | 6.3 | 31,500 | Normal loss | 500 | 3 | 1,500 |
| Acid: 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 | 1,500 | | 20,700 | | | | |
| | 6,500 | | 84,900 | | 6,500 | | 84,900 |

$$\begin{aligned}
 \text{CUP} &= \frac{\text{Cost} - \text{Scrap}}{\text{Input material} - \text{normal}} \\
 &= \frac{64,200 - 1,500}{5,000 - 500} = \frac{62,700}{4,500} \\
 &= \underline{\underline{\$ 13.9}}
 \end{aligned}$$

Abnormal loss Account

| Narration | Qty | Rate | Amount | Narration | Qty | Rate | Amount |
|------------|-------|------|--------|-----------|-------|------|--------|
| Process I | 400 | | 2,500 | Scrap | 2,000 | | 6,000 |
| Process II | 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 II | 1,500 | | 20,900 |
| P/L | | | 16,200 | | | | |
| | 1,500 | | 20,900 | | 1,500 | | 20,900 |

Ukara Harour

18/5/2021

Process III Account

| Debitation | Qty | Rate | Amount | Creditation | 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 expenses | | | 500 | | | | |
| Production overhead | | | 6,000 | | | | |
| | 6,000 | | 104,400 | | 6,000 | | 104,400 |

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

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

$$= \text{₹} 18.4$$