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Matric : 18/sms02/049

Course : ACC 204

Solution

1.

SALAMANDA Plc

CONTRACT ACCOUNT AS AT JANUARY 28, 2011

	₦		₦
Direct material issued	75,000	Materials c/f	25,000
Material bought on site	195,000	cost to date	486,650
Direct expenses	55,000		
wages paid	150,000		
Head office Expenses	10,500		
plant Depreciation (20% × 100,000)	20,000		
Accrued expenses			
wages 5,000			
Direct expenses 1,150	6,150		
	511,650		511,650
Cost to date c/f	486,650	value of work certified	545,000
National profit			
profit taken 35,010			
profit not taken 23,340	58,350		
	545,000		545,000

5. Calculation of work in progress

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

Workings

Cash Received = 490,500

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

Notional profit = 58,350

Profit taken = $\frac{2}{3}$ × Notional profit × $\frac{\text{Cash Received}}{\text{value certified}}$

= $\frac{2}{3}$ × 58,350 × $\frac{490,550}{545,000}$

Profit Not taken = (58,350 − 35,010) = ₳ 23,340

③ Kekemelee Ltd

process 1 Account

Narration	Qty	Rate	₦ Amount	Narration	Qty	Rate	₦ Amount
Input met	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		2,500
expenses			3,000				
Other expenses			800				
production overh			5,000				
	6,000		35,800		6,000		35,800

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

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

= ₦ 6·3

Process II Account

Narration	Qty	Rate	Amount ₦	Narration	Qty	Rate	Amount ₦
Process I Transfer	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 expenses			1,200				
production overhead			9,000				
Abnormal profit	1,500		20,700				
	6,500		84,900		6,500		84,900

$$\text{CPU} = \frac{\text{cost} - \text{scrap}}{\text{Input material} - \text{normal}}$$

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

$$= ₦13·9$$

Process II Account

Narration	Qty	rate	Amount	Narration	Qty	rate	Amount
Process II transfer	6,000	13·9	83,400	Normal loss	400	3	1,200
Addl: 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				
production overhead			6,000				
	6,000		104,400		6,000		104,400

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

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

$$= ₦ 18·4$$

Abnormal Loss Account

Narration	Qty	Rate	₹ Amount	Narration	Qty	Rate	₹ Amount
process I	400		2,500	Scrap	2,000	3	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		20,700
P/L			16,200				
	1,500		20,700		1,500		20,700

4.: Features

① Payment on account are usually made against work certified

ii. Retention fund or money may be declucted from progress payment

iii. Work is undertaking to customer special requirement

iv. The method of costing is similar to job costing.

v. Contract may contain clause for penalty for delay in completion and bonus for every completion

Terminologies

① Contract price : It is an agreed price between the contractor and the contractee. of the contract

ii. progress payment : It is a payment made at specific stage of the contract based on certificate of work done.

iii. Rentention fee : Is declucted incase of any abnamalities at the end of the work.

iv. Estimated profit : It is the contract price minus (-) estimated cost of the contract.

v. cost to date : It is the addition of all cost incured to date on the contract

4ii. OBjectives

1. To control the cost in service costing can be established in the following ways.

a. comparing actual cost against standard or target cost.

b. comparing present actual cost against previous natural cost of previous periods.

CONT'D 411

2. To control the cost of the user department is necessary to prevent abitrary use of internal services.
The charging of service costs on user department will cost

9. Accurate establishment of overhead cost of user departments → It will enhance identification of same service department variable cost as directly attributable cost of the user department.

b. It helps user department to achieve cost efficiency by sourcing for low cost services externally.

c. It monitors their excessive use of services department in cases where there is high service department charges on user departments.

411 Method

1. Engineering method: is used when there is engineering analysis of technological relationship between input and output eg work sampling etc. Is commonly used for estimating of repetitive processes with clearly defined input-output relationship.

Advantage

1. It is good when direct costs from a large part of the total cost.

Disadvantage

1. It is expensive to apply.

2. High - Low method: is object method of segregation mixed cost into fixed and variable costs through the following process.

a. picks the highest and least activity level among the observed data

b. Calculate the difference between the two level activity

c. pick the corresponding cost of the highest and lowest

d. calculate the difference between costs of highest and lowest activity

e. Divide the cost difference by the difference by + in activity level

f. use "e" which is the variable cost per unit to determine the total cost or fixed cost.

5. Account classification method : is a subjective way of classifying Mixed cost into fixed and variable costs using personal experience by cost accountant.

Advantages

1. It is not expensive
2. It is fast

Disadvantage

1. It is subjective.

4. Graphical or scattergraph method : The graphical method uses all observations in 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 a cross the observed graph be equally dividing them into equal part by the line.