

Name/ Roll No. / Sem / Course / Dept.
LALUWAAL Classification: Onokla.
181 SEMS OR 1032
Cost Accounting. ACC 2011
Accounting.

Question and Solution

Question 4:

4.) The features of Contract Costing are as follows:

i). Materials: This is the bulk of the materials purchased and delivered direct to the contract site or via a depot from the central stores through the requisition slips.

ii). Wages: These cannot be charged directly to any contract and are treated as indirect wages that require apportionment.

iii). Bills of sub-contractors: parts of large contracts are often done by third parties under sub-contract and it's normally prohibited in the region of economy, use of capacity e.t.c.

iv). Direct charges: most of the costs which are normally treated as indirect can be identified specifically with a particular contract and are charged to it as direct costs.

Terminologies used in Contract Costing.

i). Cost of work certified.

ii). Estimated profit: This is the contract price minus estimated cost of the contract.

iii). Notional profit or loss: This is the profit earned on the contract to date.

iv). Progress payment: The money gotten from the progress of the contract.

4B.

Objectives of Service Costing

i). Service Cost analysis in internal service situations.

ii). A cost per unit of service should be computed.

iii). Prices should be computed for services being sold to third parties.

Part 15.

iv) The cost of unit in service should be used as part of the costed function.

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~~The four methods are as follows:~~

~~1) Cost estimation is used to predict the quantity, cost and price of the resources required by the scope of the project.~~

~~2) The cost~~

iii) The four methods are:

i). Engineering method: Is a systematic approach used to reach the desired solution to a problem. They are 6 steps or phases: Idea, Concept, planning, design, development and launch from problem definition to desired result.

ii). Account classification method: This is a method subjective way of classifying mixed cost into fixed cost and variable cost using personal experience by cost accountants.

S.P. SHANDER P.C.

Contract Account as at February 28, 2011

Direct material issued	75,000	Materials - c/f	25,000	
Materials bought on site	1,00,000	Cost of date c/f	4,86,650	
Direct expenses	55,000			
Wages paid	15,000			
Head office expenses	1,150			
Plant depreciation (75% of total)	29,000			
Account expenses				
Wages	5,000			
Direct expenses	1,150	6,150		
		5,11,650	5,11,650	
Cost of date c/f		4,86,650		
Material profit				
profit taken	35,010			
profit not taken	23,340	58,350		
		5,15,000	5,15,000	
		29,000		
Material c/f		25,000	Profit c/f	23,340

b) Calculation of work in progress:

Cost to date	4,86,650
profit taken	75,010
Cash received	5,21,660
work in progress	(4,96,500)
	<u>25,160</u>

Workings:

Cash received 4,96,500

$$\text{Value Certified} = \frac{4,96,500}{0.90} = 5,51,666.67$$

Material profit = 58,350

$$\text{profit taken} = \frac{2}{3} \times \text{Material profit} \times \text{Cash received value certified}$$

$$\frac{2}{3} \times 58,350 \times \frac{4,950}{5,400}$$

$$= 12,501.8$$

$$\text{profit net taken} = (58,350 - 35,010) = \text{Rs } 23,340$$

Question No 3 Answer

Kellonake Ltd.

Process Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Input net	6,000	2	12,000	Normal loss	600	3	1,800
Add Material			7,000	Output	5,000	6.3	31,500
Labour			9,000	Abnormal loss	400		2,500
Expenses			7,000				
Other "			500				
production overhead			5,000				
	6,000		35,000		8,000		35,000

$$\text{Cost per unit (CPU)} = \frac{\text{Cost}}{\text{Output}}$$

Input material unit - Normal loss unit

$$= \frac{35,000 - 1,800}{6,000 - 600} = \frac{33,200}{5,400}$$

$$= \text{Rs } 6.3$$

Process II Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process I transfer	5,000		31,500	Normal loss	500	3	1,500
Add Material			8,000	Output	6,000	15.9	95,400
Labour			19,000				
Expenses			6,500				
Other "			1,200				
production overhead			9,000				
Abnormal profit	1,500		2,070				
	6,500		84,900		6,500		96,900

Abnormal Loss Account.

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Scrap	1,500	3	4,500	Process II	1,500		20,700
Waste			16,200				
	1,500		20,700		1,500		29,800

Process III Account.

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process II transfer	6,000	13.9	83,400	Normal Loss	400	3	1,200
Add: Material			5,000	Output	6,000	18.4	23,040
Labour			7,200	Abnormal Loss	1,600		29,800
Expenses			2,500				
Over-Exp			500				
Production actual			6,200				
	6,000		106,400		6,000		106,400

$$C.p.u = \frac{\text{Cost} - \text{scrap}}{\text{Input material} - \text{normal}}$$

Input material - normal:

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

$$= 18.43$$

$$= 18.4$$