~~Narration~~ Abnormal ,, Loss Account

(b) Objectives of Service Cost:

i) Prices should be computed for services being sold to third Party ie Services outside departmental services

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

iii) The cost per unit of service should be used as part of the control function

iv) Planned cost should be compared with actual cost and the difference be investigated for corrective action as necessary.

v) In order to help management plan, control and make decision, cost should be analysed to fixed, variable and mixed cost.

3) Explain 4 methods of cost estimation.

(a) Engineering method: This method is used when there is engineering analysis of technological relationship between Input and output example: methods study and time motion studies

(b) Account Classification; This is a subjective way of classifying mixed cost into fixed and variable costs using personal experience by cost accountant.

i) High - Low method: This is object method of Segragation mixed cost into fixed and variable Costs through the following process $TC = FC + VC$

NUMBER 3

PROCESS III ACCOUNTING

KEKEMEKE LTD

Narration	Qty	Rate	₦ Amount	Narration	Qty	Rate	₦ Amount
Input net	6,000	13.9	83,400	Normal less	400	3	1,200
Add: material			5,000	Output	4,000	18.4	73,600
Labour			7,000				
Expenses			2,500	Abnormal loss	1,600		29,600
Other expenses			500				
Production overhead			6,000				
	6,000		104,400		6,000		104,400

$$CPU = \frac{\text{Cost - Scrap}}{\text{Input material - normal}} = \frac{104,400 - 1,200}{6,000 - 400} =$$

$$\frac{103,200}{5,600} = ₦18.4$$

PROCESS II ACCOUNT

Narration	Qty	Rate	₦ Amount	Narration	Qty	Rate	₦ Amount
process I Transfer	5000	6.3	31,500	Normal less	500	3	1,500
Add: Material			8000	Output	6,000	13.9	83,400
Labour			10,000				
Expenses			4500				
Other expenses			1,200				
Production overhead			9,000				
			20,000				
Abnormal Profit	1500						
	6500		84,900		6500		84,900

$$CPU = \frac{\text{Cost - Scrap}}{\text{Input material - normal}} = \frac{₦64,200 - 1500}{₦5000 - 500} = \frac{₦62,700}{₦4,500} = ₦13.9$$

~~Narration~~ Abnormal Loss Account

The word is a light unto my feet

I have the light of God in me

I am God's heir.

Features Of Contract Costing

(1) There may be sub-Contracts
(2) The method of costing is similar to Job Costing
(3) Retention fund may be declucted from progress payment.
4) The contractor work is often based on Price
5) There is often an architect engaged by the contractee to monitor the Job and Issue certipicatton of work done at easy stage of valuation.

Terminologies used In Contract Costing.

1) Estimated Profit: The contract price minus the estimated cost of the contract.
2) Contrad Price: Amount or price agreed between Contractor and contractee.
3) Cost of Work Certified: There is total cost Incurred on the portion certified
4) Retention fee: This is the money deducted for the progress payment which is gaurranteed for bad work.
5) Progress Payment: This is the money paid for Continous progress. Payment made at specific stage of the contract basedon certificate of valuation

NAME: DIMKPA TOCHI JANE
MATRIC NUMBER: 18/SMS02/017
DEPARTMENT: ACCOUNTING

SALAMANDER PLC

CONTRACT ACCOUNT AS AT FEBRUARY 28, 2011

Direct materials issued		₦75,000	Materials c/f	25,
Materials bought on site		195,000	Cost to date c/f	486
Direct expenses		35,000		
Wages paid		150,000		
Head office expenses		10,500		
Plant depreciation		20,000		
Accrued Expenses				
Wages	5000			
Direct Expenses	1,500	6,150		
		511,650		51
Cost to date b/d		486,650	Value of work Certified	54
Notional Profit				
Profit taken ₦	35,010			
Profit not taken	23,340	58,350		
		545,000		54
Material b/f		25,000	Profit b/f	23

B) 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

Abnormal Loss Account

~~Narration~~ Narration	Qty	~~Rate~~	Amount

PROCESS I ACCOUNTING

Number 3

KEKEMEKE LTD

Narration	Qty	Rate	Amount
Input mat	6,000	~~2~~	12,000
Add:			
Material			7000
Labour			8,000
Expenses			3,000
Other exp			800
Production overhead			3000
	6,000		35,800

Narration	Qty	Rate	Amount
Normal Loss	600	3	1,800
Output	5,000	6.3	31,500
Abnormal Loss	400		2500
	6000		35800

Cost per unit (CPU) = $\frac{\text{cost - scrap}}{\text{Input material - normal}}$ = ~~104,400 - 1,200~~ = ~~6,000 - 400~~

~~103,200~~ / ~~5,600~~ = ~~₦18.4~~

$\frac{35,800 - 1,800}{6,000 - 600} = \frac{34,000}{5,400} = ₦6.3$

Abnormal Loss Account

~~Narration~~ Narration	Qty	Rate	Amount ₦	Narration	Qty	Rate	Amount ₦
Process I	400		2,500	Scrap	2,000	3	6,000
Process III	1,600		29,600	P/L			26,100
	2,000		32,000		2,000		32,000

Abnormal Gain Account

Narration	Qty	Rate	Amount ₦	Narration	Qty	Rate	Amount ₦
Scrap	1500	3	4,500	process III	1500		20,700
			16,200				
	1500		20,400		1500		20,700
	2		2				

Klorkings

Cash Received = 490,500

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

Notional Profit = 58,350

Profit taken = 2/3 × Notional Profit × $\frac{\text{cash received}}{\text{Value certified}}$

$\frac{2}{3} \times 58,350 \times \frac{490,550}{545,000}$ = ₦35,010

Profit Not taken = ₦58,350 - 35,010 = ₦23,340

Continuation of 4C

GRAPHICAL 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. Graphical methods uses all observation in arriving at the cost estimate. It is used by plotting the Observation against activity level on graph and a line of best fit is drawn diagonally across the observed graph.