

more like B from 101-1010

NAME : JOHN

JENNI FERRELL MEDURY

DEPARTMENT : Accounting

LEVEL : 200

120

100

365

400

(5)

25

0100

2000

10/10/10

Question 4

Features of Contract Costing

- 1) Payment on account are usually made against work certified
- 2) There may be sub-contract
- 3) There is often an architect engaged by the contractor to monitor the job and issue certified of work done at every stage of completion. In other words the certificate of work done is also known as work certified or ad val valuation
- 4) contract may contain clause for penalty for delay in completion and bonus for any completion
- 5) The work are usually for long durations, often more than one accounting period
- 6) The method of costing is similar to job costing
- 7) A formal contract made between the customer and the supplier or a [contractor and contractor]
- 8) work is undertaken to customer's specified requirements
- 9) The work frequently are constructional in nature
- 10) Retention fund may be deducted from progress payment

- Terminologies is used in contract costing
- 1) Cost to date: Amount which has been spent till present date. Total sum and adoption of all cost incurred till date on the contract
 - 2) Cost of work certified: This is total cost incurred on the portion certified
 - 3) Contract price: Amount or price agreed between contractor and contractee
 - 4) Estimated profit: The contract price minus the estimated cost of the contract
 - 5) Architect certificate: Certificate issued to contractor for work done

4b) Objectives of Service costing

- i) The cost per unit of service should be used as part of the control function
- ii) Service cost analysis in internal service situation
- iii) Cost per unit of service should be computed
- iv) Prices should be computed for services being sold to third parties
- v) Planned cost should be compared with actual cost and the difference manufactured for corrective action as necessary

Method of cost estimation

Engineering method

Account classification method

Linear regression method

Graphical or scatter graph method

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 or studies, the cost are usually estimated based on due to observation of the underlying physical activities needed for activity.

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

Graphical or scatter graph method! Due to the result of over reliance on high and low values of the high low method of segregating mixed cost into fixed and variable cost. It was observed that all the observations are not usually considered at deriving in the cost estimate and this usually leads to the discovery of graphical method, and it usually 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 is drawn diagonally across the observed graph by equally dividing them into equal part by the line.

Continuation of account classification method
Items of expenditure within the accounts for some output level are inspected and classified as fixed variable cost.

Advantage

- 1) It is fast
- 2) It is not expensive
- 3) It is easy to understand
- 4) It can easily account for changes in cost structure

Disadvantages

- 1) It is subjective
- 2) It uses arbitrary method of segregate cost

Least Square or Linear Regression method

This can be referred to as an application of linear equation formula that is

$y = a + bx$ this is used to derive the regression equation, y stands for total or mixed cost, b stands for variable cost and x stands for activity level or independent variable, using the above name (least square or linear regression method) a and b can be derived

$$1) \sum y = n a + b \sum x$$
$$\sum xy = a \sum x + b \sum x^2$$

SALAMANDER PLC

CONTRACT ACCOUNT A/C AT FEBRUARY 28, 2011

Direct materials issued 75000	materials c/f	250000
Material bought on site 195000	cost to date c/f	486650
Direct expenses 55000		
Wages paid 150000		
Head office expenses 10,500		
Plant Depreciation (20% of 100000) 20000		
Accrued expenses		
Wages 5000		
Direct expenses 1,150	6,150	
	511,650	511,650
Cost to date b/f 486650	Value of work certified	545000
Notional profit		
Profit taken 35013		
Profit not taken 23340	58353	
	545000	545000
Material b/f 25000	Profit b/f	23,337

b) Calculation of work in progress

Cost to date	486650
Profit taken	35013
	521,663
Cash received	(490500)
Work in progress	31,163

Workings

Cash received

Value Certified

$$= \frac{490,500}{0.90}$$

490,500

$$= 545,000$$

$$\text{Notional profit} = 58,350$$

$$\text{Profit taken} = \frac{2}{3} \times \text{Notional profit} \times \frac{\text{Cash received}}{\text{Value certified}}$$

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

$$= \text{A } 35,013$$

$$\text{Profit taken} = (58,350 - 35,013) = \text{A } 23,337$$

Kelkemeke Ltd

process / Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Input mat	6000	2	12,000	Normal loss	600	3	1,800
Add: material			7,000	Output	5000	6.3	31,500
Labour			8,000	Abnormal loss	400		2,500
Expense			3,000				
Other expense			800				
Production order			5,000				
	6000		35,800		6000		35,800

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

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

$$= \text{A } 6.3$$

Process II Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process I transfer	5000		31500	Normal loss	500	3	1500
At old material			8000	output	6000	13.9	83400
Labour			10000				
EXPENSE			4500				
Other expense			1200				
Production overhead			9000				
Abnormal profit	1500		20700				
	6500		84900		6500		84900

$$CPV = \frac{\text{Cost} - \text{Scrap}}{\text{Input Material} - \text{normal}}$$

$$= \frac{64200 - 1500}{5000 - 500} = \frac{62700}{4500}$$

$$= \text{A } 13.9$$

Abnormal loss Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process I	400		2500	Scrap	2000	3	6000
Process II	1600		29600	P/L			26,100
	<u>2000</u>		<u>32100</u>		<u>2000</u>		<u>32100</u>

Abnormal Gain Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Scrap	1500	3	4500	Process II	1500		20700
P/L			16200				
	<u>1500</u>		<u>20700</u>		<u>1500</u>		<u>20700</u>

Running Cost

Petrol $\left[\frac{50 \times 2}{8} \times 2 \times 8 \times 50 \right]$

(2)
10000

Repairs (120x8)

960

Depreciation on lorry $\left[\frac{20000 - 2000 \times 5000}{40000} \right]$

900

Depreciation on tyres $\left[\frac{2000}{20000} \times 5000 \right]$

500

12,300

Running cost

Drivers wages

200

Garage bills (5x10x8)

400

Process III			Account				
Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process II transfer	6000	13.9	83400	Normal loss	400	3	1200
Add: material			5000	output	4000	18.4	73600
Labour			7000	Abnormal loss	1600		29600
Expenses			2,500				
Other exp			500				
Prod. overhead			6000				
	6000		104400		6000		104400

$$\begin{aligned}
 \text{CPU} &= \frac{\text{Cost} - \text{Scrap}}{\text{Input material} - \text{normal}} \\
 &= \frac{104400 - 1200}{6000 - 400} = \frac{103200}{5600} \\
 &= \text{A } 18.4
 \end{aligned}$$

Amount

6,000

6,100

2,100

Insurance $\left[\frac{2,000 \times 8}{52} \right]$

Vehicle license $\left[\frac{5,200 \times 8}{52} \right]$

Other overhead cost $\left[\frac{7,800 \times 8}{52} \right]$

Amount

2,100

2,100