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DEPARTMENT: ACCOUNTING.

QUESTION FOUR.

A formal contract is made between the customer, the supplier or the contractor and the contractor.
Work is undertaken to customers special requirement.
The work is usually for a long duration of more than one accounting period.
There may be a sub-contract in the contract.
The work is frequently constructional in nature.

~~Planned cost to be completed with actual cost and the differences to be noted~~

terminologies.

Contract price.
Agreed price of the contract between the contract and the contractor.

Architect certificate.
This is the certificate of work done at every stage of valuation given by an architect or an expert.

Cost to date.
This is the addition of all cost incurred to date on the contract.

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

Work certified
This is the work done upon which certificate of work done is issued by expert or by an architect.

ii. Planned cost to be compared with actual cost and the differences be investigated for corrective actions were necessary.
- The cost per unit of service should 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 i.e departmental services.
- In order to help managements plan, control and make decisions cost should be analysed into fixed, variable and mixed cost.

iii. Engineering method is used when there is engineering analysis of technological relationship between input and output eg units sampling, methods study and time motion studies. Costs are estimated based on observations of the underlying physical quantities needed for an activity. This method is commonly used for estimating of repetitive processes with clearly defined input-output relationship.

Advantages: It is good when direct costs form a large part of the total cost.

Graphical or scattergraph 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, it was observed that all the observations are not considered in drawing of the cost estimate and lead to the discovery of graphical method. The intercept on the y axis is the fixed cost while the gradient or slope of the line is the variable cost.

High low method.

This is the oldest method of segregation mixed cost into fixed and variable cost through the following procedures

a) Pick the highest and least activity level among the observed data
b) calculate the difference between the two activity levels
c) pick the corresponding cost of the highest and lowest level.
d) Calculate the difference between the cost of the highest and lowest activity level
e) Divide the cost difference by the difference in activity level

re divide d by b.
the 'b' which is the variable cost per unit to determine total cost or fixed cost using cost formula . . . TC = TC+d
least square method'.

Question 1

SALAMANDER PLC.

CONTRACT ACCOUNT AS AT FEBRUARY 28 2011

	₦		₦
Direct materials issued	75 000	materials c/f	25 000
materials bought on site	195 000	cost to date c/f	486,650
direct expenses	55 000		
Wages paid	1 50 000		
Head office expenses	105 000		
Plant depreciation (20% x 100,000)	20000		
Accrued expenses			
Wages 5000			
Direct expenses 1,150	6,150		
	511 650		511 650
cost to date b/f	486,650	value of work certified	545,000
Notional profit			
profit taken 35,010	58,350		
Profit not taken 23,340			
	545000		545 000
	25 000	profit b/f	23340
material b/f			

b) calculation of work in progress

	₦
cost to date	486,650
Profit taken	33,010
	521 660
~~cash received~~ cash received	(490500)
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 = 2/3 x notional profit x $\frac{\text{cash received}}{\text{value certified}}$

Port Harcourt

$= 2/3 \times 58,550 \times \frac{470,500}{545,000}$

$= ₦35010$

Profit not taken $= (58,350 - 35,010) = ₦23,340.$

~~Kekem~~ QUESTION THREE.

Kekemeka ltd.

Process I 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	output	5,000	6.3	31,500
labour			5,000	Abnormal loss	400		2,500
Expenses			5,000				
other expenses			800				
Production overhead			5,000				
	6,000		35,800		6,000		35,800

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

$= \frac{35800 - 1,800}{6,000 - 600} - \frac{34000}{5,400}$

$= ₦6.3.$

Process II Account

Narration	Qty	Rate	₹ Amount	Narration	Qty	Rate	₹ Amount
Process I Transit	5,000	6.3	31,5000	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

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

$$= \frac{64,200 - 1,500}{5000 - 500} = \frac{62,700}{4,500}$$

$$= ₹ 13.9$$

Process III Account

Narration	Qty	Rate	₹ Amount	Narration	Qty	Rate	₹ Amount
Process II transfer	6,000	13.9	83,400	Normal loss	400	3	1200
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				
	6000		104,400		6,000		104,400

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

$= \frac{104,400 - 6,200}{6000 - 400} = \frac{103,200}{5,600}$

= ₦18.4,

Abnormal loss Account

Narration	Qty	Rate	₦ Amount	Narration	Qty	Rate	₦ Amount
Process I	400		21,500	Scrap	2,000	3	6,000
Process II	1,600		29,600	P/L			26,100
	2000		32,100		2000		32,100

Abnormal Gain Account

Narration	Qty	Rate	₦ Amount	Narration	Qty	Rate	₦ Amount
Scrap	1500	3	4500	Process II	1,500		20700
P/L			16,200				
	1500		20700		1500		20700

Engineering, Services, Property Consultants, Catering Services, Procurement & Supply

OFFICE:
W3 Market Road
Rumuadaolu,
Off Rumuola
Port Harcourt

OMA'S SHOP/BAR
#8 Airport Road,
Igwuruta

Question TEN:

Running cost:

		₦	₦
Petrol	$\left(\frac{50 \times 2 \times 2 \times 8}{8}\right) \times 50$	10 000	
Repairs	(120 × 8)	960	
Depreciation on lorry	$\left\{\frac{20000 - 2000}{100000} \times \frac{5000}{1}\right\}$	900	
Depreciation on tyres	$\left(\frac{2000}{20000} \times \frac{5000}{1}\right)$	500	12,360

Running cost:

Drivers wages		2000
Garage bills	(5 × 10 × 8)	400
Insurance.	$\left(\frac{20000}{52} \times 8\right)$	307.7
Vehicle license	$\left(\frac{5200}{52} \times 8\right)$	800
Other overhead cost	$\left(\frac{1500}{52} \times 8\right)$	1200