

Name:- Onyema Adaugo Kalar

Department: Business Admin

Matric No:- 18/sms 03/029.

Cost Acc

Question 4.

1. Explain the features and 5 terminologies used in contract costing.

Features

- ✓ The work is usually for a long duration other more than one year
- ✓ The method of costing is similar to Job costing
- ✓ There is always an architect engaged by the contractor to monitor the job done at every stage of valuation.
- ✓ Payment accounts are usually made against work certified
- ✓ Work is undertaken to customer's special requirement.

Terminologies.

- ✓ Contract price: Agreed price for the contract between the contractor and the contractee

- ✓ Architect certificate :- Certificate of work done issued by an architect at every stage of valuation
- ✓ Cost to date :- This is the total sum of the addition of all cost incurred to date of the contract
- ✓ Estimated profit :- This is the contract price minus estimated cost of the contract
- ✓ Progress payment :- This is the money gotten from the continuous progress of the contract or payment made at specific stage of the contract based on certificate of work done.

II Discuss the objectives for service costing

- ✓ Planned cost should be compared with actual cost and difference be investigated for corrective action as necessary.
- ✓ The cost per unit of service should be used as part of control function.
- ✓ Prices should be computed for service been sold to third parties i.e. Departmental services

✓ In order to help management plan, control and make decisions, cost should be analysed into fixed, variable and mixed cost.

iii Explain 4 method of cost estimation.

1. Engineering Method: This is used when there is engineering analysis of technological relationship between output and input eg work sampling methods study and time motion studies cost 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, costs that often associate with direct materials, labour and machine time which can be observed and measured directly.

Advantages

✓ It is good when direct costs form a large part of the total cost

When relationship between input and output are

fairly stable overtime

Disadvantages

- ✓ It is expensive to apply

2 Account Classification

This is a subjective way of classifying mixed cost into fixed and variable costs using personal experience by cost accounts.

Advantages

- ✓ It is fast
- ✓ It is not expensive

Disadvantages

- ✓ It is based on historical cost
- ✓ It is subjective

3 High Low Method

This is object method of segregation mixed cost into fixed and variable costs through the following process:

- ✓ Pick the highest and least activity level among the observed data

✓ Calculate the difference between the two activity levels.

✓ ~~Use~~ Pick the corresponding cost of the highest and lowest activity levels.

✓ Calculate the difference between the costs of highest and lowest activity levels.

✓ Divide the cost differences by the differences in activity levels.

✓ $Tc = \bar{f}c + vc$ which can be expressed as

$$T = a + bx$$

$T = Tc$ $a = \bar{f}c$, $b = \text{variable cost per unit}$
and $x = \text{unit of output}$

4 Least Square or Linear Regression Method

The application of linear equation formula $y = a + bx$ is used to derive the regression equations.

y stands for total or mixed cost, a stands for constant factor or total fixed cost, b stands for variable cost and x stands for activity levels or independent variable.

Question 1

SALAMANDER LTD PLC.

Contract Account As At February 28, 2011

| | | | |
|-----------------------------|---------|-------------------------|----------------|
| Direct Materials issued | 75,000 | Material b/f | 25,000 |
| Materials brought on site | 195,000 | Cost to date c/f | 486,650 |
| Direct expenses | 55,000 | | |
| Wages paid | 150,000 | | |
| Head office expenses | 10,500 | | |
| Plant dep. (20% of 100,000) | 20,000 | | |
| Accrued wages | | | |
| Wages | 5,000 | | |
| Direct Exp | 1,150 | 6,150 | |
| | | <u>511,650</u> | <u>511,650</u> |
| Cost to date 1/1 | 486,650 | Value of work certified | 545,000 |
| Notional profit | | | |
| Profit taken | 35,000 | | |
| Profit not taken | 23,340 | 58,350 | |
| | | <u>545,000</u> | <u>545,000</u> |
| Material b/f | 25,000 | Profit 1/1 | 23,340. |

* Calculation of work in progress

| | |
|------------------|------------------|
| Cost to date | 486,650 |
| Profit taken | <u>35,010</u> |
| | 521,660 |
| Cash received | <u>(490,500)</u> |
| Work in progress | <u>31,160</u> |

Workings

Cash received ~~490,500~~ 495,500

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

Notional profit = 58,350

Profit taken = $\frac{2}{3} \times \text{notional profit} \times \frac{\text{cash received}}{\text{value certified}}$

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

$$= \text{₹} 35,010$$

Profit not taken = $(58,350 - 35,010)$

$$= \text{₹} 23,340$$

Question 3.

Lekeleke Plc.

Process 1 Acc

| Narration | Qty | Rate | Amount | Narration | Qty | Rate | Amount |
|----------------|------|------|--------|---------------|-----------------|------|--------|
| Input Mater | 6000 | 2 | 12000 | Normal loss | 600 | 3 | 1800 |
| Add. Mater | | | 7000 | output | 5000 | 6.3 | 31,500 |
| Labour | | | 8000 | Abnormal loss | 400 | | 2500 |
| Direct expen. | | | 3000 | | | | |
| Other expenses | | | 800 | | | | |
| prod. overhead | | | 5000 | | | | |
| | 6000 | | 35,800 | | 6000 | | 35,800 |

Cost per Unit (CPU) = $\frac{\text{Cost} - \text{Scrap}}{\text{Input Materials} - \text{Normal loss Unit}}$

$$\frac{35800 - 1800}{6000 - 600} = \frac{34000}{5400} = 6.3$$

Process II Acc

| Narration | Qty | Rate | Amount | Narration | Qty | Rate | Amount |
|------------------|-------|------|--------|-------------|-------|------|--------|
| Trans I transfer | 5000 | 6.3 | 31,500 | Normal loss | 500 | 3 | 1500 |
| Add Material | | | 8000 | Output | 6000 | 13.9 | 83,400 |
| Labour | | | 10000 | | | | |
| Direct expen | | | 3000 | | | | |
| Other expen | | | 8000 | | | | |
| Product overhead | | | 5000 | | | | |
| Abnormal profit | 1500 | | 20,700 | | | | |
| | 65000 | | 84,900 | | 61500 | | 84,900 |

$$CPU = \frac{\text{Cost} - \text{Scrap}}{\text{Input Material} - \text{Normal}}$$

$$\frac{64200 - 1500}{5000 - 500} = \frac{63700}{4500} = 13.9$$

Process III Acc

| Narration | Qty | Rate | Amount | Narration | Qty | Rate | Amount |
|--------------------------|------|------|--------|---------------|------|------|--------|
| Transfer from process II | 6000 | 13.9 | 83,400 | Normal loss | 400 | 3 | 1200 |
| Add Materials | | | 5000 | Output | 4000 | 18.4 | 73,600 |
| Direct Labour | | | 7000 | Abnormal loss | 1600 | | 29,600 |
| Direct expens | | | 2500 | | | | |
| Other expense | | | 500 | | | | |

| Narrative | Qty | Rate | Amount | Narrative | Qty | Rate | Amount |
|----------------|------|------|---------|-----------|------|------|---------|
| Prod. Overhead | | | 6000 | | | | |
| | 6000 | | 104,400 | | 6000 | | 104,400 |

$$\text{CPU} = \frac{\text{Cost} - \text{Scrap}}{\text{Input Materials} - \text{Normal}}$$

Input Materials - Normal

$$\frac{104,400 - 1200}{6000 - 400} = \frac{103,200}{5,600}$$

$$= 18.4$$

Abnormal Loss Acc

| Narration | Qty | Rate | Amount | Narrative | Qty | Rate | Amount |
|------------|------|------|--------|-----------|------|------|--------|
| Process I | 400 | | 2500 | Scrap | 2000 | 3 | 6000 |
| Process II | 1600 | | 29,100 | PL | | | 26100 |
| | 2000 | | 32100 | | 2000 | | 32,100 |

Abnormal Gain Acc.

| Narration | Qty | Rate | Amount | Narration | Qty | Rate | Amount |
|-----------|------|------|--------|------------|------|------|--------|
| Scrap | 1500 | 3 | 4500 | Process II | 1500 | | 20,700 |
| 1/c | | | 16,200 | | | | |
| | 1500 | | 20700 | | 1500 | | 20700 |