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MATRIC NO: 18/SMS02/031.

DEPARTMENT: Accounting

LEVEL: 200 Level

COURSE CODE:

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	150,000		
Head office Expenses	10,500		
Plant Depreciation (20% of 100,000)	20,000		
Accrued Expenses			
Wages 5,000			
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			
Profit not taken 23,340	58,350		
	545,000		545,000
Material b/f	25,000	profit b/f	23,340

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

Klotkings.

Cash Recieved ₦490,500

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

Notional profit = 58,350

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

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

$= ₦35,010$

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

(2) Running cost

	₦	₦
Petrol $\left[\frac{50 \times 2 \times 2 \times 2 \times 8 \times 50}{8}\right]$	10,000	
Repairs (120 × 8)	960	
Depreciation on lorry $\left[\frac{20,000 - 2000}{100,000} \times \frac{5000}{1}\right]$	900	
Depreciation on tyres $\left[\frac{2000}{20,000} \times \frac{5000}{1}\right]$	500	
		12,360

Running cost:

Drivers wages	200
Garages bills (5 × 10 × 8)	400
Insurance $\left[\frac{2000}{52} \times 8\right]$	
Vehicle license $\left[\frac{5200}{52} \times 8\right]$	
Other overhead cost $\left[\frac{7800}{52} \times 48\right]$	

(3) Kemeke Ltd -

Process Account

Narration	Qty	Rate	(₦) Amount	Narration	Qty	Rate	(₦) Amount
Input met	6000	2	12,000	Normal loss	600	3	1,500
Add:				output	5,000	6·3	31,500
Material			7000	Abnormal loss	400		2,500
Labour			8,000				
Expenses			3,000				
Other Expenses			800				
Production Order -			5,000				
	6,000		35,500		6,000		35,500

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

= $\frac{35,500 - 1,500}{6,000 - 600} - \frac{34,000}{5,400}$

= ₦6·3

Process II Account

Narration	Qty	Rate	(₦) Amount	Narration	Qty	Rate	(₦) Amount
Process I transfer	5,000	6·3	31,500	Normal loss	500	3	1500
Add: Material			8,000	Output	6000	13·9	83,400
Labour			19,000				
Expenses			4,500				
Other Expenses			1,200				
Production Overhead			9,000				
Abnormal Profit	1,500		20,700				
	6500		₦4,900		6,500		₦4,900

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

$$= \frac{₦64,200 - 1,500}{5,000 - 500} = \frac{62,700}{4,500}$$

$$= ₦13·9.$$

Abnormal loss Account

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

Abnormal Gain Account

Narration	Qty	Rate	(₦) Amount	Narration	Qty	Rate	(₦) Amount
Scrap	1,500	3	4,500	Process II	1,500		20,700
P/L			16,200				
	1,500		20,700		1,500		20,700

Process III Account

Narration	Qty	Rate	Amount (₦)	Narration	Qty	Rate	Amount
Process II transfer	6,000	18·9	83,400	Normal loss	400	3	1,200
Add:				Out put	4,000	18·4	73,600
Material			5,000	Abnormal loss	1,600		29,600
Labour			7,000				
Expenses			2,500				
Other Expenses			500				
Production overhead			6,000				
	6,000		104,400		6,000		104,400

$$CPM = \frac{\text{cost} - \text{scrap}}{\text{input material} - \text{normal}}$$

$$= \frac{104,400 - 1,200}{6000 - 400} = \frac{103,200}{5,600}$$

$$= ₦18.4$$

(4) i. Features of contract costing

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

(ii) Terminologies used in contract costing.

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

b. Progress payment
Money gotten from continuous progress of the contract. also payment made at specific stages of the contract.

c. Retention fee
Amount agreed to be withheld on every progress payment as guarantee against bad or imperfect work which would be realeased to the contractor after a specified period.

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

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

(iii) The objectives of Service costing.

a. Planned cost to be compared with actual cost and the differences be investigated for corrective actions as necessary

b. The cost per unit of service should be used as part of control function.

c. A cost per unit of service should be computed.

d. Prices should be computed for services being sold to third parties ie. departmental services.

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

4iii Cost Estimation Techniques

a. High low method.

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

a Pick the highest and least activity among the observed data.
b Calculate the difference between the two activity level.
c Pick the corresponding cost of the highest and lowest activity levels.
d Calculate the difference between the cost of highest and lowest activi level.
e Divide the cost difference by the difference in activity levels ie. divide d by b.
f use 'e' which is the variable cost per unit to determine total cost or fixed cost using 'cost formula ... TC = FC + VC which can also be expresse as $Y = a + bx$.

Y = TC, a = FC, b = variable cost per unit and x = unit of output

Engineering Method.

This is used when there is engineering analysis of technological relationships between input and output e.g work sampling, method study and time motion studies. costs are estimated based on observat ons of the underlying physical quantities needed for an activity. An advantage is that it is good when direct costs form a large part of the total cost.
A disadvantage is that it is expensive to apply.

Graphical or Scatter graph 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 wa observed that all the observations are not considered in driving at the cost estimate and this led to the discovery of graphical method. It uses all observations in arriving at the cost estimate. It is used by plotting the observations against activity level on graph and line of best-fit is drawn diagonally across the observed graph by equally dividing them into equal parts by the line.

Other methods are:

i. Accounting classification method
ii Least squares or linear regression method.