internally.

(iii) Cost estimation is used to fix the quantity, cost and price of the resources required by the scope of a project.

(b) Cost estimation is needed to provide the information to management to make investment decisions, choose between alternative courses of action and keep the budget during the front end of projects.

(c) Estimating is done by breaking down the total scope of a project in manageable parts to which resources can be assigned and costs.

(d) A cost estimation is more than a list of costs.

(ii) High low method ÷ This is the object method of segregation mixed cost into fixed and variable cost through the following process:

(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 activity levels.

(i) 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 studies.

(iii) 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, it was observed that all the observations are not considered in driving at the cost estimate and this led to the discovery of

Working

Cash Received 490,500

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

Normal profit $= 58,350$

Profit taken $= \frac{2}{3} \times$ ~~Actual~~ 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 $= (58,350 - 35,010) = ₦ 23,340$

(3) Kekemeke Ltd

Process Account

| Narration | Qty | Rate | Amount | Narration | Qty | Rate | ₦ Amount |
|---|---|---|---|---|---|---|---|
| Input met | 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 |
| Expenses | | | 3,000 | | | | |
| other Expenses | | | 800 | | | | |
| Production overhead | | | 5000 | | | | |
| | 6000 | | 35,800 | | 6000 | | 35,800 |

Cost per unit (CPU) $= \frac{\text{Cost} - \text{Scrap}}{\text{Input material unit} - \text{Normal Lost unit}}$

$= \frac{35,800 - 1,800}{6000 - 600} - \frac{34,000}{5,400}$

$= ₦ 6.3$

OSSAI NICHOLAS OSSAI
Accounting
ACC 204 (200 Level)

(49i) Payment on account are usually made against work satisfied that it is what Architect opinion that payment should be work done.

(ii) A formal contract is made between the customer and the supplier of a contractee and the contractor.

(iii) the method of costing is similar to Job costing.

(iv) The contract work is often based on side and the side is determined by the contract involved.

(v) Work is undertaken to customers special requirement

Terminologies in cost account

(1) Contract price ÷ the agreed price of the contract between the contractor and the contractee.

(2) Architect Certificate - It is the certificate of work done at every stage issued to an Architect

(3) Retention fee ÷ is the money deducted From the progress payment among agree to be withheld on every progress payment as guarantee against bad or imperfect work which will be released to the contractor after a specified period.

(4) Cost to date ÷ This is the addition of all cost incurred to date on the contract

(5) Estimated profit ÷ this is the Contract price estimated cost of the contract.

(4bii) ~~To control the cost in the services department~~ It exist in the techniques for costing services and product costing. Also, for providing (establishing cost for internal services which are services provided by one

WORKINGS

Cash Received 68,500

Process II Account

| Narration | Qty | Rate | Amount ₦ | Narration | Qty | Rate | Amount ₦ |
|---|---|---|---|---|---|---|---|
| Process I Transfer | 5,000 | 6.3 | 31,500 | Normal loss | 500 | 3 | 1,500 |
| Add: material | | | 9000 | output | 6000 | 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 |

$$CPU = \frac{\text{Cost} - \text{scrap}}{\text{input material} - \text{normal}}$$

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

$$= ₦13.9$$

Abnormal loss Account

| Narration | Qty | Rate | Amount | Narration | Qty | Rate | Amount ₦ |
|---|---|---|---|---|---|---|---|
| Process I | 400 | | 2,500 | Scrap | 2000 | 3 | 6000 |
| Process II | 1600 | | 29,600 | P/L | | | 26,100 |
| | 2000 | | 32,100 | | 2000 | | 32,100 |

Cash Received 490,500

Value Certified = 490,500 = 545,000

Abnormal Gain account

| Narration | Qty | Rate | Amount |
|---|---|---|---|
| Scrap | 1,500 | 3 | 4,500 |
| | | | 16,200 |
| P/L | 1,500 | | 20,700 |

| Narration | Qty | Rate | Amount |
|---|---|---|---|
| Process II | 1,500 | | 20,700 |
| | 1500 | | 20,700 |

(iv) Account Classification method - This is the way of classifying mixed cost into fixed and variable cost using personnel experience by cost accountant. Items of expenditure within the account for some level are inspected and classified as fixed variable or semi-variable cost.

(i)

(ia)

## 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 Expense | 10,500 | | |
| Plant Depreciation (20% of 100,000) | 20,000 | | |
| Accrued Expenses | | | |
| wages 5000 | | | |
| Direct expense 1,150 | 61,150 | | |
| | 511,650 | | 511,650 |
| Cost to date b/d | 486,650 | value of work certified | 545,000 |
| Notional Profit | | | |
| Profit taken 35,010 | | | |
| Profit not taken 23,340 | 58,750 | | |
| | 545,000 | | |
| material b/c | 25,000 | profit b/f | 545,000 |
| | | | 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 |