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 Dept: Accounting
 Matric no: 18/5ms02/011
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Question 1

SALAMANDER PLC
 Contract Account

Direct materials issued	75,000	materials b/f	25,000
Materials brought on site	175,000	Cost to date	486,650
Direct expenses	55,000		
Wages paid	150,000		
Head office expenses	10,500		
Plant depreciation (20% x 100,000)	20,000		
Accrued expenses			
Wages	5,000		
Direct expenses	<u>1,150</u>		
	6,150		
	<u>511,650</u>		<u>511,650</u>
Cost to date b/f	486,650		
Notional profit:			
Profit taken	35,010		
Profit not taken	<u>23,340</u>		
	58,350		
	<u>545,000</u>		<u>545,000</u>
Material b/f	25,000	Profit b/f	23,340

b) Work in Progress

Cost to date	486,650
Profit taken	<u>35,010</u>
	521,650
Cash received	<u>(490,500)</u>
Work in Progress	<u>31,150</u>

$$\frac{\text{Cash received}}{\text{value certified}} = \frac{490,500}{0.90} = 545,000$$

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

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

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

$$= \text{A} 35,010$$

$$\text{Profit not taken} = (58,350 - 35,010) = \text{A} 23,340$$

Question 3

Kekemck Ltd.

Process A account

narration	Qty	Rate	Amount	narration	Qty	Rate	Amount
Input mat	6,000	2	12,000	abnormal loss	600	3	1800
Add: material			7,000	output	5,000	6.3	31,500
Labour			8,000	Abnormal loss	400		2,500
Expenses			3,000				
Other expenses			800				
Production over			5,000				
	6,000		35,800		6,000		35,800

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

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

$$= \text{£ } 6.3$$

Process II Account

Navigation	Qty	Rate	Amount	Navigation	Qty	Rate	Amount
Process I Transfer	5,000	6.3	31,500	Normal loss	500	3	1,500
Add: material			8,000	Output	6,000	13.9	83,400
labour			10,050				
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

$$\begin{aligned}
 \text{CPU} &= \frac{\text{Cost} - \text{Scrap}}{\text{Input material} - \text{normal}} \\
 &= \frac{64,200 - 1,500}{5,000 - 500} \\
 &= \frac{62,700}{4,500} \\
 &= \text{Rs } 13.9
 \end{aligned}$$

Process III Account

Name/Item	Qty	Rate	Amount	Abnormal loss	Qty	Rate	Amount
Process II transfer	6,000	13.9	83,400	Normal loss	400	3	1,200
Add: material			5,000	Output	4,000	18.4	73,600
labour			7,000	Abnormal loss	1,600		29,600
Expenses			2,500				
Other cost			500				
Prod. overhead			6,000				
	6,000		104,400		6,000		104,400

$$\begin{aligned}
 \text{CPU} &= \frac{\text{Cost} - \text{Scrap}}{\text{Input material} - \text{normal}} \\
 &= \frac{104,400 - 1,200}{6,000 - 400} = \frac{103,200}{5,600} \\
 &= \text{₹ } 18.4
 \end{aligned}$$

Abnormal Loss Account

Name	Qty	Rate	Amount	Name	Qty	Rate	Amount
Process I	400		2,500	Scrap	2,000	3	6,000
Process III	1,600		29,600	P/L			26,100
	2000		32,100		2,000		32,100

Abnormal Gain Account

Name	Qty	Rate	Amount	Name	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				

Question 4.)

Features

i.) • The Contract work is often based on size.

• There may be a Sub-contract

• The work is frequently constructional

• The method of costing is similar to Job costing.

• Payments on accounts are usually made against work certified.

Terminologies.

• Contract Price: This is the agreed price of the contract between the contractor and the contractee.

• Progress Payment: This is the money gotten from the continuous progress of the contract.

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

• Cost of work certified: This is the total cost incurred on the portion certified.

• Work Certified: This is the work done upon which certificate of work done is issued by the expert of an estimate.

ii.) • The cost per unit of service ~~costing~~ ^{should} be used as part of control function.

• A cost per unit of service should be computed.

• Costs should be analysed into fixed, variable and mixed cost in order to help management plan, control and make decision.

• Planned costs are to be compared with actual cost and the differences be investigated for corrective actions.

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

• Engineering method: This is a method used when there is engineering analysis of technological relationship between input and output e.g. methods study and time motion studies.

• High low method: This is object method of segregation mixed cost into fixed and variable costs ~~through~~ ~~the~~ ~~following~~ processes → ~~the~~ ~~method~~ ~~uses~~ ~~all~~

• Graphical method: This method 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.