AGILEBU NAGIDEMCHUKWU 18/sms03/004

Features of Contract Costing

1. Work is undertaken to customers specifical requirement
2. The work are usually for long durations. often more than one accounting period.
3. The method of costing is similar to job costing
4. The contractor work is based on size
5. Payment on account are usually made against work certified

Terminologies

1. Work certified — This is the work done upon which Certificate of work done is issued by architect
2. Estimated profit — The contract price minus the estimated cost of the contract.
3. Cost of work certified — This is total cost incurred on the portion certified.
4. ~~Cost the chance~~ Contract price — amount or price agreed Contract and contractee.
5. Architect Certificate — Certificate issued to Contact for work done.

Objectives of Service Costing

1. Planned cost should be compared with actual cost and difference be investigated for corrective action as necessary
2. A cost ~~per unit~~ per-unit of service should be computed
3. The cost per unit of service should be used as part of control function
4. Prices should be computed for service been sold the third Parties i.e Departmental Services.
5. In order to help management plan, controls and make decision, cost should be analysed into fixed, variable and mixed cost

Method of Cost estimation

High low method

This is object method of segregating 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.

d. calculate the difference between the costs of highest and lowest activity 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 $T_c = f_c + v_c$

which can also be expressed as $Y = a + bx$

$$Y = T_c, \quad a = f_c, \quad b = \text{Variable cost per unit and } x = \text{unit of output}$$

Engineering method

This method is used when there is engineering analysis of technological relationship between input and output eg work 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, costs that often associate with direct materials, labour and machine time which can be observed and measured directly

Graphical or Scatergraph

As a result of over reliance on high and low values of the high low method of segregation mixed cost into fixed and variable co it was observed that all the observations are not considered in div at the cost estimate and this led to the discovery of graphical method.

Least square or linear Regression method   18/SM03/004

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

T 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 level or independent variables. Using least squares method, a and b can be derived ~~from the methodology~~.

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SALAMANDER PLC.

Contract Account as at February 28, 2011

	₦		₦
Direct Materials Issued	73,000	material d/f	25000
materials bought on site	195,000	Cost to date	486,650
Direct Expenses	55,000	d/f	
Wages paid	150,000		
Head office Expences	10,500		
Plant depreciation (20% × 100,000)	20,000		
Accrued Expenses			
wages 5000			
Direct Expences 1,150	6,150		
	511,650		511,650
Cost of date b/d		Value of work certified	545,000
National profit			
Profit taken 35,010			
Profit not taken 23,340	58,350		
	545,000		545,000
material	25,000	profit b/f	23,340

b   Calculation of work in progress

Cost to date   456,650
Profit taken   35,010
Cash received   521,660
                           (490,500)
work — in progress   31,160

workings

Cash Received   490,000

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

Notional profit = 58,350

Profit taken = $\frac{2}{3}$ × notional profit × $\frac{\text{Cash Received}}{\text{value Certified}}$

= $\frac{2}{3}$ × 58350 × $\frac{490,000}{545,000}$

= ₦ 35,010

Profit not taken = $(58,350 - 35,010)^2$ ₦ 23,340

Kakemeke Ltd   L8/SMS03/014

Process I Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Inputs met	6,000	2	12,000	Normal loss	600	5	1800
Add: material			7,000	Out put	5000	6.3	31,500
labour			8000	Abnormal loss	450		2,500
Expenses			3000				
Other Expenses			400				
Production order			5000				
	6000		35,800		6000		35,800

Cost per Unit (cpu) = $\dfrac{\text{Cost} - \text{Scrap}}{\text{Input material unit} - \text{Normal loss unit}}$

$$= \frac{35,800 - 1800}{6000 - 600} = \frac{34000}{5400}$$

$$= 12 \cdot 6.3$$

Process II Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process I Transfer	5000	6.3	31,500	Normal loss	500	3	1500
Add: material			8000	Out put	6000	13.9	83,400
Labour			10,000				
Expenses			4,500				
Other Expenses			1,200				
Production overhead			4000				
normal profit	1500		29,700				
	6,500		84,900		6500		84,900

Abnormal loss Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process I	400		2,500	Scrap	2000	3	6000
Process II	1,600		29000	P/L			26,100
	2000		32,100		3000		32,100

Abnormal Gain Account

Narration	Qty	Rate	Amount	Narration	Qty	rate	Amount
Scrap	1500	3	4500	Process II	1500		20700
P/L			16,200				
	1500		20,700		1500		20,700

Process III Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process II transfer	6000						
Add: material							
Labour							
Expenses							
othe exp							
Production							