

Name: OGBOGU ALBERT ANNETTE

MATRIC NO: 18/SM/SO2/022

BUSINESS ADMINISTRATION

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SALAM-ANDER PLC

② CONTRACT ACCOUNT AS AT FEBRUARY 28, 2021

Direct materials issued	75,000	materials c/f	25,000
material 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% x 100,000)	20,000		
Accrued expenses			
Wages			
Direct expenses	<u>5,000</u> 1,150		
	6,150		
	<u>511,650</u>		<u>511,650</u>
Cost to date b/f	486,650	value of work certified	545,000
Notional profit			
Profit taken 35,000			
Profit b/f not taken <u>23,340</u>	<u>58,350</u>		
	<u>545,000</u>		<u>545,000</u>
material b/f	25,000	Profit b/f	<u>23,340</u>

③ Calculation of work in progress

cost to date	486,650
profit taken	35,000
	521,650
cash received	(490,500)
work-in progress	<u>21,150</u>

Workings

Cash received = 490,500

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

Normal profit = 58,350

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

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

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

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

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KOKEMBE LTD

Process I Account

Particulars	Qty	Rate	Amount	Particulars	Qty	Rate	Amount
Inputs met	6000	# 2	12,000	Normal loss	600	# 3	1800
Actual material			7,000	Output	5000	6.2963	31481.5
Labour			8,000	Abnormal loss	400	6.2963	2518.5
D/E			3,000				
O/E			800				
Prod overhead			5000				
	6000		85,800		6000		35,800

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

$$= \frac{85,800 - 1800}{6,000 - 600} = \frac{84,000}{5,400} = \# 15.555$$

Process II Account

Particulars	Qty	Rate	Amount	Particulars	Qty	Rate	Amount
Process I:				Normal loss	500	# 3	1500
Mat met	5000	6.2963	31481.5	Output	6000	13.9292	83575.2
D/E			10,000				
D/E			4,500				
Other exp			1200				
Prod overhead			9000				
Normal gain	1500	13.9292	20893.8				
	6500		85075		6500		85075

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

$$= \frac{84181.5 - 1500}{5000 - 500} = \frac{82681.5}{4500}$$

$$= \# 18.3737 = \# 18.37$$

Process III account

Particulars	Qty	Rate	Amount	Particulars	Qty	Rate	Amount
Process II transfer	6000	13.9292	83575.2	Normal loss	400	3	1200
Add material			5000	Output	4000	18.4548	73859.2
D/L			7000	Abnormal loss	1600	18.4548	29527.68
D/E			2500				
D/E			500				
Prod. overhead			6000				
	6000		104575		6000		104575

$$\begin{aligned} \text{Cost per unit} &= \frac{\text{Cost} - \text{scrap}}{\text{Input} - \text{normal loss}} = \frac{104575.2 - 1200}{6000 - 400} \\ &= \frac{103375.2}{5600} = \text{Rs } 18.4598 \end{aligned}$$

Abnormal loss account

Particulars	Qty	Rate	Amount	Particulars	Qty	Rate	Amount
Process I	400	6.2963	2518.52	Scrap	1200	3	3600
Process III	1600	18.4598	29535.68				

Abnormal gain account

Particulars	Qty	Rate	Amount	Particulars	Qty	Rate	Amount
Scrap	1500	3	4500	Process II	1500	13.9292	20893.8
P/L			16393.8				
	1500		20893.8		1500		20893.8

NAME - OGBOGU ANCELE ANNETTE

MATRIC NO. - 18/SMS05/022

BUSINESS ADMINISTRATION

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(A) Features used in contract costing

- i The contract is made between the customers and suppliers / contractor and contractors.
- ii They may be sub-contract
- iii The work is usually for long duration, often more than one accounting period.
- iv The contract work is often based on size.
- v Contracts are undertaken to special requirements of the customers
- vi Method of costing is similar to job costing

(B) Terminologies used in contract costing

- i Estimated profit - This is the cost price minus the estimated cost of the contract
- ii Value of work certified - This is the market value of work controlled by cost accountant
- iii Cost to date - The total sum of all cost incurred on the contract
- iv Architects certificate - This is the certificate of work done
- v Cost of work certified - This is the total cost incurred on the portion certified.

(C) Objectives of service costing

- i The cost per unit of service should be used as part of control function.
- ii Prices should be computed for service being sold to the third party.
- iii The management plan control and make decisions, as cost is analysed into fixed, variable and mixed cost
- iv Planned cost should be compared with actual cost and the difference be investigated for corrective action as necessary
- v The cost per unit of service should be used as part of control function.

iii) Methods of cost estimation

i) Least square or Linear Regression method-

The application of linear equation formula: $y = a + bx$ is used to derive the regression equations; $y = \text{total/mixed cost}$

$a = \text{constant factor/TFC}$

$b = \text{variable cost}$

$x = \text{activity level / independent variable}$

~~using least square method, a and b can be derived from~~

ii) High low method-

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

a) Pick the highest and least activity level among the data observed.

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 difference in activity levels

f) Use (e) which is the variable cost per unit to determine total cost or fixed cost using cost formula. $\dots TC = FC + VC$

iii) Engineering method-

This method is used when there is engineering analysis of technological relationship between input and output. Cost are estimated based on observations of the underlying physical quantities need for an activity. This method is used for estimating of repetitive processes with clearly defined input-output relationship. It is good when direct costs form a large part of the total cost, but it is expensive to apply.

iv) Graphical or Scattergraph 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 parts by the line.

The interception of the line of best fit on y-axis is the fixed cost (a) while the gradient or slope of the line is the variable cost (b).