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(4)

Terminologies

- * **Cost of Work Certified:** It is the total cost incurred on the portion of work certified, it is the completed and certified.
- * **Contract Price:** Contract price is the agreed price of contract between the contractor and contractor, it is also known as the price of a contract which is paid to the contractor.
- * **Certificate of work done / Architect Certificate:** It is a certificate issued for work done to the contractor by an architect.
- * **Cost of date:** Addition / Sum of all cost incurred to date on the contract.
- * **Estimated profit:** It is the estimated cost of the contract.

Features

- * The work are usually for long durations ~~off~~ after more than one accounting period.
- * Contract may contain clause for penalty

*) Retention money may be deducted from progress payment

*) The Contract work is based on the plan size and the size is ~~estimated~~ determined by the amount involved

(4b) *) Planned cost to be compared with actual cost and the difference by investigated for corrective action is necessary

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

*) A cost per unit of service should be computed.

*) Price should be computed for services being sold to the third parties

*) In order to help managers plan, control and make decisions, cost data should be analysed in fixed, variable and mixed cost.

(4c) Method of Cost Separation

a) Scatter graph method:

It is a popular well known method of estimating the fixed and variable cost because it is a quick and easy method to use. It involves drawing a graph of number of units produced against the total cost incurred in the production process.

b) High low method: This represents an objective way of segregating the mixed cost into fixed

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and variable element by the following

* Determine the difference between the activity levels

* Identify the corresponding cost of both the highest and lowest activity levels.

* Determine the difference between the corresponding cost.

* In order to determine the variable cost per unit or the level of variability, divide the difference in cost by the difference in activity level.

c) Regression Analysis

It is used as a sense of mathematical equation to find the best of possible fit of the line to the data point and this tends to provide more accurate results than the scatter graph approach.

d) Statistical modeling

For the largest or small business, statistical modeling can be a very accurate method of cost estimation.

①

Salamander PLC

Contract Account ACAT February 28, 2011

Direct material issued	75,000	material d/c	25,000
materials bought on stock	115,000	Cost of stock d/c	486,600
Direct expenses	55,000		
Wages paid	150,000		
Head office expenses	10,500		
Plant Depreciation (20% x 100,000)	20,000		
Accrued Expenses			
Direct wages	5,000		
Direct Expenses	1,150	6,150	
		<u>511,650</u>	
			<u>511,650</u>

Cost to date b/d	486,850	Value of work Certified	545,000
National profit			
Profit taken	35,010		
Profit not taken	23,340		
	545,000		545,000
Material b/f	25,000	Profit L/f	23,340

b) Calculation of work in progress

Cost to date	486,850
Profit taken	35,010
	521,860
Cost received	490,500
Work in progress	31,360

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

National profit = 58,550

Profit taken = $\frac{2}{5} \times \text{National profit} \times \frac{\text{Cash received}}{\text{Value Certified}}$

$= \frac{2}{5} \times 58,550 \times \frac{490,500}{545,000}$

= 35,010

Profit, Not taken = $(58,550 - 35,010) = \frac{23,340}{5}$

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18/11/2023 OLO

(3) Kekemeke Ltd
Process Account

Normal	Qty	Rate	Amount	Normal	Qty	Rate	Amount
Input mat	6,000	2	12,000	Normal loss	600	3	1,800
Acid material			7,000	Output	5,000	6.3	31,500
Labor			8,000	Abnormal loss	400		2,500
Expenses			3,000				
Other expenses			800				
Pro Inds			5,000				
	6,000		35,800		6,000		35,800

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

$$= \frac{35,800 - 1,800}{6,000 - 600} = \frac{34,000}{5,400} = 6.3$$

Process II Account

Normal	Qty	Rate	Amount	Normal	Qty	Rate	Amount
Process I transfer	5,000	6.3	31,500	Normal loss	500	3	1,500
Acid material			8,000	Output	6,000	13.9	83,400
Labor			10,000				
Expenses			7,500				
Other expenses			1,200				
Production Overhead			9,000				
Abnormal profit	1,500		20,900				
	6,500		89,900		6,500		89,900

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

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

$$= \$13.9$$

Process	III	Rate	Amount	Normal	Qty	Rate	Amount
Abstraction	PI	13.9	83,400	Normal loss	100	5	1,200
Process II transfer	6,000		5,000	Output	1000	18.4	18,400
Field material			7,000	Abnormal loss	100		2,900
Labour			2,500				
Expenses			500				
Other expense			6,000				
Production	6,000		104,400		6,000		104,400

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

$$= \frac{104,400 - 1,200}{6,000 - 100} = \frac{103,200}{5,900}$$

$$= \$17.4$$

Abnormal Loss Account			Account		
Normal	Qty	Rate	Normal	Qty	Rate
Process I	foo		scrap	2000	3
Process II	1600		P/L		
	2000			2000	
		32,100			6,000
					26,100
					32,100

Qty	Rate	Amount
foo	3	1,200
foo	15.4	27,900
1,600		27,000
		114,600

Abnormal Gain Account			Account		
Normal	Qty	Rate	Normal	Qty	Rate
Scrap	1500	3	Process I	15,000	R
P/L				1,500	
	1,500				
		4,500			20,700
		16,200			20,700
		20,700			