

MOMOHAMANI

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Accounting

1. A Features of contract costing

1. A formal contract is made between the customer and the supplier.

Work is undertaken to customer special requirement.

They may be sub-contract.

Work are usually for long duration often for more than one accounting period.

Payment on account are usually made against work certified.

Contract may contain clause for penalty for delay in completion and bonus for any completion.

Terminologies used

1. Contract price - amount or price agreed on a contract between the contractor and contractee.

2. Cost to date - This is the all addition amount which has been spent till present date.

3. Work certified - This is the work done upon which certificate of work done is issued by an architect.

4. Cost of work certified - This total cost incurred on the portion certified.

5. Progress payment - This is the money paid on continuous progress.

Objectives of service costing

1. Prices should be computed for services been sold to third parties.

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

The cost per unit of service should be computed.

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Methods of cost estimation

- i Engineering method | This method is used when there is engineering analysis of technological relationship between input and output
- ii Account classification
This is a subjective way of classifying mixed cost into fixed and variable cost using personal experience by cost accountant
- iii Graphical or scattergraph method
Low method - of segregating mixed cost into fixed and variable cost, it was observed that all the observations are
- iv Graphical or scattergraph
Graphical method uses all observations in arriving at the cost estimate
- v Least square
The application of Linear equation formula $y = a + bx$ is used to derive the regression equation. y stands for total or mixed cost and x stands for activity level or independent variable

1 Salamander plc Construction company
 Contract Account for the period ended 28 February 2011

Direct materials issued	75,000	materials c/d	25,000
materials bought on site	195,000	(cost of date c/d	486,650
Direct Expenses	55,000		
Wages paid	150,000		
Head office Expenses	10,500		
Plant Depreciation (20% of 100,000)	20,000		
Accrued wages Expenses			
Wages 1,500			
Direct Expenses 1150	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 35,010			
profit not taken 23,340	58,350		
	<u>545,000</u>		<u>545,000</u>
Material b/f	25,000	profit b/f	23,340

b calculation of work in progress

cost to date	486,650
profit taken	<u>35,010</u>
	521,660
Cash received	<u>(490,500)</u>
work in progress	<u>31,160</u>

Working

Cash received	490,500
Value certified	<u>490,500</u>
	0.90

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

$$= \frac{2}{3} \times 58350 = \frac{490500}{490550}$$

545,000

$$= 35010$$

$$\text{Profit not taken} = (58350 - 35010) = 23340$$

3. Kekemakanan (kg)

Process Account							
Narration	Qty	rate	Amount	Narration	Qty	rate	Amount
Input material	6000	2	12000	Normal loss	600	3	1800
Add: material			7000	Output	5000	6.3	31500
Labour			8000	Abnormal loss	400		2500
Expenses			2000				
Other expenses			800				
Production overheads			5000				
	6000		35800		6000		35800
			35800				

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

$$= \frac{35800 - 1800}{6000 - 600} = \frac{34000}{5400} = 6.3 \text{ units}$$

Process II Account

Narration	Qty	rate	Amount	Narration	Qty	rate	Amount
Process I Transfer	5000	6.3	31500	Normal loss	500	3	1500
Add: Material			8000	Output	6000	13.9	83400
Labour			10,000				
Expenses			4500				
Other expenses			1200				
Production overheads			9000				
Abnormal profit	1500		20700				
	6500		84900		6500		84900

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Cpu = $\frac{\text{cost} - \text{scrap}}{\text{Input material} - \text{Normal loss}}$

$$\frac{61200 - 1500}{5000 - 500} = \frac{62700}{4500} = 13.9 \text{ units}$$

Process III Account

Narration	Qty	rate	Amount	Narration	Qty	rate	Amount
Process Transfer	6000	13.9	83400	Normal loss	1600	3	1200
Add material			5000	output	4000	19.4	78600
Labour			7000	Abnormal loss	1600		29600
Expenses			2500				
Other expenses			500				
production overhead			600				
	6000		104400		6000		101400

Cpu = $\frac{\text{cost} - \text{scrap}}{\text{Input material} - \text{Normal loss}}$

Input material - Normal loss

$$\frac{101400 - 1200}{6000 - 1600} = \frac{103200}{5600} = 19.4 \text{ units}$$

Ab normal loss Account

Narration	Qty	rate	Amount	Narration	Qty	rate	Amount
Process I	400		2500	scrap	2000	3	6000
Process II	600		29600	P/L			26100
	2000		32100		2000		32100

Ab normal loss Gain Account

Narration	Qty	rate	Amount	Narration	Qty	rate	Amount
Scrap	1500	3	4500	Process	1500		20700
P/L			16200				
	1500		20700		1500		20700