

- | Abnormal | Cost | A/C | Rate | Amount |
|----------|------------|-----|------|--------|
| Amount | Allocation | 102 | " | Amount |
| | | | | |
- 4b Objective of Service Costing
- a) Cost should be analysed into fixed variable and mixed cost
 - b) In other to help manage plan control and make decision
 - c) A cost per unit of service should be computed.
 - d) Price should be computed for service be sold to third party
 - e) The cost per unit of service should be used as part of control function

4c Engineering method

This is used when there is engineering analysis of technological relationship between input and output eg work sampling, methods study and time motion studies. Cost are estimated based on observation 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, cost that often associate with direct material, labour and machine time which can be observed and measured directly.

- Advantages
 - a) It is good when direct cost form a large part of total cost
 - b) When relationship between input and output are fairly stable overtime

Disadvantage
It is expensive to apply.

4d Account Classification

This is a subjective way of classifying mixed cost into fixed and variable cost using personal experience by cost accountant. Items of expenditure within the accounts for some output level are inspected and classified as fixed, variable or semi variable cost.

Narration	Qty	Rate	Amount	Scrap	PL	2,000	3	600
	400		2,500					2,500
			29,600					32,100
						2,000		

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Question 4

Features of Contract Costing

- a) There may be sub-contract
- b) Work is frequently constructional in nature
- c) The method of contract costing is similar to job costing
- d) Work is undertaken to customer's special requirements
- e) Retention money maybe deducted from progress payment
- f) Payment of account are usually made against work satisfied.
- g) Contract may contain clause for penalty for delay in completion and bonus for early completion

Terminologies used in contract costing

- a) Cost to date: The addition or total sum of all cost to date on the contract
- b) Estimated Profit: This is the contract price minus the estimated cost of the contract
- c) Cost of work satisfied: This is the total cost incurred on the portion certified.
- d) Retention fee: A guarantee for bad work
- e) Architect Certificate: This is the certificate of work done.

Salamander Plc
Contract Account as at February 28 2011

Direct material issued	75,000	material 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	10,000		
Plant depreciation (20% x 100,000)	20,000		
Accrued expenses			
wages	5,000		
Direct expenses	1,150		
	<u>61,500</u>		
	<u>511,650</u>	value of work certified	<u>511,650</u>
Cost to date b/f	486,650		545,000
National profit			
Profit taken	35,000		
Profit not taken	23,340		
	<u>58,350</u>	Profit b/f	<u>545,000</u>
			<u>23,340</u>

b) Calculation of work in progress:

Cost to date	486,650
Profit taken	<u>35,000</u>
Cash received	521,650
	<u>1490,500</u>
Work in Progress	<u>31,160</u>

Working

Cash received 490,500

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

National profit = 58,350

$$\begin{aligned} \text{Profit taken} &= \frac{2}{3} \times \text{National Profit} \times \frac{\text{cash received}}{\text{value certified}} \\ &= \frac{2}{3} \times 58,350 \times \frac{490,500}{545,000} \\ &= \text{R}35,000 \end{aligned}$$

$$\text{Profit Not taken} = (58,350 - 35,000) = \text{R}23,340$$

Abnormal no. rate	Cost Amount	Rate	Description	Qty	Rate	Amount	Goods
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Process III account

Navigation	Qty	Rate	Amount	Navigation	Qty	Rate	Amount
Add material	6,000	13.9	83,400	Normal loss	400	3	1,200
Labour			5,000	Quota	4,000	18.4	73,600
Expenses			7,000	Abnormal loss	1,600		29,600
Other exp			12,500				
Product waste			5,000				
			6,000				
	6,000		104,400		6,000		104,400

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

$$= \frac{104,400 - 1,200}{6,000 - 400} = \frac{103,200}{5,600}$$

$$= 18.4$$

Process III account							
Navigation	Qty	Rate	Amount	Navigation	Qty	Rate	Amount
Add material	6,000	13.9	83,400	Normal loss	400	3	1,200
Labour			5,000	Quality		18.4	7,360
Expenses			7,000	Abnormal loss	1,600		21,600
Other exp			2,500				
Product waste			5,000				
			6,000				
	6,000		104,400		6,000		104,400

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

$$= \frac{104,400 - 1,200}{6,000 - 400} = \frac{103,200}{5,600}$$

$$= 18.4$$

Kekomeke Ltd.

Process Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Input material	6,000	2	12,000	Normal loss	600	3	1,800
add: material			7,000	Output	5,000		31,500
Labour			8,000	Abnormal loss	400		2,000
Expenses			3,000				
Other expenses			800				
			5,000				
Production over	6,000		35,800		6,000		35,800

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

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

$$= \text{R}6.3$$

Process II Account

Particulars	Qty	Rate	Amount
Process I transfer material	5,000	6.3	31,500
Labour			8,000
Expenses			10,000
Other expenses			4,500
Production overhead			1,200
Abnormal profit	1,500		9,000
	6,500		20,700
Normal loss output	500	3	1,500
	6,000	13.9	83,400
	6,500		84,900

$$CPI = \frac{\text{Cost} - \text{Scrap}}{\text{input material} - \text{normal}}$$

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

$$= 13.9$$

Kekomeke Ltd.

Process Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Input material	6,000	2	12,000	Normal loss	600	3	1,800
add: material			7,000	Output	5,000		31,500
Labour			8,000	Abnormal loss	400		2,000
Expenses			3,000				
Other expenses			800				
			5,000				
Production over	6,000		35,800		6,000		35,800

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

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

$$= \text{R}6.3$$

Process II Account

12.10.10

Narration	Abnormal		Cost Amount	A/c Narration	Qty	Rate	Amount
	Qty	Rate					
Process I	400		2500	Scrap	2,000	3	6000
Process II	1600		29,600	PL			26,000
	2000		32,100		2,000		32,100

Abnormal Gorn Account

Narration	Abnormal			Narration	Qty	Rate	Amount
	Qty	Rate	Amount				
Scrap	1500	3	4,500	Process II	1500		20,700
PL			16,200		1500		20,700
	1,500		20,700				

Advantage

- a) It is fast
- b) It is not expensive
- c) It is easy to understand.
- d) It can easily account for changes in cost structure.

Disadvantage

- a) It is subjective
- b) It is used as arbitrary method to segregate cost.

Graphical or Scatter Graph Method.

As a result of over reliance on high and low value of the high-low method of segregating mixed cost into fixed and variable cost. It was observed that all the observations are not considered in deriving the cost estimate and