

AME: MBACTU BUREAU AMANDEK 1

ATKAC NO: 18/SM002/034

DEPT: ACCOUNTING

AKSE: ACC 204

9 SA LAMANDER PLC

CONTRACT ACCOUNT AS AT		FEBRUARY 28 2011	
	#		#
Direct materials issued	75,000	Materials b/f	25,000
Materials bought on site	195,000	Cost to date b/f	486,000
Direct expenses	55,000		
Wages paid	150,000		
Head office expenses	10,500		
Plant operation (20% x 100,000)	20,000		
General expenses:			
Wages	5,000		
Direct expenses	<u>1,150</u>		
	511,650		<u>511,650</u>
Cost to date b/f	486,650	Value of work certified	545,000
Moboral profit			
Profit taken	35,010		
Profit not taken	<u>23,340</u>		
	58,350		
	<u>545,000</u>		<u>545,000</u>
Material b/f	25,000	profit b/f	23,340

1b Calculation of work in progress

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

Workings ~~for~~ ~~the~~ for number 1

$$\text{Cash received} = 490,500$$

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

$$\text{Notional profit} = 58,350$$

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

$$= \frac{2}{3} \times 58,350 \times \frac{490,500}{545,000} = \underline{\underline{\text{A}35,010}}$$

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

QUESTION THREE (3)

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Process I Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Input met	6,000	2	12,000	Normal loss	600	3	1,800
Add: material			7,000	output	5,000	6.3	31,500
labour			8,000	Abnormal loss	400		2,500
Expenses			3,000				
Other expense			800				
Production overhead			5,000				
	6,000		35,800		6,000		35,800

$$\begin{aligned} \text{Cost per unit (CPU)} &= \frac{\text{Cost} - \text{Scrap value}}{\text{Input material unit} - \text{Normal loss unit}} \\ &= \frac{35,800 - 1,800}{6,000 - 600} = \frac{34,000}{5,400} \\ &= \text{A}6.3 \end{aligned}$$

Process II Account

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

$$\begin{aligned} \text{CPU} &= \frac{\text{Cost} - \text{scrap}}{\text{Input material} - \text{normal}} \\ &= \frac{84,200 - 1,500}{6,500 - 500} = \frac{82,700}{4,500} = \text{A}18.9 \end{aligned}$$

### Process III Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process II transfer	6,000	13.9	83,400	Normal loss	400	3	1,200
add: Material			5,000	output	4,000	18.4	73,600
labour			7,000	Abnormal loss	1,600		29,600
Expenses			2,500				
Other expenses			500				
Production overhead			6,000				
	6,000		104,400		6,000		104,400

$$\begin{aligned}
 \text{SP4} &= \frac{\text{Cost} - \text{scrap}}{\text{Input material} - \text{normal}} \\
 &= \frac{104,400 - 1,200}{6,000 - 400} = \frac{103,200}{5,600} = 18.4
 \end{aligned}$$

### Abnormal loss account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process I	400		2,500	Scrap	2,000	3	6,000
Process II	1,600		27,600	P/L			26,100
	2,000		32,100		2,000		32,100

### Abnormal Gain account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Scrap	1,500	3	4,500	Process II	1,500		20,700
P/L			16,200				
	1,500		20,700		1,500		20,700

## QUESTION FOUR (4)

~~FEAT~~

### i) FEATURES OF CONTRACT COSTING

- a) Contracts are generally of large size and therefore a contractor usually carries out a small number of contracts in the course of one year.
- b) A contract generally takes more than one year to complete.
- c) Labor on contract is carried out at the site of contract and not in factory premises.
- d) Each contract undertaken is treated as a cost unit.
- e) Generally, all labours are treated as direct labours.

### TERMINOLOGIES OF CONTRACT COSTING

- a) CONTRACT PRICE: Amount or price agreed between contractor and contractee.
- b) ~~Architect certificate~~: ARCHITECT CERTIFICATE: Certificate issued to contractor for work done.
- c) PROGRESS PAYMENT: This is the money paid on continuous progress of the contract.
- d) COST TO DATE: Amount which has been spent till present date. Total sum and addition of all cost incurred till date on the contract.
- e) WORK CERTIFIED: This is the work done upon which certificate of work done is issued by experts or by architect.

#### 4iii) OBJECTIVES OF SERVICE COSTING

- a) Plant cost should be compared with actual cost and the differences to be investigated for corrective action as necessary.
- b) The cost per unit of service should be computed.
- c) The cost per unit of service should be used as a part of control function.
- d) Prices should be computed for service being sold to third parties.
- e) In order to help management plan, control and make decisions, cost should be analysed on the basis of variable and mixed costs.

4iii) a) GRAPHICAL OR SCATTER GRAPH METHOD → The graphical method uses all observations in arriving at the cost estimate. It is used by plotting observations against activity level on graph and a line of best fit is drawn diagonally across the observed graph to equally divide them into equal parts by the line.

b) HIGH-LOW METHOD - 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 level activity.
- c) Pick the corresponding cost of the highest and lowest activity levels.
- d) Calculate the difference between cost of highest and lowest activity levels.
- e) Divide the cost difference by the difference in activity level.
- f) Use "e" which is the variable cost per unit to determine the total cost or fixed cost.

Continued 4(ii)

Accountant CLASSIFICATION METHOD  $\Rightarrow$  is a subjective way to classify mixed cost into fixed and variable costs using personal experience by cost accountants.

ENGINEERING METHOD - is used when there is engineering analysis of technological relationship between input and output - e.g. work sampling etc is commonly used for estimating of repetitive processes with clearly defined input to output relationship.