ADEKOYA ADEMILADEOGO .D.
COST ACCOUNTING
18/SMS02/003
TEST
Department: Accounting.

1. QUESTION 1

SALAMANDER PLC

CONTRACT ACCOUNT AS AT February 28, 2011

		₦		₦
Direct Materials		75000	material c/d	25,000
Direct Expenses (~~55,000+1,150~~)		55000 ~~6,100~~	Cost of work Certified b/d	486,650
Materials bought on site.		195,000		
Head office Expenses		10,500		
Wages paid		150,000		
Plant Depreciation.		20,000		
Accured expenses				
wages	5,000			
direct expenses	1,150	6,150		
		511,650		511,650
Cost of work Certified		486,650	Value of work Certified	545,000
Notional profit:				
Profit taken	35,010			
Profit not taken	23,340	58,350		
		545,000		545,000
material b/f		25,000	Profit b/f	23,340

B. Calculation of work In progress

Cost to date	486,650
Profit taken	35,010
	521,660
Cash Received	(490,500)
	31,160.

486650
3850

Question 2

	₦	₦
Running Cost		
Petrol $\left[\frac{50 \times 2 \times 2 \times 8 \times 50}{8}\right]$	10,000	
Repairs (120 × 8)	960	
Depreciation on lorry $\left\{\frac{20,000 - 2000}{100,000} \times \frac{5000}{1}\right\}$	900	
Depreciation on tyres $\left\{\frac{2000}{20,000} \times \frac{5000}{1}\right\}$	500	12,360
Drivers wages	200	
Garage bills (5 × 10 × 8)	400	
Insurance $\left\{\frac{2000}{52} \times 8\right\}$		
Vehicle license $\left\{\frac{5200}{52} \times 8\right\}$		
Other overhead cost $\left\{\frac{7800}{52} \times 8\right\}$		

Question 3

Kekemeke Ltd.

Process I Account

Narration	Qty	Rate	₦ Amount	Narration	Qty	Rate	₦ Amount
Input	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 Expenses			800				
Production Overhead			5,000				
	6,000		35,800		6,000		35,800

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

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

$$= ₦6.3$$

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			8000	Output	6,000	12.9	83,400
Direct 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

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

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

$= ₦12.9$

Process III Account

Narration	Qty	Rate	₦ Amount	Narration	Qty	Rate	₦ Amount
Process II transfer	6,000	12.9	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

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

$$= \frac{104,400 - 1,200}{6,000 - 400} = \frac{103,200}{5,600} = ₦18.4$$

Abnormal loss Account

Narration	Qty	Rate	₦ Amount	Narration	Qty	Rate	₦ Amount
PROCESS I	400		2,500	Scrap	2000	3	6,000
PROCESS III	1,600		29,600	P/L			26,100
	2000		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				
	1500		20,700		1,500		20,700

Question 4

Features of Contract

1. A formal Contract is made between a contractor and the contractee.
2. Work is undertaking to Customer's Special requirements.
3. The work are usually for long duration, often more than one accounting period.
4. There may be sub-contracts.
5. The work is frequently Constructional in Nature.
6. The method of Contract Costing is similar to job costing.
7. The Contract work is often based on site, and the site is determined by the contractee [illegible] finished.
8. There is often an architect engaged by the Contractee to monitor the job and issue Certificate of work done at every stage of valuation.
9. In some Contracts retention fund may be deducted from progress payment.
10. Contracts may contain clause for penalty, for delay in completion or bonus for early completion.
11. Payment on accounts are usually made against work certified.

Terminologies used in Contract Costing

1. Contract price:
   It is the agreed price btn the Contractor & contractee.

2. Progress payment:
   - The amount gotten from continuous progress in the contract.

3. Cost to date:
   - The addition of all cost incurred to date on the contract.

4. Retention fund/fee:
   It is the money deducted from progress payment for any [illegible] (guarantee for damages).

5. Architect certificate:
   It is the document given to the Contractor for work done issued by an architect.

Objective of Service Costing

1. planned cost to be compared with actual cost and differences be investigated for corrective actions as necessary.
2. The cost per unit of service should be used as part of the Control function.
3. A cost per unit of service should be computed.
4. Prices should be computed for services been sold to third parties.
5. In order to help management plan control and make decisions cost should be analysed into fixed, variable and mixed cost.

(iii) Methods of Cost estimation-

1. Engineering Method:- Engineering method is used when there is engineering analysis of technological relationship between input and output e.g. Work Sampling, methods study and time motion studies.

2. Accounts Classification method: This is a subjective way of classifying mixed cost into fixed and variable costs using personal experience by cost accountant.

3. Graphical or Scategraph Method: It is used by plotting the observations against activity level on graph and a line of best-fit is drawn diagonally a cross the observed graph by equally dividing them into equal part by the line.

~~4. Least Square or Linear Regression Method~~:

4. High low Method: This is object method of segregation mixed cost into fixed and variable cost