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Dept: Accounting

#### 46 features of contract

- i Profit on final may deducted from progress payment
- ii There may be sub contract
- iii A formal contract is made between the customer and the supplier
- iv The work is for a long duration often more than one accounting period

v work is undertaken to customer special requirements.

#### 47 Terminologies used in contract costing

i Contract price: agreed price between the contractor and customer.

ii Archival certificate: That is certificate for work done.

iii estimated price: The contract price less the estimated cost of the contract

iv work satisfied: work done upon which certificate of work done is issued.

v actual profit/loss: profit earned on the contract to date and cost of work certified.

#### 5 objective of service cost

i plant cost: should be compared in its actual cost and difference be investigated for corrective action as necessary

ii The cost period for service should be used as part of contract.

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- ii) A cost per unit for service should be computed.
- iii) Prices should be computed for services being sold to third parties or services rendered from one party to another.

### LC

- i) Account analysis
- ii) High-low method
- iii) Scatter-graph method
- iv) Regression analysis.

i) Account analysis: This is the most common starting point for estimating fixed and variable cost.

ii) High-low method: ~~helps~~ identifying fixed and variable cost estimation purposes.

iii) Scatter graph method: to estimate costs used to estimate fixed and variable cost.

iv) Regression analysis: uses a series of mathematical equation to find the best possible fit of the data points and thus tends to provide more accurate result.

Salamander PLC

Contract Account ACAT for year 28 28, 2011

	Direct material issued 75,000	material c/f	25,000
	material bought outside 195,000	cost to date c/f	486,650
	Direct expenses 55,000		
	wages paid 150,000		
	Head office exp 10,500		
	Plant operation (20% x 100,000) 20,000		
	Accrued expenses		
	wages 5,000		
	Direct exp 1,150	<u>6,150</u>	
		<u>511,650</u>	<u>511,650</u>
	cost to date s/f 486,650	value of work certified	545,000
	material profit 35,010		
	Profit taken 23,340	<u>51,350</u>	
		<u>545,000</u>	<u>545,000</u>
	material s/f 25,000	Profit s/f	23,340

Calculation of work in progress

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



workings

Cash received 490,500

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

notional profit = 58,350

Profit taken =  $\frac{2}{3} \times \text{notional profit} \times \frac{\text{cash received}}{\text{value certified}}$   
 $\frac{2}{3} \times 58,350 \times \frac{490,500}{545,000}$   
 $= 35,010$

profit not taken =  $(58,350 - 35,010) = 23,340$

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### Process Account

description	Qty	Rate	Amount	description	Qty	Rate	Amount
input mat	6000	2	12000	normal loss	600	3	1800
add: material			4000	output	5000	6.3	31500
labour			5000	Abnormal loss	400		2500
expenses			2000				
other exp			800				
production over			5000				
	6000		35800		6000		35900

$$\text{cost per unit (cpu)} = \frac{\text{cost} - \text{scrap}}{\text{input material unit} - \text{normal loss unit}}$$

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

$$= 6.3$$

Process II Account							
variation	Qty	rate	Amount	variation	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			1,000				
expenses			4,500				
other exp			1,200				
Production overhead			9,000				
Abnormal profit	1,500		20,700				
	6,500		84,900		6,500		84,900

$$C.P.A = \frac{\text{Cost} - \text{Scrap}}{\text{input material} - \text{normal}}$$

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

$$= 13.9$$



Process II Account

description	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process I transfer	6,000	13.9	83,400	normal loss	400	3	1,200
Add: material		9,000	5,000	output	4,000	18.4	73,600
labour		7,000	7,000	Abnormal loss	1,600		29,600
Expenses		2,500	2,500				
other scrap		500	500				
Production overhead		6,000	6,000				
	<u>6,000</u>		<u>104,600</u>		<u>6,000</u>		<u>104,400</u>

Cost - Scrap

Input material - normal

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

= 18.4

Abnormal loss Account

narration	Qty	Rate	Amount	narration	Qty	Rate	Amount
Process I	400		2,500	Scrap	2,000	3	6,000
Process II	1,600		29,600	P/L			
	<u>2,000</u>		<u>32,100</u>		<u>2,000</u>		<u>32,100</u>

### Abnormal Gain Account

Abnormal	Qty	Rate	Amount	Normal	Qty	Rate	Amount
Scrap	1,500	3	4,500	Process II	1,500		20,900
P/L			16,200				
	1,500		20,700		1,500		20,700

2. Running cost

petrol  $\left[ \frac{50 \times 2 \times 2 \times 8 \times 50}{8} \right]$       10,000      10,000

Repairs  $(120 \times 8)$       960      960

3 Depreciation on lorry  $\left[ \frac{20,000 - 2,000 \times 5,000}{100,000} \right]$  900

Depreciation on tyres  $\left[ \frac{2,000 \times 5,000}{20,000} \right]$       500      12,360

Running cost

Driver's wages      200

Garage bills  $(5 \times 10 \times 8)$       400

Insurance  $\left( \frac{2,000}{52} \times 8 \right)$

vehicle license  $\left( \frac{5,200}{52} \times 8 \right)$

other overhead cost  $\left( \frac{7,800 \times 8}{52} \right)$