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Dept: Accounting

Matric No: 18/SM/02/039

(1)

(1) CONTRACT A/c AS AT FEBRUARY 28, 2011

Salamander A/c

Contract Account at February 28, 2011

Direct materials issued 75,000	materials c/f 25,000
materials <sup>bought</sup> <del>weight</del> on site 145,000	cost to date c/f 486,650
Direct paid expenses 55,000	
Wages paid 150,000	
Head <sup>Office</sup> paid expenses 10,500	
Plant Depreciation (20% x 100,000)	
20,000	
Accrued expenses	
wages 5,000	
Direct expenses 1,150	6,150
	<u>511,650</u>
Cost to date b/f 486,650	Value of work certified 545,000
Notional Profit	
Profit taken 35,000	
Profit not taken 23,340	58,350
	<u>545,000</u>
Material b/f	Profit b/f
	<u>545,000</u>
	23,340

Workings

Cash received

490,500

Value Certified

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

Normal profit = 58,350

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

$$= \frac{2}{3} \times 58,350 \times \frac{490,500}{545,000}$$

$$= \text{₹ } 35,010$$

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

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
and material			5,000	Output	4,000	18.4	73,600
(Abnormal			7,000	Abnormal loss	1,600		29,600
Expenses			2,500				
other expenses			500				
Productive output			6,000				
	<u>6,000</u>		<u>104,400</u>		<u>6,000</u>		<u>104,400</u>

$$\text{C.P.U.} = \frac{\text{Cost} - \text{Scrap}}{\text{Input material} - \text{normal}}$$

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

$$= \text{₹ } 18.4$$

## Question 2

Kemere Ltd

### Process Account

Narration	Qty	rate	Amount	Narration	Qty	rate	Amount
Input mat	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

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

$$\begin{aligned}
 &= \frac{35,800 - 1,800}{6,000 - 600} = \frac{34,000}{5,400} \\
 &= \text{\#} 6.3
 \end{aligned}$$

### 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		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

$$\begin{aligned}
 \text{Cpu} &= \frac{\text{Cost} - \text{scrap}}{\text{Input material} - \text{normal loss}} \\
 &= \frac{64,200 - 1,500}{5,000 - 500} = \frac{62,700}{4,500} = \text{\#} 13.9
 \end{aligned}$$

## Abnormal loss Account

Narration	Qty	rate	Amount	Narration	Qty	rate	Amount
Process I	400	3500	2,000	Scrap	200	3	600
	1600		29,600	PIC			26,000
	200		32,000		200		32,000

## Abnormal Gain Account

Narration	Qty	rate	Amount	Narration	Qty	rate	Amount
Scrap	1,500	3	4,500	Process II	1,500		20,700
PIC			16,200				
	1500		20,700		1500		20,700

## Process IV Account

Narration	Qty	rate	Amount	Narration	Qty	rate	Amount
Process III transfer	6,000	13.9	83,400	Normal loss	400	3	1,200
Add: material			500				
labour			7,000		4,000	18.4	73,600
expenses			2,500		1,600		29,600
other exp			500				
Production overhead			600				
	6,000		104,400		6,000		104,400

Cpu - Cost - Scrap

$$\frac{\text{Input normal} - \text{normal}}{\text{6,000} - 400} = \frac{103,200}{5,600} = \text{Rs } 18.4$$

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## Terminologies in Contract Costing

(1) Contract price:

The agreed price of Contract between Contractor's and Contractee

(2) Certificate of work done of Architect Certificate is a Certificate issued for work done to the Contractor by an Architect.

(3) Progress Payment:

Money gotten on continuous progress of the Contract - payment made at specific stage of the Contract based on Certificate of work done.

## features of Contract Costing

\* The works are usually for long duration often more than one accounting period

\* There may be Sub-Contract

\* The work is frequently Constructional in nature

\* Retention money may be deducted from progress payment

\* Work is undertaken to customers special requirements

\* The method of Contract Costing is similar to Job Costing

#### 4ii Objectives of Service Costing

\* Planned cost should be achieved in the process of service costing and investigated for corrective action as necessary.

The Cost per unit of Service should be Computed

\* prices should be computed for Service being sold to third parties

\* In order to help management plan, control and make cost should be analysed into fixed, variable and mixed cost

(4ii) Pick the highest and least activity among the observed data.

(4iii) Graphical or Scattergraph Method: As a result of Over reliance on high and or low value of the high low method of segregating mixed cost into fixed and variable costs it was observed that all the observations are not considered in arriving at the cost estimate and this led to the discovery of graphical method. Graphical method used all observations in arriving at the cost estimate.

\* High low method: This is Object method of segregation mixed cost into fixed and variable cost through the activity process. Pick the highest and least activity level among the observed data  
calculate the difference between the two activity levels  
\* Pick the corresponding cost of the highest and lowest activity levels