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 18/MS02/042
 ACCOUNTING

1.) SALAMANDER PLC

Contract Account as at February 28, 2011

Direct material issued	45,000	Material b/f	25,000
materials bought on site	195,000	Cost of at 58	486,000
Direct expenses	55,000		
wages paid	150,000		
Head office wages	10,000		
Plant depreciation (20% x 100,000)	20,000		
Accrued expenses			
Wages 5000			
Direct Expenses 1150	6,150		
	<u>511,650</u>		<u>511,650</u>
Cost to date b/f	486,650	Value of work certified	545,000
Notional profits			
Profit taken 35,610			
Profit not taken 23,340	58,750		
	<u>545,000</u>		<u>545,000</u>
Material b/f	25,000	Profit b/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>
Work in progress	<u>31,160</u>

Ref: WF: 420

(2)

Workings

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

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

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

$$\begin{aligned} \text{Profit taken} &= \frac{2}{3} \times \text{Notional profit} \times \frac{\text{Cash received}}{\text{Value Certified}} \\ &= \frac{2}{3} \times 58,350 \times \frac{490,500}{545,000} \\ &= \text{\# } 35,010 \end{aligned}$$

$$\text{Profit taken} = 58,350 - 35,010 = \text{\# } \underline{\underline{23,340}}$$

4 b) Contra

contra

b) Arch

c) Cost

d) Esti

Cost

e) Na

a) P

c

b)

c)

d)

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c

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KEKEMEKE LTD

Process I Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Input Material	6,000	3	12,000	Normal loss	600	3	1,800
Additional material			7,000	Outputs	5,000	6.3	31,500
Labour			8,000	Abnormal loss	400		2,500
Direct expenses			3,000				
Other expenses			800				
Production overhead			5,000				
Abnormal gain	1,000	6.3	6,300				
	<u>6,000</u>		<u>35,800</u>		<u>6,000</u>		<u>35,000</u>
			<u>52,100</u>				

Cost per Unit (CPU) = $\frac{\text{Cost} - \text{Scrap}}{\text{Inputs material units} - \text{Normal loss units}}$

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

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'l 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				
	<u>6,500</u>		<u>84,900</u>		<u>6,500</u>		<u>84,900</u>

CPU = $\frac{84,200 - 1,500}{5,000 - 500} = \frac{82,700}{4,500}$

$$= \underline{\underline{18.4}}$$

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Process III Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process II transfer	6000	13.4	80,400	Normal loss	400	3	1,200
Add: Material			5,000	Output	4000	18.4	73,600
Labour			7,000	Abnormal loss	1600		29,600
Expenses			2,500				
Other expenses			500				
Production overhead			6,000				
	<u>6000</u>		<u>104,400</u>		<u>6000</u>		<u>104,400</u>

$$C.P.U = \frac{104,400 - 1200}{6000 - 400} = \frac{103,200}{5,600} = 18.4$$

Abnormal Loss Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Process II	400		2,500	Scrap	2000	3	6,000
Process II	1600		29,600	P/L			26,100
	<u>2000</u>		<u>32,100</u>		<u>2000</u>		<u>32,100</u>

Abnormal Gain Account

Narration	Qty	Rate	Amount	Narration	Qty	Rate	Amount
Scrap	1500	3	4,500	Process II	1500		26,900
P/L			16,200				
	<u>1500</u>		<u>20,900</u>		<u>1500</u>		<u>20,900</u>

(5)

2 Petrol $\left[\frac{50 \times 2 \times 2 \times 8 \times 50}{8} \right]$ ₹ 19000

Repairs (12000) 960

Depreciation on lorry $\left[\frac{20,000 - 2,000 \times 5000}{100,000} \right]$ 900

Depreciation on tyres $\left[\frac{2000 \times 5000}{20,000} \right]$ 500

Running Cost

Drivers wages

Garage bills (5 x 10 x 8)

Insurance $\left[\frac{2000 \times 8}{12} \right]$

Vehicle license $\left[\frac{5,200 \times 9}{12} \right]$

Other overhead cost $\left[\frac{7,800 \times 8}{12} \right]$

Terminologies of Contract Costing

- a) Contract Price: The agreed price of Contract between Contractor and contractee
- b) Architect Certificate: Certificate of work done issued by an architect
- c) Cost to date: Money spent till date on a Contract
- d) Estimated profit: This is the Contract price minus the estimated cost of the Contract
- e) Actual profit: This is the profit earned on the contract to date

- Feature of contract Costing

- a) The works are usually for long duration often more than one account period
- b) There may be sub contract
- c) The work is frequently constructional in nature
- d) Retention money may be deducted from progress payment
- e) The method of Contract costing is similar to job costing

4ii) Objectives of Service Costing

- a) Planned cost should be compared with actual^{cost} and the difference should be investigated.
- b) The cost per unit of service costing should be computed
- c) The cost per unit of service should be used as part of control function

4iii) Engineering method: is used when there is engineering analysis of technological relationship between input and output, e.g. to Sampling, methods study and time motion studies.

- b) Least Square method or Linear Regression method: The application of linear equation formula: $y = a + bx$ is used to derive the regression equations. 'y' stands for total mixed cost 'a' stands for constant factor or total fixed cost and 'x' stands for activity level or independent variable.
- c) Account classification method: This is a subjective way of classifying mixed costs into fixed and variable costs using personal experience by cost accountants.
- d) High-Low method: This is an objective method of segregating mixed cost into fixed cost.