

Operating (Service) Costing and Contract Costing

Time Allowed : 70 Minutes

TEST – 1 (Solution)

Total Marks: 40 Marks

Answer to Question no.1:

Operating Costing vs. Operation Costing

- 1) **Applicable Industries:-** The technique of operating costing is applicable on service-providing industries. The technique of operation (process) costing is applicable in case of those industries where total manufacturing procedure is divided into suitable number of operations (processes) in such a way that the output of one process is input to the next process and the output of last process is the final output.
- 2) **Objective:-** In operating costing, the objective is to identify the true amount of cost of providing the service to the customer. In operation costing, the objective is to ascertain the true amount of cost regarding each and every process or operation in the manufacturing procedure.
- 3) **Classification:-** While ascertaining true cost of providing the service, it is advised to classify various expenses as fixed cost and variable cost. In operation costing, the expenses are identified with various stages of manufacturing the product.
- 4) **Control:-** In Operating Costing, the expenses are controlled from the point of view of fixed cost and variable cost. Fixed expenses are uncontrollable whereas variable expenses are controllable. In Operating Costing, the expenses are controlled from the point of view of stages of manufacturing.

Answer to Question no.2:

Retention money and Process Advance Payment**(A) Process Advance Payment :-**

- (1) The amount which is given by contractee to the contractor during the continuation of work can be regarded as "Progress Advance Payment".
- (2) The amount of advance to be given by contractee to the contractor is to be decided on the basis of the work which is certified by Architect/Surveyor.
- (3) Generally, total amount certified is not given as advance. A portion of such certified amount is retained by contractee (as per the agreement) and balance amount is given as advance.
- (4) At the completion of contract, total contract price becomes payable by contractee to contractor.

(B) Retention Money:-

- (1) The amount which is withheld by the contractee despite certification is known as "Retention Money".
- (2) The retention money is not decided in arbitrary manner. It is decided as per the agreement between the contractor and the contractee.

(3) Reasons:-

- (a) To enforce the contractor for making due completion of contract.
- (b) To rectify the defect in the work if the contractor refuses to do so at his own cost.

Answer to Question no.3:

Computation of Total Passenger-kms : Passenger-kms.

Delhi to Dehradun	=50 Passengers × 280 kms	=14,000
Dehradun to Mussoorie	=(50-20) Passengers × 20 kms	=600
Mussoorie to Dehradun	=50 Passengers × 20 kms	=1,000
Dehradun to Delhi	=(50-10) Passengers × 280 kms	=11,200
Total Passenger-kms.		26,800
Cost per Passenger- km.	5,000/26,800 passeger - kms	=0.18657

Answer to Question no.4:

Particulars	Amount (₹)
Contract Price	25,00,000
Work Certified	24,00,000
Cash Received	21,60,000
Cost of Contract to date	19,80,000
Total Estimated Cost	
Cost of Contract to date	19,80,000
Add: Estimated Additional Cost	1,20,000
	21,00,000
Estimated Profit	
Contract Price	25,00,000
Less: Estimated Additional cost	(21,00,000)
	₹ 4,00,000

Computation of amount of profit to be taken to Profit and Loss A/c under different methods

Method 1	$\text{Estimated Profit} \times \frac{\text{Work Certified}}{\text{Contract Price}} = ₹ 4,00,000 \times \frac{24,00,000}{25,00,000} = ₹ 3,84,000$
Method 2	$\text{Estimated Profit} \times \frac{\text{Work Certified}}{\text{Contract Price}} \times \frac{\text{Cash Received}}{\text{Work Certified}}$ $= ₹ 4,00,000 \times \frac{24,00,000}{25,00,000} \times \frac{21,60,000}{24,00,000} = ₹ 3,45,600$
Method 3	$\text{Estimated Profit} \times \frac{\text{Cost of Contract to date}}{\text{Total Estimated Cost}} = ₹ 4,00,000 \times \frac{19,80,000}{21,00,000} = ₹ 3,77,143$
Method 4	$\text{Estimated Profit} \times \frac{\text{Cost of Contract to date}}{\text{Total Estimated Cost}} \times \frac{\text{Cash Received}}{\text{Work Certified}}$ $= ₹ 4,00,000 \times \frac{19,80,000}{21,00,000} \times \frac{21,60,000}{24,00,000} = ₹ 3,39,429$

Recommendation: - On conservative basis, it is recommended to transfer the least amount (i.e. ₹ 3,39,429) to Profit and Loss A/c.

Answer to Question no.5:

Total kms. of 6 buses during the year

$$= (50 \times 2) \text{ kms. Per round trip} \\ \times 3 \text{ round trips per day} \\ \times 25 \text{ days} \times 12 \text{ months} \times 6 \text{ buses} \\ = 5,40,000 \text{ kms.}$$

Total Passenger-kms. = 5,40,000 kms. × 36 passengers.

$$= 1,94,40,000 \text{ Passenger-kms.}$$

Operating Cost Statement

Particulars	Total	Per passenger-km.
Standing Changes:-		
1) Garage Rent (6,000 × 12)	72,000	
2) Salary and Wages		
➤ Drivers (6 × 40,000 × 12)	2,88,000	
➤ Conductors (6 × 1,600 × 12)	1,15,200	
➤ Cleaners (6 × 1,000 × 12)	72,000	
➤ Manager (10,000 × 12)	1,20,000	
3) Road Tax (6,000 × 4)	24,000	
4) Office Expenses (2,500 × 12)	30,000	
5) Depreciation (7,50,000 × 6 × 20%)	9,00,000	18,01,200/1,94,40,000
6) Insurance (7,50,000 × 6 × 4%)	1,80,000	
	18,01,200	= 0.0927
Running Expenses		
1) Repairs (24,000 × 6)	1,44,000	0.0074
2) Diesel Cost $\left(\frac{66}{6} \times 5,40,000\right)$	59,40,000	0.3056
3) Engine Oil & Lubricants $\left(\frac{2,000}{1,000} \times 5,40,000\right)$	10,80,000	0.0556
	71,64,000	0.3686
Total cost	89,65,200	0.4613
(+) Profit	44,82,600	0.2306
Total Takings	1,34,47,800	0.6919

Answer to Question no.6:

Contract account from 1-4-2019 to March 31,2020

Particulars		Particulars	
To Material Purchased	7,76,250	By Plant returned on Sep- 30,2019	87,500
To Wages	4,92,500	(1,00,000 – 12,500)	
[(5,17,500 – 37,500) + 12,500]		Dep. = 1,00,000 × 25% × 6/12	
To Plant Purchased	4,00,000	By plant at-site c/d	2,25,000
To Expenses	2,35,000	(3,00,000- 75,000)	
[(2,25,000 – 15,000) + 25,000]		Dep. 3,00,000 × 25%	
		By material at site c/d	82,500
		By Cost of Contract to date c/d	15,08,750
	19,03,750		19,03,750
To cost of contract to date c/d	15,08,750	By work-in-progress	
To costing P&L A/c		(a) Work-Certified	22,50,000
(Notional Profit)	7,66,250	(b) Work uncertified	25,000
	22,75,000		22,75,000

Estimated Profit = contract Price – Total Estimated Cost
= 49,21,875 – 39,00,750 = ₹ 10,21,125

Total Estimated Cost:-

Cost of contract to date (March 31,2020)

₹ 15,08,750

(+) Estimated Additional Cost (1-4-2020 to 30-9-2020)

1) Materials (82,500 + 12,99,375 – 42,500)

₹ 13,39,375

2) Wages [6,18,750 + 37,500 – 12,500] + 5,750

₹ 6,49,500

3) Expenses [3,75,000 + 15,000 – 25,000] + 10,000

₹ 3,75,000

4) Depreciation $\left[2,25,000 \times 25\% \frac{6}{12}\right]$

₹ 28,125

Total Estimated Cost

₹ 39,00,750