

Name

### QUESTION 3: MANUFACTURING

3.1 Choose the correct term from those given in brackets. Write only the term next to the question numbers (3.1.1 to 3.1.4) in the ANSWER BOOK.

3.1.1 Wages paid to the factory cleaner is considered to be (direct/indirect) labour.

3.1.2 Bad debts must be shown as a (selling and distribution/factory overhead) cost.

3.1.3 Rent paid for the factory building is regarded as a (fixed/variable) cost.

3.1.4 Carriage on purchases of raw materials is regarded as a/an (direct material/indirect material) cost. (4)

#### 3.2 ZINZI MANUFACTURERS

Information is provided for the financial year ended 31 December 2018. The business manufactures leather jackets according to orders received. There is no work-in-progress stock.

##### REQUIRED:

###### 3.2.1 Raw material stock:

Calculate:

- The value of the closing stock using the first-in-first-out stock valuation method (5)
- The direct material cost (4)

###### 3.2.2 Refer to Information C.

Calculate the correct factory overhead cost for the year. (8)

###### 3.2.3 The owner is concerned about the increase in the following:

- Total fixed cost per unit
- Direct labour cost per unit

Provide evidence (figures) to justify his concern. In each case, also give a possible reason for the increase in EACH unit cost, apart from normal inflation. (6)

###### 3.2.4 Break-even:

- Calculate the break-even point on 31 December 2018. (4)
- Explain whether or not there was any improvement in the trends of the level of production and the break-even point from one year to the next. Quote figures. (4)
- The owner cannot understand why he is making a better profit this year. Explain how this happened. Provide TWO points. Quote figures. (5)

**INFORMATION:****A. Raw material:**

Stock balance:	Metres	Cost per metre	Total amount
1 January 2018	920	R65	R59 800
31 December 2018	1 195	?	?

**B. Purchases for the year:**

Date	Metres	Cost per metre	Total amount
February 2018	5 200	R75	R390 000
May 2018	2 480	R80	R198 400
September 2018	930	R90	R83 700
<b>TOTAL</b>	<b>8 610</b>		<b>R672 100</b>

**C. Factory Overhead Costs:**

The bookkeeper calculated the factory overhead cost at R84 330. He did not take into account the following expenses:

Insurance	R31 200
Rent expense	R114 000
Water and electricity for the administration section	R7 110

- 60% of the insurance relates to the factory.
- The rent must be allocated between the factory, sales and administration in the ratio 5 : 2 : 1.
- 15% of the water and electricity expense relate to the office. 50% must be allocated to the factory.

**D.**

	2018		2017 PER UNIT
	TOTAL AMOUNT	PER UNIT	
<b>Fixed costs:</b>			
Factory overheads	R264 000	R44	R36
Administration			R26
			R10
<b>Variable costs:</b>		R165	R150
Direct materials			R94
Direct labour	R330 000	R50	R38
Selling and distribution			R18

**E. Additional information:**

	2018	2017
Number of jackets produced and sold	6 000 units	7 560 units
Break-even point	?	3 888 units
Selling price per jacket	R300	R220
Inflation rate	5%	

### QUESTION 3

3.1

3.1.1	
3.1.2	
3.1.3	
3.1.4	

4

3.2.1

Calculate: The value of the closing stock using the first-in-first-out stock valuation method

Workings	Answer

5

Calculate: Direct material cost

Workings	Answer

4

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3.2.2 Factory overhead cost

<b>TOTAL b/f</b>	84 330

8

3.2.3 Provide evidence (figures) to justify his concern. In each case, also give a possible reason for the increase in EACH unit cost, apart from normal inflation.

COST	EVIDENCE	REASON
Total fixed cost per unit		
Direct labour cost per unit		

6

3.2.4

Calculate the break-even point on 31 December 2018.

Workings	Answer

4

Explain whether or not there was any improvement in the trends of the level of production and the break-even point from one year to the next. Quote figures.

4

The owner cannot understand why he is making a better profit this year. Explain how this happened. Provide TWO points. Quote figures.

5