

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. (4)
- 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.

### 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>	R264 000	R44	R36
Factory overheads			R26
Administration			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

### 3.2.2 Factory overhead cost

TOTAL b/f	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