

Name _____

QUESTION 2: MANUFACTURING

(45 marks; 30 minutes)

- 2.1 Choose ONE cost account for each of the following descriptions. Write only the cost accounts next to the question numbers (2.1.1 to 2.1.4) in the ANSWER BOOK.

direct labour cost; direct/raw materials cost; factory overheads cost;
administration cost; selling and distribution cost

- 2.1.1 Bad debts written off during the financial year
- 2.1.2 Pension fund contributions paid on behalf of the workers in the production process
- 2.1.3 Transport costs paid for raw materials purchased
- 2.1.4 Depreciation on office equipment (4 x 1) (4)

2.2 TIGHT-FIT MANUFACTURERS

The information relates to Tight-Fit Manufacturers, a business that manufactures denim jeans, for the financial year ended 31 March 2018.

REQUIRED:

- 2.2.1 Calculate:
- The value of the closing stock of raw materials of fabric using the weighted-average method (4)
 - The value of direct/raw materials issued for production (3)
 - The correct factory overhead costs (6)
- 2.2.2 Complete the Production Cost Statement on 31 March 2018. (12)
- 2.2.3 The business purchases raw materials from an overseas supplier, although there are numerous local suppliers. Give TWO reasons why the business should support local suppliers. (2)

INFORMATION:

A. Stock balances on 31 March:

	2018	2017
Work-in-process	?	R147 500
Finished goods	R118 000	R231 000

B. Raw materials (fabric):

Raw materials, consisting of metres of fabric, are issued by the storeroom to the factory.

Storeroom stock records:

	METRES	TOTAL AMOUNT R
Stock on 1 April 2017	5 000	535 000
Purchases:	18 700	2 072 000
July 2017	6 200	620 000
October 2017	4 800	528 000
January 2018	7 700	924 000
Total available for production	23 700	2 607 000
Stock on 31 March 2018	3 900	?

C. Figures provided by the bookkeeper on 31 March 2018:

Wages of factory workers (direct labour)	R3 522 000
Factory overhead cost (see Information D below)	R746 670
Administration cost	R655 700
Selling and distribution cost	R413 900

D. Adjustments must be made to factory overhead cost in respect of the following:

- Insurance of factory plant and equipment paid was R69 600 and incorrectly debited to the Administration Cost Account. Included in this is a new annual premium of R17 400 paid on 1 January 2018.
- Rent is allocated according to the floor space. However, the bookkeeper correctly allocated only R14 820 to the administration section.

FACTORY	ADMINISTRATION OFFICE	TOTAL FLOOR AREA
520 m ²	130 m ²	650 m ²

E. Details from the Income Statement for the year ended 31 March 2018:

Sales	R9 747 000
Cost of sales	6 518 000
Gross profit	3 229 000

2.3 BREAK-TIME MANUFACTURERS

Break-Time Manufacturers is a manufacturing business that produces lunch boxes for school children.

REQUIRED:

2.3.1 Calculate the following for the year ended 30 April 2018:

- Direct labour cost (2)
- Break-even point (4)

2.3.2 Explain why the owner should be concerned about the break-even point. Quote figures. (3)

2.3.3 The owner is concerned about the direct labour cost.

- Explain why the owner would NOT be satisfied with the direct labour cost per unit. Quote figures. (3)
- Give ONE solution to this problem. (2)

INFORMATION ON 30 APRIL:

	2018		2017	
	TOTAL COST	PER UNIT	TOTAL COST	PER UNIT
Direct labour cost (basic and overtime)	?	R7,56	R1 646 400	R5,60
Total fixed costs	R3 102 500	R9,36	R1 989 000	R6,77
Total variable costs	R6 464 250	R19,50	R4 704 000	R16,00
Selling price per unit	R28,00		R24,50	
Number of units produced and sold	331 500 units		294 000 units	
Break-even point	?		234 000 units	

QUESTION 2

2.1

2.1.1	
2.1.2	
2.1.3	
2.1.4	

2.2 TIGHT-FIT MANUFACTURERS

2.2.1 Calculate: Value of the closing stock of raw materials

Workings	Answer

Calculate: Value of direct/raw materials issued for production

Workings	Answer

Calculate: Correct factory overhead costs

Workings	Answer
746 670	

2.2.2 Production Cost Statement for the year ended 31 March 2018.

Direct labour cost	
Prime cost	
Total manufacturing costs	
Work-in-process at beginning of year	147 500
Cost of production of finished goods	

2.2.3 Give TWO reasons why the business should support local suppliers.

Reason 1:

Reason 2:

2.3 BREAK-TIME MANUFACTURERS

2.3.1 Calculate the direct labour cost for the year ended 30 April 2018.

Workings	Answer

Calculate the break-even point for the year ended 30 April 2018.

Workings	Answer

2.3.2 Explain why the owner should be concerned about the break-even point. Quote figures.

2.3.3 Explain why the owner would NOT be satisfied with the direct labour cost per unit. Quote figures.

Give ONE solution to this problem.