Name

QUESTION 5: MANUFACTURING **(45 marks; 25 minutes)**

5.1 **MOSES MANUFACTURERS**

The following information relates to Moses Manufacturers, a small business that manufactures photo frames. The financial year ended on 30 April 2016.

REQUIRED:

5.1.1 Prepare the Production Cost Statement for the year ended 30 April 2016. (16)

5.1.2 Complete the abridged (shortened) Income Statement to calculate the net profit for the year ended 30 April 2016. (8)

INFORMATION:

A.

Stock records	30 APRIL 2016	30 APRIL 2015
Raw material stock	R58 560	R37 600
Work-in-process stock	?	R142 000

- Purchases of raw materials for the financial year amounted to R555 000.
- Defective material valued at R21 000 was returned to suppliers.

B. The business produced 39 000 units at a cost of R45 each.

C. The following information was calculated on 30 April 2016.

	R
Direct material cost	?
Direct labour cost	716 960
Factory overhead cost (See D below.)	468 450
Selling and distribution cost (See D below.)	609 850
Administration cost (See D below.)	443 950
Cost of production of finished goods	?
Gross profit	1 250 000

D. The following items must be taken into account:

- Administration cost includes the annual insurance premium of R22 750; however, 60% must be allocated to the factory.
- Factory overhead cost includes the full amount of rent paid, R36 300. However, this should have been allocated according to floor area. The areas are: factory 400 square metres, office 120 square metres, shop 80 square metres.

5.2 **UNIT COSTS AND BREAK-EVEN ANALYSIS**

Bill's Manufacturers is a business that produces pencil cases. Bill is concerned about his cost of production.

REQUIRED:

5.2.1 Explain the difference between *fixed cost* and *variable cost*. (2)

5.2.2 Calculate the break-even point for 2017. (5)

5.2.3 Comment on the break-even point and the level of production for 2016 and 2017. Explain why the owner should be satisfied or not. (6)

5.2.4 Identify the variable cost that should be of great concern to the owner. Explain and provide a calculation to support your answer. (4)

5.2.5 Despite the fact that there was a decrease in the fixed costs per unit, the owner is still not satisfied with his control over the fixed costs. Explain and provide calculation(s) to support his opinion. (4)

INFORMATION:

	PENCIL CASES UNIT COSTS	
	2017	**2016**
Variable costs	**R11,60**	**R11,00**
Direct material cost	6,03	5,80
Direct labour cost	4,05	3,50
Selling and distribution cost	1,52	1,70
Fixed cost	**R5,40**	**R5,50**
Factory overhead cost	3,50	3,65
Administration cost	1,90	1,85
Selling price per unit	R17,80	R16,50
	Units	**Units**
Units produced and sold	80 000	65 000
Break-even units	?	65 000

NOTE: Take the inflation rate of 8% into account.

45

QUESTION 5

5.1 MOSES MANUFACTURERS

5.1.1 PRODUCTION COST STATEMENT ON 30 APRIL 2016

Direct labour cost	716 960
Prime cost	
Total manufacturing cost	
Work in process at beginning of year	142 000
Cost of production of finished goods	

5.1.2 Complete the abridged (shortened) Income Statement to calculate the net profit for the year ended 30 April 2016.

Gross profit	1 250 000
Net profit	

5.2.4 **Identify the variable cost that should be of great concern to the owner. Explain and provide a calculation to support your answer.**

5.2.5 **Despite the fact that there was a decrease in the fixed costs per unit, the owner is still not satisfied with his control over the fixed costs. Explain and provide calculation(s) to support his opinion.**