



Province of the
EASTERN CAPE
EDUCATION

MOD 10 COSTING 1

HOME SCHOOLING SELF-STUDY QUESTIONS AND ANSWER BOOK

NAME:.....

QUESTION 1 (40 marks; 24 minutes)

MANUFACTURING

You are provided with information relating to Buffalo Fabrics, a textile manufacturer. The business produces uniforms for schools. The financial year ended on 30 June 2019.

REQUIRED:

- 1.1 Prepare the following for the year ended 30 June 2019:
 - 1.1.1 Factory Overhead note. (11)
 - 1.1.2 Production Cost Statement. (show workings in brackets) (13)
- 1.2 **Break-even analysis:**
 - 1.2.1 Calculate the number of units the business needed to produce in order to break-even. (5)
 - 1.2.2 Making reference to the previous year's figures, as well as the amount calculated in 1.2.1, comment on whether the owner should be satisfied or not. (4)
- 1.3 The owner is concerned about the amount of clothing that is being imported from China and other Eastern Countries especially in the midst outbreak of COVID-19.
 - 1.3.1 Do you think that the government should limit the import of textiles into the country? Explain. (3)
 - 1.3.2 What can Buffalo Fabrics do to stay in business? Provide TWO suggestions. (4)

INFORMATION:

1. **Stock balances:**

	30 JUNE 2019	1 JULY 2018
Raw materials	36 800	42 440

The business does not carry any work-in-process into the next financial year.

2. **Transactions for the financial year ended 30 June 2019:**

A.

Raw materials purchased	R480 000
Cost of transporting the raw materials	R28 200

B. Indirect materials used in the factory amounted to R49 606.

C. Factory rent is R7 500 per month. The rent for June 2019 must still be paid.

D. Water and electricity paid, R97 000. 80% of this must be allocated to the factory.

E. The insurance expense was R42 000. This must be split between the factory and office in the ratio 5:2.

F. Factory sundry expenses amounted to R44 694.

G. The factory has four workers involved in production. They each worked an average of 150 hours per month at R45 per hour (normal time). The overtime records for the year reflected that the four workers worked a total of 500 hours overtime for this financial year. The overtime rate is R70 per hour.

Total employer's contribution to the pension fund amounted to 9% of the normal time wage.

H. Indirect labour in the factory comprises the factory foreman who earns R114 600 per year, and a cleaner who earns R39 000 per year (inclusive of employers' contributions). The cleaner spends half of her time in the factory.

I.

Total selling and distribution cost	R177 000
Total administration cost	R226 500

These totals take into account all the adjustments listed above.

J. Selling price per unit, R110. Variable cost per unit, R61.

K.

	30 JUNE 2019	1 JULY 2018
Total number of units produced and sold.	16 600	15 700
Break-even point (number of units)	?	10 220

ANSWER BOOK NAME:

QUESTION 1

MANUFACTURING

1.1 1.1.1 Factory Overhead note.

Factory sundry expenses	44 694
TOTAL FACTORY OVERHEADS	

11

1.1.2 Production Cost Statement.

Prime cost	
Total manufacturing costs	

13

1.2 1.2.1 Calculate the number of units the business needed to produce in order to break-even

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5

1.2.2 Making reference to the previous year's figures, as well as the amount calculated in 1.2.1, comment on whether the owner should be satisfied or not.

4

1.3 1.3.1 Do you think that the government should limit the flow of textiles into the country? Explain.

3

1.3.2 What can Buffalo Fabrics do to stay in business? Provide TWO suggestions.

4

12 ACCOUNTING

COSTING 1 MEMORANDUM

NAME:

QUESTION 1

MANUFACTURING

1.1 1.1.1 **Factory Overhead note.**

Indirect material	✓ 49 606
Rent expense (7 500 X 12)	✓✓ 90 000
Water and electricity (97 000 X 80%)	✓✓ 77 600
Insurance (42 000 X $\frac{5}{7}$)	✓✓ 30 000
Indirect labour (114 600 ✓ + 19 500 ✓)	One part correct ✓ 134 100
Factory sundry expenses	44 694
TOTAL FACTORY OVERHEADS	Operation ✓ 426 000

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1.1.2 **Production Cost Statement.**

Direct material cost 42 440 ✓ + 480 000 ✓ + 28 200 ✓ + 36 800 ✓	One part correct ✓ 513 840
Direct labour cost (1 800 x 4) x R45 324 000 ✓✓ + 35 000 ✓ + 29 160 ✓	One part correct ✓ 388 160
Prime cost	Operation ✓ 902 000
Factory overhead cost	(3.1.1) ✓ 426 000
Total manufacturing costs	Operation ✓ 1 328 000

13

1.2

1.2.1 Calculate the number of units the business needed to produce in order to break-even

$$\frac{652\,500 + 226\,500}{(R110 - R65) \div R45} = 14\,500 \text{ units}$$

(one part correct)

5

1.2.2 Making reference to the previous year's figures, as well as the amount calculated in 1.2.1, comment on whether the owner should be satisfied or not.

Yes / No ✓

Valid explanation making a comparison ✓✓ quoting figures ✓

Mark according to the answer in 1.2

- Business produced more than the BEP in both years. (figures)
- The number of units needed to breakeven has increased significantly compared to the actual number of units produced.
- Implies that costs are increasing. May not be due to inflation.

4

1.3

1.3.1 Do you think that the government should limit the flow of textiles into the country? Explain.

1.3.2 What can Buffalo Fabrics do to stay in business? Provide TWO suggestions.

TWO valid suggestions ✓✓ ✓✓

- Look for cheaper suppliers of material without compromising quality.
- Buy in bulk to get discounts.
- Try to reduce overhead expenses and/or transport costs.
- Broaden the target market by advertising in neighbouring towns.
- Introduce alternative products with the waste/off cut material.

4

40

