MANUFACTURING & INTERNAL CONTROL

27 SEPTEMBER 2013 10:00 – 11:00

Checklist

Make sure you know how to:

- Complete the notes to the production cost statement
- Complete the production cost statement
- Calculate the various indicators especially the break-even point
- Apply internal control and ethics

Questions

Question 1

(Adapted from Nov 2012, Paper 1, Question 3.1)

CAPE CHOCOLATES

You are provided with information relating to Cape Chocolates for the financial year ended 30 June 2012. The business is owned by Mary Muller.

REQUIRED:

Prepare the following for the year ended 30 June 2012:

1.1 Factory Overhead Note to the Production Cost Statement (20)

1.2 Production Cost Statement (Where notes are not required, show calculations in brackets.) (16)

INFORMATION:

1. Stock balances:

	30 JUNE 2012	1 JULY 2011
Direct-/Raw-material stock	R20 000	R18 000
Work-in-process stock	?	R35 000
Indirect material stock	R7 500	R7 200

2. Transactions for the year:

A Raw materials:

- Purchased raw materials during the year, R650 000.
- Raw materials not ordered were returned to the supplier, R35 000.
- Cost of transportation of raw material was an additional R12 300.

B Factory rent paid, R68 500.

C Advertising paid, R23 500.

D Factory maintenance paid, R46 700. Repairs to the amount of R1 300 were completed in June 2012, but will only be paid in July 2012.

E Water and electricity paid, R80 000 (this amount is to be split between the factory, 70% and the office, 30%).

F Indirect material purchased, R56 000. Note that stocks are on hand at the end of each year (see Information 1 above).
80% of the indirect materials were used in the factory and the rest in the office.

G Depreciation written off:
- Office equipment, R9 500
- Factory machinery, R12 800

H Sundry expenses paid, R21 000. This must be allocated according to floor space used. The ratio of the space used by the factory, office and sales department is 4 : 2 : 1.

I Salary and wages:
- Wages paid to the cleaner, R46 000 (She spends 50% of her time cleaning the factory.)
- Three factory workers were employed. They each work 1 600 hours normal time during the year at R40 per hour. They each worked 300 hours overtime during the year at a rate of 50% more than the normal rate.
- The factory foreman has been paid a salary R89 050. This includes his salary for July 2012. Note that he received an increase of R650 per month with effect from 1 January 2012. He has been employed all year.
- Salary paid to the office assistant, R130 000 for the year.

J The cost of production of chocolates for the year is R1 212 000.

Question 2

(Adapted from Nov 2012, Paper 1, Question 3.2)

BELINO MANUFACTURERS

You are provided with information relating to Belino Manufacturers which consists of two factories producing different products: Belino blankets and Belino towels. The owner of the business, Benny Belino, has compared the profit he has earned over the past two years (2011 and 2012) and has found that it has decreased by more than R3 million. He asks for advice in reversing this disturbing trend. Note that the inflation rate is 7% and that Benny was able to keep the fixed costs unchanged over the past year.

REQUIRED:

2.1 Refer to the accountant's calculations of variable costs per unit:
- Identify the production cost that caused the biggest problem in making the blankets and the towels. Explain and quote figures
- In each case give a possible practical solution for Benny.

(6)

INFORMATION:

The accountant has identified the following information:

	BELINO BLANKETS		BELINO TOWELS	
General information:	**2012**	**2011**	**2012**	**2011**
Total fixed costs (factory overhead costs and administration costs)	R3 800 000	R3 800 000	R2 500 000	R2 500 000
Net profit	R1 144 000	R5 975 000	R2 620 000	R930 000
Calculation of variable unit costs:				
Direct material cost per unit	R34,00	R35,00	R27,00	R20,00
Direct labour cost per unit	R75,00	R65,00	R16,00	R16,00
Selling and distribution cost per unit	R12,00	R9,00	R3,00	R5,00
Total variable costs per unit	**R121,00**	**R109,00**	**R46,00**	**R41,00**
Additional information/calculations:				
Selling price per unit charged by Belino	**R430,00**	**R500,00**	**R110,00**	**R90,00**
Selling price of competitors	R410,00	R450,00	R130,00	R105,00
Number of units made and sold	16 000 units	25 000 units	80 000 units	70 000 units
Break-even point	12 298 units	9 719 units	39 063 units	51 020 units

Answer Booklet

Question 1

(Adapted from Nov 2012, Paper 1, Question 3.1)

1.1

CAPE CHOCOLATES - NOTE TO THE PRODUCTION COST STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012
FACTORY OVERHEAD COST

Total factory overhead cost	

1.2

CAPE CHOCOLATES – PRODUCTION COST STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012

Prime cost	
Total cost of production	
Work-in-process on 1 July 2011	**35 000**
Work-in-process on 30 June 2012	
Cost of production of finished goods	**1 212 000**

Question 2

(Adapted from Nov 2012, Paper 1, Question 3.2)

2.1

	BLANKETS	TOWELS
Which production cost caused the biggest problem?		
Explanation and figures to support your opinion		
Possible solution for Benny		