

**PRELIM EXAM QUESTIONS I****16 OCTOBER 2014** **Lesson Description**

In this lesson we:

- revise MANUFACTURING CONCERNS

 **Summary**

- Notes To The Production Cost Statements
- Production Cost Statement
- Financial Indicators
- Theory

 **Test Yourself****Question 1**

Prime cost is made up of:

- (A) Direct labour+ Indirect material
- (B) Direct labour+ Direct material
- (C) Direct material +Indirect labour
- (D) Direct labour+ Direct material +Factory overheads

**Question 2**

These cost accounts are closed off to the profit and loss account:

- (A) Direct material; Administration cost; Selling and distribution
- (B) Indirect material; Administration cost; Selling and distribution
- (C) Administration cost; Selling and distribution
- (D) Administration cost; Selling and distribution; Direct labour

**Question 3**

A completed Article was stolen from the shop. The cost of the finished article is R7 500.

The entry to record the above transaction is:

- (A) Debit Loss due to theft    Credit Finished Goods
- (B) Debit Loss due to theft    Credit Work in process
- (C) Debit Loss due to theft    Credit Factory overheads
- (D) Debit Loss due to theft    Credit Raw material cost

**Question 4**

Fabric issued to the factory for production amounted to R930 000 (including customs duty and shipping charges):

The entry to record the above transaction is:

- (A) Debit Raw materials Stock                      Credit Finished Goods
- (B) Debit Raw materials Stock                      Credit Indirect materials
- (C) Debit Raw materials Stock                      Credit Direct materials cost
- (D) Debit Direct materials cost                      Credit Raw materials Stock

**Question 5**

There is/are .....categories of variable cost

- (A) One
- (B) Two
- (C) Three
- (D) Four



**Improve your Skills**

**Question 1**

(40 marks; 25 minutes)

**MANUFACTURING CONCERNS**

You are provided with information relating to Fab Fabrics, a textile manufacturer.

The business produces uniforms for schools. The financial year ended on 30 June 2014.

**REQUIRED:**

- 1.1 Prepare the following for the year ended 30 June 2014:
  - 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.
  - 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 Fab Fabrics do to stay in business? Provide TWO suggestions. (4)

**INFORMATION:**

1. **Stock balances:**

	30 JUNE 2014	1 JULY 2013
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 2014:**

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.

notes for...

- C. Factory rent is R7 500 per month. The rent for June 2014 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, R65.

K.	30 JUNE 2014	1 JULY 2013
Total number of units produced and sold.	16 600	15 700
Break-even point (number of units)	?	10 220

notes for...

## Answer Book

### Question 1

(40 marks; 25 minutes)

#### MANUFACTURING CONCERNS

1.1 1.1.1 Factory Overhead note.

Factory sundry expenses	44 694
<b>TOTAL FACTORY OVERHEADS</b>	

11

1.1.2 Production Cost Statement.

PRIME COST	
<b>TOTAL MANUFACTURING COSTS</b>	

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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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.

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

3

*notes for...*

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

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