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GR 12 ACCOUNTING: TERM 3 CASE STUDY

COST ACCOUNTING
MARKING GUIDELINE

1.1 Raw material:

1.1.1 Calculate the closing stock of raw materials (fabric) using the first-in-first-out stock valuation method.

210m x 55 = 11 550 ✓✓
120m ☑ x 52 ✓ = 6 240 ☑
= 17 790 ☑

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1.1.2 Calculate the total Direct Material Cost

17 595 + 140 830 – 6 760 – 17 790 = 133 875
✓ ✓ ✓✓ ✓ ☑

Or

400 1 480 870 = 2 750m
17 595 + 71 040 + 45 240 = 133 875

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1.2 Factory Overhead Cost:

Total before items below (balancing figure)	33 700	☑
Rent expense (48 150 x 5/9)	26 750	✓☑
Water and electricity (34 560 x 75%)	25 920	✓☑
Insurance (14 700 x 12/15✓) x 3/6 ✓	5 880	☑
Factory sundry expenses (6 375 x 2)	12 750	✓✓
152 775 – 47 775	105 000	✓✓

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1.3 Break-even Analysis:

1.3.1 Do a calculation to confirm that the Break-even number of units is correctly calculated on 31 December 2017.

$$\frac{152\,775 ✓}{95 ✓✓ - 58{,}30 ✓} = 4\,163 \text{ units}$$

36,70

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1.3.2 Comment on the level of production and the BEP for 2017.

Comparing level of production with BEP ✓✓ figures ✓ comment ✓✓ (satisfied/not satisfied; reason)

The business produced 5 250 units which is 1 087 units more than the break-even point. The business is making a profit. The owner may be satisfied. Will want to produce more to increase profits.

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1.3.3 The owner expressed concern that the break-even point increased by more than 850 units. Is he justified? Explain. Provide TWO points (with figures).

No/Yes ✓

TWO reasons (quoting figures) ✓✓ ✓✓

Production increased by 1 750 units (50%) but the BEP only increased by 1 174 units (39%) This shows that costs are being well managed.
The decrease in the fixed costs per unit (31,60 – 29,10) shows that the business is enjoying economies of scale.
The profit last year was on only 198 units. The decision to increase production paid off.

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1.4 Production, unit costs and profitability:

1.4.1 Calculate the percentage increase in the level of production.

$\dfrac{\overset{\checkmark}{5\,250} - \overset{\checkmark}{3\,500}}{\underset{\checkmark}{3\,500}} \times 100 = 50\%$ ☑

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1.4.2 Identify TWO specific unit costs that showed a significant change. Provide a possible reason for the change and comment on the overall effect on profitability. Quote figures and or relevant calculations.

UNIT COST (with figures)	REASON FOR THE CHANGE	OVERALL EFFECT ON PROFITABILITY (with figures)
Direct labour cost increased by 24,6% (from 17,50 to 21,80) per unit ✓✓	Additional overtime hours at a higher rate to meet targets. Increase in basic wages ✓	More units were produced in the same period of time. Increase in profits. Last year: 4,90 x 3 500 = 17 150 profit. This year: 39 900 % increase 132,6% ✓✓
Selling and distribution increased by 22,2% (9,00 to 11,00) per unit ✓✓	More delivery, advertising Commission to sales staff ✓	

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Total: 50	