

## GRADE 12: ACCOUNTING TERM 3 CASE STUDY

### COST ACCOUNTING

Mashiqa Manufacturers makes canvas bags for students. Orders are made according to orders received from educational institutions; as such there is no work-in-progress stock balances.

The financial year ends on 31 December each year. During the 2018 financial year, the owner decided to extend his target market to outlying areas and to increase production.

#### REQUIRED:

##### 1.1 Raw material:

1.1.1 Calculate the closing stock of raw materials (fabric) using the first-in-first-out stock valuation method. (6)

1.1.2 Calculate the total Direct Material Cost (6)

##### 1.2 Factory Overhead Cost:

Refer to **Information B**:

Prepare the factory overhead cost note by taking into account this information. (12)

##### 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. (4)

1.3.2 Comment on the level of production and the BEP for 2017. (5)

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). (5)

##### 1.4 Production, unit costs and profitability:

1.4.1 Calculate the percentage increase in the level of production. (4)

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. (8)

**INFORMATION:****A. Raw material stock:**

	Metres	Cost per metre	Total amount
<b>Balance:</b> 1 January 2017	400 m		R17 595
<b>Purchases:</b>	<b>2 810m</b>		<b>R140 830</b>
20 February 2017	1 480 m	R48,00	R71 040
20 May 2017	1 120 m	R52,00	R58 240
20 August 2017	210 m	R55,00	R11 550
<b>Returns:</b> (damaged)			
20 May 2017	130 m	R52,00	?
<b>Balance:</b> 31 December 2017	330 m	?	?
<b>Stock sent to the factory</b>	2 750m		

**B. Factory Overhead Costs:**

The bookkeeper prepared a factory overhead cost note but did not take into account the items listed below. Note that the other cost accounts were adjusted accordingly.

Rent expense	48 150
Water and electricity	34 560
Insurance	14 700
Office sundry expenses	6 375

- Rent must be allocated according to floor space occupied. The factory occupies 500m<sup>2</sup>, the sales department occupies 300 m<sup>2</sup> and the office occupies 100m<sup>2</sup>.
- 75% of the water and electricity relates to the factory.
- Insurance on equipment is allocate in the ratio 3 : 2 : 1 between the factory, sales and office departments. Note that insurance is a fixed monthly instalment and is paid for three months in advance.
- $\frac{2}{3}$  of the sundry expenses relates to the factory and the rest is office sundry expenses.

**C. Information from the Production Cost Statement**

	2017		2016
	TOTAL (R)	UNIT COST (R)	UNIT COST (R)
Direct Material Cost	?	?	28,00
Direct Labour Cost	114 450	21,80	17,50
Factory Overhead Cost*	?	?	21,60
TOTAL FIXED COSTS	152 775		31,60
VARIABLE COST PER UNIT		58,30	54,50
Number of units produced and sold	5 250 units		3 500 units
Break-even point	4 163 units		3 302 units

\* Refer to Information B. This amount must be

**D. Information from the Income Statement**

	2017		2016
	TOTAL (R)	UNIT COST (R)	UNIT COST (R)
Sales	498 750	?	88,00
Cost of sales	353 325	67,30	64,10
Gross Profit	145 425	27,70	23,90
Selling and Distribution Cost	57 750	11,00	9,00
Administration Cost	47 775	9,10	10,00
Net Profit	39 900	7,60	4,90

**E. Selling price of competitors**

R100,00

**TOTAL: 50**