QUESTION 3
PRODUCTION COST STATEMENT

3.1.1 BAKONA BIN MANUFACTURERS
NOTES TO THE FINANCIAL STATEMENTS

	DIRECT/RAW MATERIAL COST		**R**
	Opening stock	✓	57 900
	Purchases (1 622 700 ✓ – 23 100 ✓)	✓	1 599 600
	Carriage on purchases	✓	28 800
			1 686 300
	Closing stock	✓	(34 200)
		☑	1 652 100

	DIRECT LABOUR COST		**R**
	Factory wages (1 152 000 ✓✓ + 288 000 ✓✓)	✓	1 440 000
	UIF contribution	✓	11 520
		☑	1 451 520

	FACTORY OVERHEAD COST		**R**
	Indirect materials (8 100 ✓ + 125 900 ✓ – 7 400 ✓)	✓	126 600
	Indirect labour (241 000 ✓ + 2 410 ✓)	✓	243 410
	Factory maintenance	✓	85 000
	Rent expense (133 000 x 50%)	✓✓✓	66 500
	Water and electricity (36 000 x 60%)	✓✓	21 600
	Depreciation	✓	52 000
	Sundry expenses	✓	25 000
		☑	620 110

3.1.2 PRODUCTION COST STATEMENT OF BAKONA BIN MANUFACTURERS FOR THE YEAR ENDED 28 FEBRUARY 2009

		TOTAL
Direct/Raw materials cost	☑	1 652 100
Direct labour cost ✓	☑	1 451 520
Direct/Prime cost	☑	3 103 620
Factory overhead cost ✓	☑	620 110
Total cost of production	☑	3 723 730
Work-in-process on 1 March 2008	✓	169 500
		3 893 230
Work-in-process on 28 February 2009	✓	(120 600)
Cost of production of finished goods	☑	3 772 630

3.1.3 Calculate the unit cost of production per plastic bin completed.

3 772 630 ☑
58 000 ✓

= R65,05 ☑

3.2 Kool Manufacturers

3.2.1

One example of a fixed cost:
Rent expense, Salary of bookkeeper, etc ✓

One example of a variable cost:
Raw materials, indirect labour, advertising, etc ✓

3.2.2 Explain why it is important to calculate the expected break-even point for a business before the start of a financial year.
Good explanation = 2 marks; Satisfactory = 1 mark; Incorrect = 0 marks ✓✓

- So that any potential problems of low production can be anticipated.
- To start corrective action promptly before losses occur.
- No profits are made until break-even is reached.

3.2.3 **Calculate the break-even point.**

SP per unit = R40
VC per unit = R300 000 / 12 000 units = R25
Contribution per unit = R15

✓✓ ✓✓ ☑
BEP = R210 000 / R15 = 14 000 units

3.2.4 **Comment on your calculation in 3.2.3. What advice would you offer to Kool Manufacturers? Briefly explain.**

Give credit if responses are based on an incorrect calculation above.

Comment: *Compare BEP to the 12 000 units produced* ✓
The business is not producing enough units – they are below the BEP which means that the business will be making a loss.

Advice:
Good advice = 2 marks; Satisfactory = 1 mark; Incorrect = 0 marks ✓✓

Look at ways of economizing to reduce costs
Increase selling price if possible