

QUESTION 3: COST ACCOUNTING**(40 marks; 30 minutes)**

- 3.1 Choose a cost category from COLUMN B that matches the example in COLUMN A. Write only the letter (A–D) next to the question numbers (3.1.1 to 3.1.3) in the ANSWER BOOK.

COLUMN A	COLUMN B
3.1.1 Delivery expenses	A factory overhead
3.1.2 Office stationery	B selling and distribution
3.1.3 Salary of the factory supervisor	C direct material
	D administration

(3)

NARDO MANUFACTURERS

The business manufactures uniforms for construction workers. The financial year ended on 29 February 2024.

REQUIRED:

- 3.2 Calculate the correct factory overhead cost by taking into account the errors and omissions. (7)
- 3.3 Complete the Production Cost Statement for the financial year. (10)

INFORMATION:**A. Factory overhead costs:**

The bookkeeper calculated the factory overhead cost as R258 200.

The following errors and omissions were identified and must be taken into account:

- (i) Water and electricity expense was omitted from the factory overhead cost. 75% of this expense must be allocated to the factory and the remaining 25% to administration. R9 600 was correctly allocated to administration.
- (ii) The total rent expense, R142 800, was recorded in the Factory Overhead Cost Account. This should have been shared according to floor area as follows:

Factory	Sales Department	Administration
220 m ²	120 m ²	80 m ²

- (iii) Insurance expense, R48 000, was allocated to factory overheads in error using the ratio 4 : 2 : 1. However, the correct ratio is 5 : 2 : 1.

B. Raw material stock:

Stock of raw material (fabric) transferred to the factory is valued using the FIFO method. Stock records revealed the following:

	Quantity (metres)	Cost per metre	Total cost
Stock on 1 March 2023	8 000 m	R10,50	R84 000
Purchases of fabric	62 000 m		R739 600
June 2023	42 000 m	R11,80	R495 600
October 2023	20 000 m	R12,20	R244 000
Total fabric available	70 000 m		R823 600
Issued to factory	59 500 m	?	?

C. Work-in-progress stock:

	29 Feb. 2024	28 Feb. 2023
Balance	?	R30 700

D. Production:

20 200 uniforms were produced during the financial year at a cost of R79,00 per uniform.

This question is continued on the next page.

KYLA'S HIKING GEAR STORE

The business, owned by Kyla Coetzee, makes hiking bags and hiking jackets.

NOTE: Where comments or explanations are required, you must:

- Quote calculations, figures and/or trends
- Give a reason or an explanation in each case

REQUIRED:

HIKING BAGS

- 3.4 Comment on the control over direct material cost of hiking bags. Quote figures. Give TWO reasons that may have contributed to the change in the unit cost. (4)
- 3.5 Explain whether the decision to increase the selling and distribution cost of hiking bags was beneficial to the business or not. Quote figures. (3)
- 3.6 Kyla plans to increase the production of hiking bags by an additional 2 500 units over the next financial year. Assuming no change to the current cost structure, calculate the additional net profit that she could expect to earn in 2025. (5)

HIKING JACKETS

- 3.7 Comment on the fixed cost per unit of hiking jackets and explain the major cause for the change in this unit cost. (4)
- 3.8 Identify the production cost of hiking jackets that should be of serious concern to Kyla. Provide TWO valid solutions to this problem. (4)

INFORMATION:

	HIKING BAGS		HIKING JACKETS	
	2024	2023	2024	2023
Variable cost per unit	R615,00	R442,00	R336,00	R285,00
Direct material cost per unit	R320,00	R230,00	R116,00	R115,00
Direct labour cost per unit	R135,00	R132,00	R175,00	R110,00
Selling & distribution cost per unit	R160,00	R80,00	R45,00	R60,00
Fixed cost per unit	R170,00	R175,00	R196,50	R130,00
Total fixed costs	R714 000	R700 000	R786 000	R780 000
Factory overhead cost	R510 000	R500 000	R532 000	R530 000
Administration cost	R204 000	R200 000	R254 000	R250 000
Selling price per unit	R780,00	R750,00	R600,00	R600,00
Units produced and sold	4 200 units	4 000 units	4 000 units	6 000 units
Break-even number of units	4 328 units	2 273 units	2 978 units	2 477 units
Net profit/loss	(R21 120)	R531 916	R269 808	R1 109 745

- The inflation rate is currently 6%.
- Wages and salaries increased by 4% in 2024.

QUESTION 4: BUDGETING

(40 marks; 35 minutes)

Zephyr Traders opened on 1 January 2024 and sells portable power systems (PPS) that are used by the public to cope with load-shedding. The business is owned by Dan Grey.

Background information:

- Salespersons are paid a commission only. Office workers earn monthly salaries.
- At the time of preparing the budget, Dan was unaware that a competitor had opened a business during April 2024 in close proximity to Zephyr Traders. He therefore had to take important decisions to deal with this problem during May 2024.

REQUIRED:

- 4.1 Complete the Debtors' Collection Schedule for June 2024. (8)
- 4.2 Calculate the amounts indicated by (i) to (iii) in the extract from the Cash Budget. (10)
- 4.3 Calculate the % increase in salaries of office workers from 1 June 2024. (4)

Refer to Information E.

A new competitor moved into the area during April 2024. Dan did not take any actions during April as he was not aware of the competitor.

- 4.4 Explain how the competitor affected the sales and cash flow of the business in April 2024. Provide TWO different points, with figures. (4)
- 4.5 Explain whether Dan would be satisfied with the number of units sold in May 2024 as a result of his decision to adjust the selling price of the product. Provide TWO points, with figures. (4)
- 4.6 Dan is aware that not all salespersons would be satisfied with the decisions he has taken regarding their earnings. Salesperson John was satisfied, whereas Sally was not. Give ONE reason to support John's opinion and ONE reason to support Sally's opinion. Quote figures. (4)

Refer to Information C.

- 4.7 Calculate the total loan amount, including interest. (2)
- 4.8 The owner is unsure about purchasing or renting the property. Explain ONE point in favour of purchasing the property and ONE point against this proposal. (4)

INFORMATION:

A. Cash and credit sales:

- Cash sales comprise 55% of total sales. Mark-up is 60% on cost. Refer to the credit sales figures in the ANSWER BOOK.
- Debtors pay according to the following trend:
 - 25% in the month of sales and they receive 5% discount
 - 45% in the month following the month of sales
 - 24% two months after the month of sales
 - 6% to be written off in the third month after the month of sales

B. Purchases of stock and payment to creditors:

- Stock sold is replaced in the month of sales.
- 70% of purchases are on credit.
- Creditors are paid in the month following the month of purchases.

C. Business property/Rent expense:

Dan made enquiries about taking out a 10-year mortgage loan to purchase the property. The following terms would apply, after calculations were discussed with a bank consultant:

- A deposit of 20% of the loan amount will have to be paid on 1 June 2024.
- A fixed monthly instalment of R13 800 (including interest) will then be payable on the last day of each month, commencing on 30 June 2024, for the duration of the loan.

D. Extract from the Cash Budget:

	MAY 2024	JUNE 2024
RECEIPTS	R	R
Cash sales	1 064 800	(i)
Cash from debtors	734 382	
PAYMENTS		
Payments to creditors	770 000	(ii)
Salaries: Office workers	62 000	64 480
Salary: Manager	40 500	40 500
Deposit on purchase of property		220 000
Instalment on loan (including interest)		13 800
Hire of delivery vehicle	(iii)	34 810
*NOTE: The vehicle hire expense will increase by 18% p.a. from 1 June 2024.		

E. Budgeted and actual figures for April and May 2024:

	APRIL 2024		MAY 2024	
	BUDGETED	ACTUAL	BUDGETED	ACTUAL
Number of salespersons	12	12	12	8
Units to sell/sold	200	148	220	245
Cost price per unit	R5 500	R5 500	R5 500	R5 500
Mark-up %	60%	60%	60%	35%
Selling price per unit	R8 800	R8 800	R8 800	R7 425
Total sales	R1 760 000	R1 302 400	R1 936 000	R1 819 125
Cash sales	968 000	390 720	1 064 800	509 355
Credit sales	792 000	911 680	871 200	1 309 770
Collection from debtors	660 924	495 690	734 380	734 380
Salary: Manager	32 400	32 400	40 500	34 020
Commission on sales	264 000	195 360	290 400	363 825
Advertising	52 800	40 000	58 080	54 575

QUESTION 3

3.1

3.1.1	
3.1.2	
3.1.3	

3

NARDO MANUFACTURERS

3.2 **FACTORY OVERHEAD COST NOTE**

Incorrect amount calculated by bookkeeper	258 200
TOTAL	

7

3.3 **PRODUCTION COST STATEMENT ON 29 FEBRUARY 2024**

Direct material cost	
Prime cost	1 405 800
Factory overhead cost	
Total manufacturing cost	
Work-in-progress (1 March 2023)	30 700

10

Cost of production of finished goods

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HIKING BAGS

3.4

Comment on the control of hiking bags over direct material cost. Quote figures.	
Give TWO reasons that may have contributed to the change in the unit cost.	
REASON 1	
REASON 2	

4

3.5

Explain whether the decision to increase the selling and distribution cost of hiking bags was beneficial to the business or not. Quote figures.

3

3.6

Kyla plans to increase the production of hiking bags by an additional 2 500 units over the next financial year. Assuming no change to the current cost structure, calculate the additional net profit that she could expect to earn in 2025.	
WORKINGS	ANSWER

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HIKING JACKETS

3.7 Comment on the fixed cost per unit of hiking jackets and explain the major cause for the change in this unit cost.

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4

3.8 Identify the production cost of hiking jackets that should be of serious concern to Kyla.

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Provide TWO valid solutions to this problem.

SOLUTION 1	
SOLUTION 2	

4

QUESTION 4

4.1 DEBTORS' COLLECTION SCHEDULE

MONTHS	CREDIT SALES	MAY	JUNE
MARCH	712 800	171 072	
APRIL	792 000	356 400	
MAY	871 200	206 910	
JUNE	950 400		
CASH FROM DEBTORS		734 382	

8

4.2 Calculate:

(i) Cash sales for June 2024	
WORKINGS	ANSWER

3

(ii) Payments to creditors in June 2024	
WORKINGS	ANSWER

4

(iii) Hire of delivery vehicle for May 2024	
WORKINGS	ANSWER

3

4.3 Calculate: % increase in salaries of office workers from 1 June 2024

WORKINGS	ANSWER

4

4.4

Explain how the competitor affected the sales and cash flow of the business in April 2024. Provide TWO different points, with figures.

POINT 1	
POINT 2	

4

4.5

Explain whether Dan would be satisfied with the number of units sold in May 2024 as a result of his decision to adjust the selling price of the product. Provide TWO points, with figures.

POINT 1	
POINT 2	

4

4.6

Dan is aware that not all salespersons would be satisfied with the decisions he has taken regarding their earnings. Salesperson John was satisfied, whereas Sally was not. Give ONE reason to support John's opinion and ONE reason to support Sally's opinion. Quote figures.

REASON TO SUPPORT JOHN

REASON TO SUPPORT SALLY

4

4.7

Calculate the total loan amount, including interest.

WORKINGS

ANSWER

2

4.8

The owner is unsure about purchasing or renting the property. Explain ONE point in favour of purchasing the property and ONE point against this proposal.

IN FAVOUR OF
PURCHASING THE
PROPERTY

AGAINST
PURCHASING THE
PROPERTY

4