Manufacturing accounts

J12/13

2(d) Explain why it is necessary for a manufacturing business to prepare a manufacturing account at the end of the financial year.

……….

……….

……[2]

J12/22

3 Herman Wagner makes furniture.

He provided the following information for the year ended 30 April 2012

		$
Inventories 1 May 2011 –	Raw materials	14 300
	Finished goods	12 100
	Work in progress	6 520
Revenue		600 000
Purchases of raw materials		168 900
Purchases of finished goods		3 450
Carriage on purchases of raw materials		2 600
Wages –	Factory direct	193 700
	Factory indirect	43 600
	Administration	121 100
General expenses –	Factory	24 450
	Administration	9 640
Factory machinery at cost		98 000
Office equipment at cost		14 500
Provision for depreciation of factory machinery		35 280
Provision for depreciation of office equipment		4 350
Loose tools 1 May 2011 at valuation		950

Additional information:

1 At 30 April 2012:

Inventories were valued at	$
Raw materials	16 400
Finished goods	11 300
Work in progress	6 970

2 The factory general expenses include rates and insurance, $6 200, which should be apportioned – factory ¾ and office ¼.

3 The factory indirect wages include $10 000 taken by Herman Wagner for personal use.

4 The factory machinery is being depreciated at 20% per annum using the reducing balance method. The office equipment is being depreciated by 10% per annum using the straight line method.

5 During the year additional loose tools, $45, were purchased.
At 30 April 2012 the loose tools were valued at $890.

REQUIRED

(a) Select the relevant information and prepare the manufacturing account of Herman Wagner for the year ended 30 April 2012.

Herman Wagner

Manufacturing Account for the year ended 30 April 2012

	$	$	$

[16]

(b) Define and give **one** example of **each** of the following types of inventory in Herman Wagner's business.

(i) Raw materials ....

....

....[2]

(ii) Work in progress ....

....

....[2]

(iii) Finished goods ....

....

....[2]

(c) Explain why Herman Wagner revalues the loose tools at the end of each financial year rather than using the straight line or reducing balance method of depreciation.

....

....

....

....[2]

N12/22

1 Zabeel opened a manufacturing business on 1 November 2011.

The following information was provided at 31 October 2012.

	$
Revenue	183 400
Purchases of finished goods	9 200
Purchases of raw materials	54 300
Returns from customers	2 600
Returns to suppliers of raw materials	2 100
Factory direct wages	46 000
Factory indirect wages	11 210
Office and administration wages	23 950
Rates and insurance	6 000
Factory general expenses	21 660
Office and selling expenses	9 400
Carriage on raw materials	480
Carriage on sales	630
Discount allowed	130
Discount received	420

Additional information

1 On 31 October 2012 Inventories were valued at:

	$
Raw materials	4 300
Work in progress	10 200
Finished goods	12 620

2 On 31 October 2012 factory direct wages outstanding amounted to $2 150 and factory general expenses prepaid were $370.
3 60% of the rates and insurance relates to the factory and 40% relates to the office.
4 Machinery costing $64 500 was purchased on 1 November 2011. Depreciation is to be charged at 20% per annum on cost.
5 Loose tools, $980, were purchased on 1 November 2011. Additional tools, $130, were purchased during the year. No loose tools were disposed of during the year. On 31 October 2012 the loose tools were valued at $820.

REQUIRED

(a) Select the relevant figures and prepare the manufacturing account of Zabeel for the year ended 31 October 2012.

Zabeel

Manufacturing account for the year ended 31 October 2012

	$	$

[14]

(b) Select the relevant figures and prepare the income statement (trading section) of Zabeel showing the calculation of the gross profit for the year ended 31 October 2012.

Zabeel

Income Statement for the year ended 31 October 2012

	$	$

[6]

J13/11

2(c) Hassan owns a manufacturing business. Name three types of inventory which may appear in Hassan's accounts.

....

....

....[3]

(d) During 2012 Hassan has paid rent of $6 000. On 31 December 2012 $2 000 was outstanding. The rent is apportioned 60% to the factory and 40% to the office.

Calculate the amounts that would appear in each of the following.

Manufacturing account for the year ended 31 December 2012.

....

....

Income statement for the year ended 31 December 2012.

....

....

Statement of Financial Position at 31 December 2012.

....

....[5]

(e) Name the section of Hassan's income statement in which cost of production appears.

....[2]

J13/12

4 Clothilde Manufacturing Limited provided the following information.

	At 1 February 2012	At 31 January 2013
	$	$
Raw materials	3 600	6 200
Work-in-progress	5 800	6 100
Finished goods	19 600	26 600

For the year ended 31 January 2013	$
Purchases of raw materials	190 800
Direct wages	86 000
Salary of factory supervisor	15 000
Carriage on raw materials	1 100
Other sales and administration costs	59 000
Depreciation of machinery	3 000
Rent	30 000
Power	25 000
Insurance	5 000

The costs of rent, power and insurance are apportioned 80% to the factory and 20% to the office.

(a) Prepare the manufacturing account for the year ended 31 January 2013.

Clothilde Manufacturing Limited

Manufacturing Account for the year ended 31 January 2013

	$	$

[16]

(b) Calculate the cost of sales as it would appear in the income statement for the year ended 31 January 2013.

………

………

………

………

………[3]

(c) All goods are sold using a mark-up of 50%. Calculate the revenue (sales) for the year ended 31 January 2013.

………

………[2]

[Total: 21]

J13/21

2 Ashraf Zayed started a manufacturing business on 1 March 2012.

The following information is available after the preparation of the manufacturing account for the year ended 28 February 2013.

		$
Cost of production		267 100
Revenue from sales of finished goods		323 000
Purchases of finished goods		4 300
Inventory at 28 February 2013 –	Raw materials	11 300
	Work in progress	2 100
	Finished goods	19 600

(a) Prepare the trading account section of the income statement to show the gross profit for the year ended 28 February 2013.

Ashraf Zayed

Income Statement for the year ended 28 February 2013	$	$

[5]

(b) Suggest **two** reasons why it was necessary for Ashraf Zayed to purchase finished goods.

1 ……….

……….

2 ……….

……….[2]

(c) Prepare journal entries to record the following transfers to the profit and loss section of the income statement on 28 February 2013. Narratives **are** required.

Carriage outwards on finished goods, $1 130
Creation of a provision for doubtful debts of $600

Ashraf Zayed
Journal

	Debit $	Credit $

[6]

J13/21

2 On 1 June 2012 Ashraf Zayed purchased a motor vehicle for delivering finished goods to customers. On that date he paid one year's motor insurance, $720, by cheque. Half of this represented insurance on his private motor car.

(d) Write up the motor insurance account as it would appear in Ashraf Zayed's ledger for the year ended 28 February 2013. Balance the account and bring down the balance on 1 March 2013.

Ashraf Zayed
Motor insurance account

Date	Details	$	Date	Details	$

[5]

(e) Explain how the accruals (matching) principle has been applied in the preparation of the motor insurance account.

....

....

....

....[2]

(f) Ashraf Zayed forgot to enter the motor insurance in the profit and loss section of his income statement for the year ended 28 February 2013.

Complete the following table to indicate how this error would affect the profit for the year.

	Overstated	Understated
Profit for the year ended 28 February 2013		

[2]

(g) Explain why it is important for Ashraf Zayed to keep his personal expenses separate to those of the business.

....

....

....

....[2]

[Total: 24]

N13/11

6 Amina is considering purchasing new equipment at a cost of $80 000 to replace her existing machinery which has been fully depreciated.

She has produced the following summarised income statement for the year ended 31 August 2014.

Summarised Income Statement
for year ended 31 August 2014

	$
Revenue	95 000
Cost of production	60 000
Gross profit	35 000
Other costs	25 000
Profit for the year	10 000

The cost of production includes $5 000 for repairs to the existing equipment. The new equipment would reduce the cost of repairs by 80%.

Equipment is depreciated at the rate of 10% per annum on a straight line basis.

In order to fund the purchase of the new equipment Amina would require a long term loan of $80 000 at an interest rate of 4% per annum.

Amina expects to increase her selling price by 10% as a result of buying this machine. It is expected that costs would not increase.

(a) Prepare a revised income statement for the year ended 31 August 2014 showing the effect on the profit if Amina goes ahead and purchases this new equipment.

Amina
Amended income statement for year ended 31 August 2014

	$	$

[6]

(b) Using your answer to **(a)** advise Amina whether she should purchase the new equipment. Give a reason for your advice.

Advice ....

Reason ....

....[2]

(c) Suggest **one** reason why Amina may decide not to purchase the new equipment.

....

....

....

....[2]

(d) Calculate to two decimal places the return on capital employed (ROCE). Amina's capital is $64 000.

(i) Before buying the equipment.

....

....

....

(ii) After buying the equipment.

....

....

....[5]

[Total: 15]

N13/13

5(d) Leila owns a manufacturing business. Complete the table below using a tick (✓) to indicate how **each** item would appear in the financial statements. The first one has been completed as an example.

	Manufacturing account		Income statement
	Direct cost	Indirect cost	
Production Labour	✓		
Depreciation of delivery van			
Purchases of raw materials			
Factory supervisor's salary			
Salesman's commission			
Carriage inwards			

[5]

J14/11

3(c) Explain the term 'prime cost' which appears in the financial statements of Highfield Manufacturing Limited.

………

………[2]

(d) All the goods sold by Highfield Manufacturing Limited are produced in its factory. Name the term which replaces 'ordinary goods purchased' in its trading section of the income statement.

………[1]

J14/12

5 (a) Complete the sentences below, using the terms

current assets	direct labour	finished goods
inventory	raw materials	work in progress

A manufacturing business is one which purchases ……………………………………………………… and by using ……………………………………………………… converts them into ……………………………………………………… If some units of production are only partially complete they are known as ……………………………………………… These appear as ……………………………………………………… under the ……………………………………………………… heading in the statement of financial position. [6]

Randeep provided the following information.

At 1 April 2013	$
Inventory of raw materials	16 200
Inventory of finished goods	9 100

For the year ended 31 March 2014

Purchases of raw materials	159 000
Carriage on raw materials	4 800
Wages of factory workers	72 000
Salary of factory supervisor	20 000
Factory rent	30 000
Depreciation of factory machinery	38 000
Total administration and selling costs	64 600
Revenue	410 000

At 31 March 2014

Inventory of raw materials	17 500
Inventory of finished goods	8 200

REQUIRED

(b) (i) Prepare the manufacturing account for the year ended 31 March 2014

Randeep

Manufacturing Account for the year ended 31 March 2014

	$	$

[9]

(ii) Prepare the income statement for the year ended 31 March 2014.

Randeep
Income Statement for the year ended 31 March 2014

	$	$

[6]

(c) Name one indirect cost from the information on page 13.

………[1]

(d) Suggest two items which might be included in the total of administration and selling costs.

1 …….

2 ……[2]

[Total: 24]

J14/21

1 The financial year of Nasir Manufacturing Limited ends on 31 January.

The following information is available.

		$
At 1 February 2013		
Plant and machinery at cost		94 000
Office fixtures and equipment at cost		34 000
Loose tools at valuation		2 650
Provision for depreciation of plant and machinery		33 840
Provision for depreciation of office fixtures and equipment		12 240
Inventories:	Raw materials	23 500
	Work in progress	11 020
	Finished goods	18 100
For the year ended 31 January 2014		
Revenue		539 000
Purchases:	Raw materials	124 600
	Finished goods	16 900
Purchases returns:	Finished goods	200
Wages and salaries:	Factory workers	136 000
Factory supervisors		31 400
Administrative and sales staff		61 500
Expenses:	Direct expenses	16 300
	General factory expenses	19 208
	General office expenses	8 900
Rates and insurance		6 360

Additional information

1 On 31 January 2014

Inventories:	Raw materials	26 100
	Work in progress	12 060
	Finished goods	19 300
Direct wages accrued		2 200
Sales staff wages accrued		380
Rates prepaid		120

2 The rates and insurance are to be apportioned ¾ to the factory and ¼ to the office.

3 The plant and machinery and office fixtures and equipment are being depreciated at 20% per annum using the reducing (diminishing) balance method.

4 During the year ended 31 January 2014 loose tools costing $310 were purchased. On 31 January 2014 loose tools were valued at $2 740.

REQUIRED

(a) Prepare the manufacturing account of Nasir Manufacturing Limited for the year ended 31 January 2014.

Nasir Manufacturing Limited
Manufacturing Account for the year ended 31 January 2014

	$	$

[14]

(b) Prepare the trading account section of the income statement of Nasir Manufacturing Limited to show the gross profit for the year ended 31 January 2014.

Nasir Manufacturing Limited
Income Statement for the year ended 31 January 2014.

	$	$	$

[6]
[Total: 20]

N14/22

2 The Mochudi Manufacturing Company was formed on 1 August 2013.

The following information is available.

	$
At 1 August 2013	
Cost of factory machinery	102 000
Cost of office fixtures and fittings	56 000
Cost of loose tools	4 400
For the year ended 31 July 2014	
Revenue	400 400
Purchases: Raw materials	99 500
Finished goods	19 300
Purchases returns: Raw materials	1 100
Wages and salaries: Factory operatives	94 200
Factory supervisors	41 050
Office staff	33 100
Sales staff	18 900
General expenses: Factory	19 400
Office	17 530
Rates and insurance	5 000
At 31 July 2014	
Inventory: Raw materials	8 600
Work in progress	8 200
Finished goods	21 100
Rates and insurance prepaid	400
General office expenses prepaid	280
Wages of factory operatives accrued	3 100
Value of loose tools	3 300

Additional information

1 No additional non-current assets were purchased during the year.
2 The factory machinery is to be depreciated at 15% per annum on cost.
3 The office fixtures and fittings are to be depreciated at 12 ½ % per annum on cost.
4 The loose tools are to be revalued at the end of each financial year.
5 The rates and insurance are to be apportioned ¾ to the factory and ¼ to the office.

REQUIRED

(a) Prepare the manufacturing account of The Mochudi Manufacturing Company for the year ended 31 July 2014.

The Mochudi Manufacturing Company
Manufacturing Account for the year ended 31 July 2014

[12]

(b) Prepare the income statement of The Mochudi Manufacturing Company for the year ended 31 July 2014.

The Mochudi Manufacturing Company
Income Statement for the year ended 31 July 2014

[10]

After the preparation of the manufacturing account and the income statement the following errors and omissions were discovered.

1 The trade receivables amounted to $32 600 on 31 July 2014. This included a debt, $200, which should have been written off.
2 A provision for doubtful debts of 2 ½ % of the remaining trade receivables should have been created.
3 No entry had been made for purchases returns of finished goods, $940.
4 The inventory of finished goods on 31 July 2014 included goods, $3 050, which were damaged and which are expected to be sold for $2 000.

REQUIRED
(c) Complete the table below to show the effect of correcting errors 1 – 4 on the profit for the year ended 31 July 2014.

Error	Effect on profit for the year		
	Increase	Decrease	No effect
1			
2			
3			
4			

[4]
[Total: 26]

J15/12
6 Quik Flo Limited is a manufacturing business. It provided the following information.

			$
At 1 May 2014			
Inventory	–	raw materials	5 000
	–	work in progress	2 000
	–	finished goods	8 500
Factory equipment	–	cost	18 000
	–	accumulated depreciation	7 000
Office equipment	–	cost 3 000	
	–	accumulated depreciation	1 000
For the year ended 30 April 2015			
Revenue			140 000
Purchases of raw materials			48 000
Factory wages			20 500
Factory supervisor's salary			10 800
Office salaries			15 150
Rent			18 000
Selling and distribution costs			9 100
Loan interest			800
At 30 April 2015			
Inventory	–	raw materials	4 400
	–	work in progress	1 200
	–	finished goods	9 000

Additional information

1 Depreciation is provided as follows:

factory equipment at the rate of 10% per annum on the straight line basis

office equipment at the rate of 25% per annum on the reducing (diminishing) balance basis.

A full year's depreciation is provided in the year of acquisition but none is provided in the year of disposal.

2 On 30 April 2015 new factory equipment costing $5000 was paid for by cheque. Old factory equipment with an original cost of $2000 was sold on the same date at a profit of $600.

3 The rent is to be apportioned 80% to the factory and 20% to the office.

REQUIRED

(a) Prepare the ledger account for factory equipment (at cost). Balance the account and bring down the balance on 1 May 2015.

Quik Flo Limited

Factory equipment account

Date	Details	$	Date	Details	$

[4]

(b) Prepare the manufacturing account for the year ended 30 April 2015.

Quik Flo Limited

Manufacturing Account for the year ended 30 April 2015

	$	$

[9]

(c) Prepare the income statement for the year ended 30 April 2015.

Quik Flo Limited

Income Statement for the year ended 30 April 2015

	$	$

[8]

(d) State what is meant by the term work in progress.

………

………[1]

(e) State two possible reasons why total direct costs in the year ended 30 April 2015 were higher than in the previous year.

1 ....

....

2 ....

....[2]

[Total: 24]

N15/13

3 (a) Give **two** examples of items which might appear as non-current assets in the statement of financial position of a manufacturing business.

1 ....

2 ....[2]

J16/11

4(d) State how prime cost is calculated in a manufacturing business.

....

....[2]

(e) Complete the following table, indicating with a tick (✓) where **each** item appears in the financial statements of a manufacturing business.

	manufacturing account	income statement
depreciation of factory machinery		
depreciation of delivery van		
Royalties		
factory rent		
salesman's commission		
factory supervisor's salary		
sales returns		
closing inventory of work in progress		

[4]

(f) State what is meant by the term work in progress.

....

....[1]

(g) State **one** reason why work in progress is more likely to appear in the financial statements of a boat builder than those of a business making bread rolls.

....

....[1]

J16/22

4 Yasmin opened a garment factory on 1 May 2015.

She provided the following information.

	$
On 1 May 2015	
Cost of factory machinery	35 000
Cost of office furniture and equipment	8 500
Cost of tools	1 000
For the year ended 30 April 2016	
Revenue 113 640	
Purchases of raw materials	28 600
Carriage on raw materials	1 500
Purchases of finished goods	15 700
Wages and salaries:	
Factory operatives	32 300
Factory supervisors	11 860
Office and sales staff	33 150
General expenses:	
Factory	3 340
Office	1 960
Rates	6 000
At 30 April 2016	
Inventory	
Raw materials	3 150
Work in progress	2 920
Finished goods	6 800
Value of tools	830

Additional information

1 The rates are to be apportioned ¾ to the factory and ¼ to the office.
2 No additional non-current assets were purchased during the year.
3 The factory machinery is to be depreciated at 20% per annum on cost.
4 The office furniture and equipment is to be depreciated at 15% per annum on cost.
5 The tools are to be revalued at the end of each financial year.

REQUIRED

(a) Prepare the manufacturing account for the year ended 30 April 2016.

Yasmin
Manufacturing Account for the year ended 30 April 2016

	$	$

[13]

(b) **(i)** Calculate the cost of sales for the year ended 30 April 2016.

....

....

....

....

....[4]

(ii) Calculate the gross profit for the year ended 30 April 2016.

....

....

....[1]

(c) **(i)** Calculate the percentage of gross profit to revenue.
The calculation should be correct to **two** decimal places. Show your workings.

....

....

....[2]

(ii) Suggest **two** ways in which Yasmin could increase the percentage of gross profit to revenue.

1 ....

....

2 ....

....[2]

[Total: 22]

N16/12

5 **(a)** State what is meant by a direct cost.

....

....[1]

(b) Give **two** examples of a direct cost of a clothing manufacturer.

Example 1 ....

Example 2 ....[2]

(c) Give **one** example of an indirect production cost.

....[1]

Mistry Clothing provided the following information for the year ended 30 June 2016.

	$
Revenue	203 220
Prime cost	89 000
Factory overheads	21 600
Selling and distribution expenses	20 760
Administration expenses	31 760
Purchases of finished goods	36 200
Opening inventory of finished goods	8 800
Closing inventory of finished goods	19 700
Increase in work in progress	100
Finished goods taken by the owner for personal use	320

REQUIRED

(d) **(i)** Calculate the cost of production for the year ended 30 June 2016.

....

....

....

....[3]

(ii) Prepare Mistry Clothing's income statement for the year ended 30 June 2016.

Mistry Clothing
Income Statement for the year ended 30 June 2016

	$	$

[9]

(e) State **one** reason why Mistry Clothing purchases finished goods.

....

....[1]

(f) Calculate, to **two** decimal places, the rate of inventory turnover (in times) for the year.

....

....

....

....[3]

(g) Suggest **two** reasons why inventory turnover has fallen from the previous year.

1 ....

....

2 ....

....[2]

[Total: 22]

N16/13

3 **(f)** Name the accounting term Winston uses for his partially finished products.

.... [1]

(g) Complete the following table, indicating with a tick (✓) where **each** item would appear in Winston's financial statements. The first has been completed as an example.

	manufacturing account	income statement
purchases of raw materials	✓	
salesmen's wages		
carriage outwards		
purchases of finished goods		
machine operators' wages		
factory supervisor's salary		
inventory of raw materials		
carriage inwards		
inventory of finished goods		

[4]

J17/12

6 G Limited is a manufacturing business.

REQUIRED

(a) Complete the following table, indicating with a tick (✓) in which section of G Limited's financial statements **each** item is included. The first has been completed as an example.

	factory overheads	distribution costs	administrative expenses
factory rent	✓		
carriage outwards			
depreciation of office equipment			
factory supervisor's salary			
repairs of delivery vehicles			

[4]

The manufacturing account of G Limited for the year ended 31 December 2016 showed the following:

	$
Inventory of raw materials – 1 January 2016	5 000
– 31 December 2016	7 500
Purchases of raw materials	112 500
Production labour	82 000
Factory overheads excluding depreciation of machinery	41 800
Depreciation of machinery	6 000

REQUIRED

(b) Calculate the following for the year ended 31 December 2016.

(i) Cost of raw materials consumed

.... [3]

(ii) Prime cost

.... [1]

(iii) Cost of production

.... [2]

G Limited provided the following additional information for the year ended 31 December 2016.

	$
Revenue	550 000
Inventory of finished goods – 1 January 2016	51 000
– 31 December 2016	47 300
Purchases of finished goods	95 200
Distribution costs	61 800
Administrative expenses	95 100
Finance charges	16 100

REQUIRED

(c) Prepare the income statement for the year ended 31 December 2016.

G Limited
Income Statement for the year ended 31 December 2016

	$	$

[9]

(d) State **one** reason why G Limited purchases finished goods.

....

.... [1]

The directors of the company know that the factory machinery is very old and they are considering replacing it at a cost of $100 000. They provide the following information.

1 The old machinery was being depreciated at $6 000 per annum. This machinery would be sold at net book value.
2 The new machinery would be depreciated in equal instalments over ten years.
3 The purchase of the new machinery would be financed by a loan on which annual interest of 8% would be paid.
4 The cost of raw material used would decrease by 4% if the new machinery was purchased.
5 Machinery repairs would be reduced by $9000 a year if the new machinery was purchased.

REQUIRED

(e) Complete the following table to calculate the change in profit for the year if the new machinery was purchased.

Savings	$
Less: additional costs	
Increase/(decrease) in profit	

[7]

[Total: 27]

J17/21

4 The financial year of Msamati Manufacturing ends on 31 January.

The following is the summarised manufacturing account for the year ended 31 January 2017.

	$
Prime cost	505 650
Factory overheads	176 390
	682 040
Change in work in progress	(12 090)
Cost of production	669 950

REQUIRED

(a) Explain the meaning of the term 'prime cost'.

....

....

....

....[2]

(b) **(i)** Explain the meaning of the term 'factory overheads'.

....

....

....

....[2]

(ii) Suggest **two** items which may be included in the factory overheads.

1 ....

2 ....[2]

(c) **(i)** State the meaning of the term 'work in progress'.

....

....[1]

(ii) State whether the closing work in progress was greater or smaller than the opening work in progress.

.... [1]

Msamati Manufacturing provided the following information for the year ended 31 January 2017.

	$
Revenue	816 370
Purchases of finished goods	17 200
Commission received	2 700
Administration expenses	38 160
Selling expenses	28 270
Inventory of finished goods 1 February 2016	56 120
Office equipment at cost	32 000
Delivery vehicles at cost	68 000
Provision for depreciation:	
Office equipment	14 400
Delivery vehicles	17 000
Loan from A1 Loans received 1 April 2016	15 000

At 31 January 2017

Inventory of finished goods	61 340
Commission receivable outstanding	130
Loan interest at 5% per annum is outstanding	

During the year ended 31 January 2017 the owner of the business took finished goods costing $1 620 for his own use.

Depreciation is charged as follows:

Office equipment at 15% per annum using the straight line (equal instalment) method
Delivery vehicles at 25% per annum using the reducing (diminishing) balance method.

REQUIRED

(d) Prepare the income statement for the year ended 31 January 2017.

Msamati Manufacturing
Income Statement for the year ended 31 January 2017

	$	$	$

[10]

(e) Explain how the accruals (matching) principle has been applied in the preparation of the income statement. Illustrate your answer by reference to **one** of the items in your answer to **4(d)**.

....

....

....

....

....[2]

The owner of Msamati Manufacturing is disappointed with the results for the year ended 31 January 2017. He is looking for ways to increase the gross profit and profit for the year.

REQUIRED

(f) Discuss the possible effects on the gross profit of **each** of the following proposals:

(i) increase the selling price of the finished goods

....

....

....

....[2]

(ii) reduce the wages of the factory employees

....

....

....

....[2]

(g) Suggest **two** ways in which the profit for the year could be increased.

1 ....

2 ....[2]

[Total: 26]

N17/11

2(g) Complete the following table by writing True or False against **each** statement.

	True or False
Work in progress may appear in Jake's manufacturing account.	
Prime cost appears in Jake's income statement.	
Jake's business is a service business.	

[3]

N17/22

2 Mustafa opened a garment factory on 1 August 2016.

On that date he purchased the following non- current assets.

	$
Premises	210 000
Factory machinery	92 000
Office fixtures and equipment	29 800
Loose tools	19 600

Mustafa decided to revalue the loose tools at the end of each financial year and also decided that no depreciation would be charged on premises. The other non-current assets are to be depreciated using the straight line (equal instalment) method of depreciation at the following rates.

Factory machinery at 20% per annum
Office fixtures and equipment at 15% per annum

During his first year of trading, Mustafa purchased raw materials costing $447 400 (of which $1 800 were returned to the supplier) and finished goods costing $22 200. His sales of finished goods amounted to $998 500.

Mustafa made the following payments during the year ended 31 July 2017.

	$
Wages – factory operatives	287 400
factory supervisors	101 150
office staff	75 790
General expenses	13 400
Rates and insurance	12 600
Carriage inwards	2 590
Carriage outwards	2 180

At 31 July 2017

Inventories were valued at	
Raw materials	62 200
Work in progress	38 200
Finished goods	69 700
Loose tools were valued at	18 100
Wages of factory operatives accrued	3 760

The general expenses are to be apportioned 3⁄4 to the factory and 1⁄4 to the office.

The rates and insurance are to be apportioned 2⁄3 to the factory and 1⁄3 to the office.

REQUIRED

(a) Prepare the manufacturing account for the year ended 31 July 2017.

Mustafa

Manufacturing Account for the year ended 31 July 2017

	$	$

[13]

(b) Calculate the cost of sales for the year ended 31 July 2017.

....

....

....

....

....

.... [4]

Mustafa wants to expand his business and needs to obtain long-term funds to finance this. He decided to apply for a 10-year bank loan.

REQUIRED

(c) Suggest **one** disadvantage of raising funds by means of a bank loan.

....

....[1]

(d) Suggest **two** other ways of raising long-term funds.

1 ....

....

2 ....

.... [2]

[Total: 20]

J18/11

5 Addae opened a factory making children's clothes on 1 February 2017. He provided the following information at the end of his first year of trading.

		$
Purchases of raw materials		48 400
Direct factory wages		38 800
Indirect factory wages		27 140
General factory expenses		3 150
Carriage inwards		1 950
Factory heat and light		1 110
Factory insurance		1 860
Inventory at 31 January 2018:	raw materials	5 150
	work in progress	7 260
	finished goods	5 500

Factory machinery, $75 000, was purchased on 1 February 2017 and is to be depreciated by 20% per annum.

REQUIRED

(a) Define and give **one** example of **each** of the following types of inventory in Addae's business.

(i) Raw materials

Definition ....

....

Example ....[2]

(ii) Work in progress

Definition ....

....

Example ....[2]

(iii) Finished goods

Definition ....

....

Example ....[2]

(b) Prepare the manufacturing account for the year ended 31 January 2018.

Addae
Manufacturing Account for the year ended 31 January 2018

[10]

The cost of production was higher than Addae expected.

REQUIRED

(c) Suggest **two** ways in which the cost of production could be reduced apart from purchasing lower quality materials.

1 ....

....

2 ....

....[2]

After the preparation of the manufacturing account, Addae provided the following additional information.

	$
Revenue	179 250
Cost of sales	119 500
Administration and selling expenses	34 750

REQUIRED

(d) Calculate the percentage of gross profit to revenue (gross profit margin).
The calculation should be to **two** decimal places.

....

....

....[2]

(e) Calculate the percentage of profit for the year to revenue (net profit margin).
The calculation should be to **two** decimal places.

....

....

....[2]

(f) Suggest **two** ways in which the percentage of profit for the year to revenue could be improved.

1 ....

....

2 ....

....[2]

[Total: 24]

N18/12

5 TP Limited manufactures toys.

REQUIRED

(a) Complete the table by inserting a tick (✓) to show how **each** type of manufacturing cost should be classified. The first one has been completed as an example.

	Direct Material	Direct Labour	Factory Overhead
Purchase of plastic toy parts	✓		
Rent of factory			
Wages of machine operator			
Purchase of packaging			
Wages of supervisor			

[4]

(b) State how prime cost is calculated.

....

.... [2]

TP Limited provided the following information.

		$
Inventory on 1 June 2017		
	Raw materials	18 000
	Work in progress	5 750
	Finished goods	27 200
For the year ended 31 May 2018		
	Purchases of raw material	323 000
	Factory wages	98 000
	Factory overheads	125 000
	Purchases of finished goods	28 900
	Revenue	836 000
Inventory on 31 May 2018		
	Raw materials	22 100
	Work in progress	6 820
	Finished goods	30 100

REQUIRED

(c) Prepare the manufacturing account for the year ended 31 May 2018.

TP Limited
Manufacturing Account for the year ended 31 May 2018

[6]

(d) Prepare the income statement (trading account section) for the year ended 31 May 2018.

TP Limited
Income Statement (Trading Account section) for the year ended 31 May 2018

[4]

(e) State **two** reasons why TP Limited purchases finished goods.

1 ....

....

2 ....

....[2]

(f) Name the accounting principle applied when valuing inventory.

.... [1]

TP Limited's inventory turnover was 19.78 times for the year ended 31 May 2018 and 25.24 times for the previous year.

REQUIRED

(g) Suggest **two** reasons why the rate of inventory turnover is lower than the previous year.

1 ....

....

2 ....

.... [2]

The directors of TP Limited compared their rate of inventory turnover with that of GH Limited, a bakery. G H Limited has a rate of inventory turnover of 53.41 times.

REQUIRED

(h) Suggest **two** reasons why GH Limited has a higher rate of inventory turnover than TP Limited.

1 ....

....

2 ....

.... [2]

[Total: 23]

N18/21

6 Josef manufactures computer accessories. His financial year ends on 31 August. Josef does not have any work in progress. His mark-up is 20%.

Josef provided the following information for the year ended 31 August 2018.

	$
Prime cost	30 000
Factory overheads	6 500
Cost of production	36 500

Output 1 000 units

REQUIRED

(a) State the meaning of the term 'prime cost'.

....

.... [1]

(b) Suggest **two** items which may be included in the factory overheads.

1 ....

2 .... [2]

(c) Calculate the gross profit for the year ended 31 August 2018.

....

.... [1]

Josef is considering purchasing a new machine costing $15 000. He can invest additional capital of $5 000.

REQUIRED

(d) Suggest **two** ways in which Josef could obtain the additional finance required to purchase the machine.

1 ....

2 .... [2]

Josef estimated that the purchase of the machine would result in the following:

1 Output would increase by 20%.
2 Prime cost would increase in direct proportion to output.
3 Factory overheads would increase by $1 500.
4 Mark-up would have to be reduced to 18% in order to sell all the output.

REQUIRED

(e) Calculate the estimated gross profit for the year if the new machine is purchased.

....

....

....

....

....

....

....

.... [4]

(f) State **four** disadvantages to Josef of purchasing the new machine.

1 ....

....

2 ....

....

3 ....

....

4 ....

.... [4]

[Total: 14]

J19/22

3 Jamal opened a toy factory on 1 March 2018. On that date he purchased the following non-current assets.

	$
Premises	100 000
Factory machinery	44 000
Loose tools for factory	1 650
Office fixtures and fittings	15 450

Jamal decided on the following depreciation policy.

1. No depreciation would be charged on premises.
2. Factory machinery and office fixtures and fittings would be depreciated by 20% per annum using the straight line (equal instalment) method of depreciation.
3. Loose tools would be revalued at the end of each financial year.

Jamal provided the following information.

	$
For the year ended 28 February 2019	
Purchases of raw materials	45 680
Purchases of finished goods	12 400
Purchase returns of raw materials	1 030
Carriage on raw materials	3 240
Direct factory wages	29 750
Indirect factory wages	18 750
Office and sales staff wages	25 360
Operating expenses	8 250
Insurance (for 16 months to 30 June 2019)	3 200
Sales returns	2 250
Revenue	
At 28 February 2019	
Inventory of raw materials	4 150
Inventory of work in progress	3 310
Inventory of finished goods	8 900
Loose tools at valuation	1 320
Direct factory wages accrued	3 040
Operating expenses accrued	550

The operating expenses and the insurance are to be apportioned 75% to the factory and 25% to the office.

Jamal's mark-up is 25%.

REQUIRED

(a) Prepare the manufacturing account for the year ended 28 February 2019.

Jamal

Manufacturing Account for the year ended 28 February 2019

	$	$

[15]

(b) Prepare the income statement (trading section) for the year ended 28 February 2019 to show the revenue, cost of sales and gross profit for the year.

Jamal

Income Statement (Trading section) for the year ended 28 February 2019

	$	$

[7]

After the preparation of the financial statements for the year ended 28 February 2019 it was discovered that some errors had been made.

REQUIRED

(c) Complete the following table to indicate the **effect** of **each** of the errors. The first one has been completed as an example.

Error	effect on cost of production	effect on gross profit	effect on profit for the year
Returns of finished goods to the supplier, $1 200, were omitted	*no effect*	*Understated*	*understated*
Operating expenses accrued were $850 not $550			
Salesman's commission, $1 850, had been included in indirect factory wages			

[6]

[Total: 28]

N19/21

3 Yabani is a manufacturer. His financial year ends on 30 September.

Goods which Yabani is unable to manufacture himself are purchased from other manufacturers.

Yabani provided the following information for the year ended 30 September 2019.

	$
At 1 October 2018	
Inventory of finished goods	21 340
Delivery vehicle at cost	19 500
Provision for depreciation of delivery vehicle	3 900
Office fixtures and fittings at cost	14 100
Provision for depreciation of office fixtures and fittings	5 640
For the year ended 30 September 2019	
Cost of production	141 220
Revenue	205 000
Purchases of finished goods	?
Carriage inwards on finished goods	2 000
Administration and selling expenses (excluding depreciation)	22 120
At 30 September 2019	
Inventory of finished goods	22 560

Additional information

1. The delivery vehicle is to be depreciated at 20% per annum using the reducing (diminishing) balance method.
2. The office fixtures and fittings are to be depreciated at 10% per annum using the straight line (equal instalment) method.
3. The percentage of gross profit to revenue (gross profit margin) is 20%.

REQUIRED

(a) Prepare an income statement for the year ended 30 September 2019. Insert the missing figure for purchases of finished goods.

Yabani

Income Statement for the year ended 30 September 2019

[12]

Yabani is looking for ways to increase his gross profit.

REQUIRED

(b) Discuss the possible effects on the gross profit of **each** of the following proposals.

(i) Purchase lower-quality raw materials

....

....

....

.... [2]

(ii) Do **not** purchase finished goods from other manufacturers

....

....

....

.... [2]

(iii) Reduce the number of sales staff

....

....

....

.... [2]

(iv) Reduce the rate of pay for the machine operators in the factory

....

....

....

.... [2]

[Total: 20]