University of Fort Hare
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NKUHLU DEPARTMENT OF ACCOUNTING

Financial Management 2B

AFM 221E

FINAL ASSESSMENT OPPORTUNITY, 2019

ASSESSOR:	Mr Phesa
MODERATOR:	Mrs Esther Mason/Prof.G. Bartlett
TIME:	3 hours
MARKS:	150 (plus 30 minutes reading time)
PAGES:	9 pages (including front)

INSTRUCTIONS:

1. Answer **all** the questions.
2. Start each question on a new page.
3. Show all workings clearly – marks are allocated to workings.
4. Only answers in ink will be marked (including workings). Pages where pencil or tippex were used will not qualify for remarking.
5. Only silent, non-programmable calculators are allowed.
6. Students that contravene the rules in the General Prospectus of the University of Fort Hare will be disciplined in accordance with said rules.

Question	Topics covered	Marks
1	Cost Terms and process costing	60
2	Job Costing	18
3	Joint and buy product	36
4	Variable and Absorption costing	36
	TOTAL	150

QUESTION 1 60 MARKS

Part A

Bayanda Ngozi is the graduate from University of Fort Hare and after three years empowered with his degree decided to start a manufacturing business. He spent two months deciding on the product to present to his prospective customers and ended up deciding on manufacturing corrugated roof sheets and performed a market research, which costed him R3 500. Since he did not have enough capital and was unemployed, he could not start his manufacturing business but through the assistance of his friend, he was able to draft a business plan and five-year cash flow projection for his application for funding to National Youth Development Fund. He then registered a private company Bayanda Roofsheet Corrigated (Pty) Ltd "BRC". He applied for the funding and waited three months.

The financial year end of BRC is 31 December. At 31 October 2018 Bayanda received an email with good news that his application for funding had been approved. He started contacting manufacturing property owners and obtained a lease agreement for the manufacturing site. From 01 November 2018 he started to contact the suppliers of raw materials and equipment. He ordered the machine from Bombo IBR Manufacturing. He bought the machine at a cost of R1 500 000 which had a five-year life expectancy. Finally, on 02 January 2019 his manufacturing site was officially opened and production started.

The manufacturing machine is capable of producing between 15 meters per minute, the sheet has a 0.8mm thickness and width of 925mm. The sheets are pressed and shaped on rollers and are made from forged steel. The rollers are hydraulically controlled, and require hydraulic power of 2.2 KW. The machine has a twelve-month conditional warrantee. The accountant of BRC is busy preparing the budget for 2020 financial year and requested you to assist. The following information is relevant for your calculations.

The following is the actual average information for 2019:

Monthly production (corrugated zinc sheets)	Notes	2000 corrugated zinc sheets
Raw material	1	R500
Direct labour costs 45 per hour	2	R45
Monthly rent	3	R18 000
Administrative expenses per month	4	R34 000
Other manufacturing overheads per annum (all variable)	5	R245 000
Depreciation per annum		R300 000

Noted:

1. Raw material are purchased from the local supplier and BRC can make two 925mm length corrugated roofing sheets from one plain sheet of raw material.
2. Labour is paid per corrugated sheet manufactured and it takes 15 minutes to manufacture one corrugated sheet.
3. The rent for the factory is R18 000 per month and will increase by 10% from January 2020.
4. The administrative and other manufacturing overheads will increase by 6% for the coming year.

QUESTION 1: REQUIRED : Part A		Marks	
		Sub-total	Total
(a)	Explain the concept 'sunk costs' and identify one sunk cost from the scenario	3	
(b)	Prepare the annual cost budget for 2020 financial year, and cost per roofing sheet, assuming a full variable costing system.	20	
(c)	Explain the marginal cost concept.	2	
Presentation marks		2	
			27

Part B 33 MARKS

BRC exceeded expectations of Bayanda and the company continue to receive orders from local and international suppliers. The company adopts a process costing system. The following is the monthly production and costs for the month of March 2019:

Opening units	600 (100%)
Units introduced	2 000
Anticipated normal loses	10%
Inspection point	60%
Completed units	1 900
Closing inventory	350 (70% complete)

Raw material is added at the beginning of the process and the raw material for opening inventory is R250 000 and conversion of R91 200

Raw material for the months R500 000
Conversion costs R304 000

QUESTION 1:Part B		Marks	
		Sub-total	Total
(a)	Draw up the statement of equivalent unit and cost per unit for the month of March using weighted average method.	13	
(b)	Prepare the work in progress account	8	
(c)	Explain process costing system	2	
(d)	Explain the difference between process costing and job costing	2	
(e)	Explain normal loss and abnormal loss	2	
(f)	Explain how the scrap value of normal loss and abnormal loss is treated	4	
Presentation marks		2	
			33

Question 2 18 Marks

Shop Calculators Solutions (Pty) LTD "SCS" uses a job costing system. The company manufactures calculators from their East London based office situated at Kwelera near N2 highway.

The company has 2 jobs for costs allocation.

The following information is available for third month of operation:

Material purchases	R16 950
Electricity and water debited to overheads accounts	R3 130
Depreciation on equipment debited to overheads account	R8 300
Other manufacturing overheads debited to overheads account	R10 100
Factory rental for the month debited on overhead account	R9 000

The following information is relevant:

1. Material was requested as follows: for job one = R16 950 and R17 360 for job two.

2. Indirect material amounted to R4 360.

3. Wages were paid as follows:

Job 1	R 12 000
Job 2	R 6 750
Indirect labour	R 2 800

   An average rate of R25 is paid per labour hour.

4. Overheads are allocated on the basis of direct labour hours worked and budgeted monthly overheads. The budgeted average manufacturing overheads amounts to R35 700 per month, and estimated average normal capacity is 750 direct labour hours per month.

5. Job one was completed during the month and 300 units were completed during the month, 200 units were sold during the month for R250 each. Job two is still in a process of at the end of the month.

Question 2		Marks	
		Sub-total	Total
(a)	Calculate the total cost of job one and job two for the end of the month. T-accounts are not required.	9	
(b)	Calculate the profit or loss for the sale of 200 units manufactured for job one.	4	
(c)	Calculate the over and under recovery of overheads	5	
			18

QUESTION 3

36 Marks

Eastern Cape Fuels LTD produces different kinds of fuel. The company produces gasoline, jet fuel, diesel and heavy fuel oil. The following information is available for the month of October 2019.

Kind of fuel	Litters produced	Selling price per litter
Gasoline	2 560 000	3,25
Jet Fuel	40 000	13
Diesel	25 000	20,80
Heavy fuel oil	32 000	32,50

The products are produced in a joint process and during the month of October R9 360 000 was incurred on joint production and the company uses market values at split-off point to allocate joint costs.

During the manufacturing process a by-product called, lubricants is produced and for the month of October 2 000 litters were produced. There is no regular market for lubricant, however in October all the by-product was sold and generated R40 000 in net proceeds. According to the company all by-product sales are treated as other income in their income statement.

The joint products can also be processed further beyond the split point and the following information is relevant:

Kind of fuel	Total additional processing costs	Selling price per liter	Liters lost during further processing
Gasoline	R325 000	R4,00	256 000
Jet Fuel	R75 000	R15,00	0
Diesel	R100 000	24,00	1000
Heavy fuel oil	R90 000	R37,50	0

QUESTION 3: REQUIRED Part A		MARKS	
		Sub-total	Total
(a)	Calculate the profit or loss for October if all the products were sold at split-off point.	16	
(b)	Explain what by-product is	2	
(c)	What is the correct treatment for the by-product proceeds?	1	
(d)	Calculate the profit or loss per product after further processing	7	
TOTAL			26

Part B

Areil Juice Company Ltd uses a base material to manufacture their juice products, Orange Juice, Apple Juice, Mango and Pineapple Juice in a joint process. In June 2019, R2 377 600 of base material was put in the process. The following production and sales figures were recorded during May:

Product	Production in liters	Sales	Selling Price per liter
Orange	24 000	20 000	R55
Apple	40 000	37 500	R60
Mango	36 700	30 100	R20
Pineapple	10 200	0	R12

There were no opening and closing inventory for the month of May 2019.

Pineapple is also considered as joint product, despite its sales revenue being lower than other kinds of juice.

QUESTION 3: REQUIRED Part B		MARKS	
		Sub-total	Total
(a)	Calculate the net profit or loss per juice for the month of May 2019 using physical measures method	10	
TOTAL			10

Question 4 36 Marks

Miazi Paper Manufactures Ltd is one of the major suppliers of all the of printing companies in South Africa and enjoys a 41% market share. The company has grown from small beginnings and keeps on growing each year. The company manufactures white plain papers for printing purposes and sell to Xerot Printing Company and HiteK printing solutions.

The following information relate to the month of November 2019:

Units manufactured	18 750
Selling price per unit	R20
Manufacturing costs	
Variable	R46 750
Fixed	R187 500
Selling and administrative expenses	
Variable selling (R6,25, per unit)	R93 750
Fixed selling expenses	R50 000
Fixed administrative expenses	R12 500

There were only 15 000 units sold of the units produced for the month and there were no opening inventory for the period.

QUESTION 4		MARKS
(a)	List and explain two advantages and disadvantages of using variable costing method.	4
(b)	List and explain two advantages and two disadvantages of using an absorption costing method.	4
(c)	Prepare the statement of comprehensive income for the month of November 2019 using :	
	(i) Variable costing method	13
	(ii) Absorption costing method	13
	Presentation marks	2
TOTAL		**36**

----------END OF EXAM----------