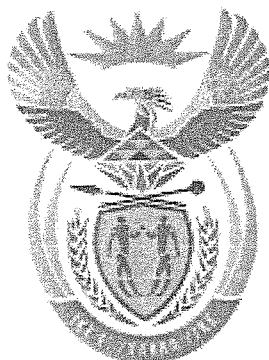


201306H047



higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

N280(E)(M24)H
JUNE EXAMINATION

NATIONAL CERTIFICATE

COST AND MANAGEMENT ACCOUNTING N6

(4010196)

24 May 2013 (Y-Paper)
13:00–16:00

Nonprogrammable calculators may be used.

This question paper consists of 12 pages and a 12-page answer book.

DEPARTMENT OF HIGHER EDUCATION AND TRAINING
REPUBLIC OF SOUTH AFRICA
NATIONAL CERTIFICATE
COST AND MANAGEMENT ACCOUNTING N6
TIME: 3 HOURS
MARKS: 200

INSTRUCTIONS TO INVIGILATORS:

1. Ensure that ALL candidates use the attached ANSWER BOOK provided at the end of this question paper.
2. Do NOT attach any other ANSWER BOOK to the one provided at the end of this question paper.
3. Students will be penalised if the ANSWER BOOK provided at the back of this question paper is placed inside another ANSWER BOOK.
4. If the ANSWER BOOK provided at the end of this question paper is not stapled in the correct order, please instruct candidates to open the staple, put the ANSWER BOOK in the correct order and then restaple the ANSWER BOOK.

INSTRUCTIONS TO CANDIDATES:

1. Answer ALL questions in the attached ANSWER BOOK provided at the end of this question paper.
 2. Do NOT use any other ANSWER BOOK to answer this question paper and do NOT attach any other ANSWER BOOK to the one provided at the end of this question paper.
 3. Read ALL the questions carefully.
 4. ALL calculations, where applicable, MUST be shown.
 5. Write neatly and legibly.
-

QUESTION 1

Choose, from the list of journal entries below numbered A–M, ONE that will correctly record the transactions numbered 1.1–1.10. Write only the letter (A–M) next to the question number (1.1–1.10) in the attached ANSWER BOOK.

Transactions to record:

- 1.1 Underapplication of manufacturing overheads
 - 1.2 Issuing of direct materials to production
 - 1.3 Applied manufacturing overheads incurred for the year
 - 1.4 Actual manufacturing overheads incurred and paid for the year
 - 1.5 Profit on a contract account
 - 1.6 Subcontractor's fees for a contract
 - 1.7 Value of uncertified work in a contract
 - 1.8 Receipts from debtors
 - 1.9 Cash payment of the monthly rent which increased by 10%
 - 1.10 Cash purchases of indirect materials
- (10 × 2) **[20]**

Journal entries:

- A DR: Bank
 CR: Debtors' control
- B DR: Applied manufacturing overheads
 CR: Actual manufacturing overheads
- C DR: Debtors' control/Uncertified work
 CR: Contract account
- D DR: Cost of sales
 CR: Manufacturing overheads
- E DR: Contract account
 CR: Subcontractors
- F DR: Materials control
 CR: Bank

- G DR: Manufacturing overheads
CR: Bank
- H DR: Rent
CR: Bank
- I DR: Manufacturing overheads
CR: Production control
- J DR: Production control
CR: Materials control
- K DR: Contract account
CR: Profit and loss
- L DR: Production control
CR: Manufacturing overheads
- M DR: Manufacturing overheads
CR: Cost of sales

QUESTION 2

2.1 Study the production control account below and answer the questions.

PRODUCTION CONTROL			
Balance b/d	10 000	Finished goods control	50 000
Materials control	45 000	Balance c/d	143 000
Labour control	63 000		
Manufacturing overheads control	75 000		
	193 000		193 000

- 2.1.1 Briefly explain the balance b/d on the debit side of R10 000. Why is it on the debit side? (3)
- 2.1.2 Briefly explain the balance c/d on the credit side of R143 000. (1)

- 2.2 Zee Network has just completed contract 747 in the current financial year. The following information was extracted from its records:

Contract price	13 500 000
Total costs to date	9 500 000
Certified work	14 300 000
Cash received	13 000 000

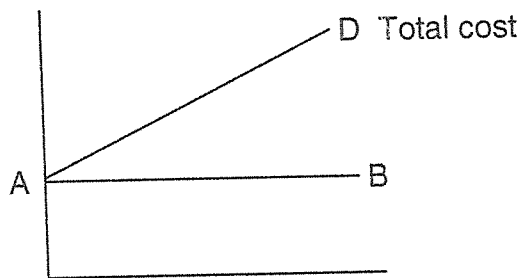
Calculate the provision for latent defects if the company calculates this provision based on:

2.2.1 25% of profits

2.2.2 Retention money

(2 × 2) (4)

- 2.3 Study the following breakeven graph and answer the questions.



2.3.1 What does line AB represent?

2.3.2 Briefly explain why the total cost line does not start at zero.

2.3.3 What does the area between line AD (total cost) and AB represent?

2.3.4 If the sales line is drawn in this graph, will it start at zero? Give ONE reason for your answer.

(4 × 2) (8)

- 2.4 Jezebelle Jerseys makes children's jerseys. According to standard information, the business uses $\frac{1}{2}$ kg of wool to make one jersey. The standard price of the wool is R15,00 per kg.

450 jerseys were actually made with 230 kg of wool that was purchased.

2.4.1 How many kg of wool was supposed to be used to make 450 jerseys?

2.4.2 Has the business over-/ or underused wool to make 450 jerseys? State how much of the wool was over-/ or underused, i.e. the variance.

- 2.4.3 Is this variance favourable or unfavourable for the business?
- 2.4.4 Give ONE possible reason for this variance.
- 2.4.5 The business paid R3 500 for the wool that it actually purchased for production.
How much was it supposed to pay for the wool purchased?
- 2.4.6 Give ONE possible reason for this variance in QUESTION 2.4.5. (6 × 2) (12)
- 2.5 One of the disadvantages of budgeting is that it is an estimate of future incomes and costs and the future cannot be accurately predicted.
Do you agree with the above statement? Give ONE reason for your answer. (2)
[30]

QUESTION 3

The following incomplete and incorrectly prepared accounts appeared in the cost ledger of Megabyte Computers on 28 February 2013.

The business uses a job costing system.

COST LEDGER

JOB: PRINT-400

Balance b/d	25 000	Labour control	60 000
Material control	54 000		

JOB: COMP-530

Balance b/d	18 000	Labour control	70 000
Material control	73 000		

Additional information:

1. Overheads are recovered at a rate of 90% of direct material cost.
2. Only Job: Print-400 was completed during the financial period. It was sold at a profit of 50% on 28 February 2013.
3. Total selling and administration costs amount to R20 000. These costs are respectively allocated to Job: Print-400 and Job: Comp-530 to the ratio of 3 : 2.
4. Actual overheads were R115 000.
5. 5 000 units were produced in Job: Print-400 and 3 000 units were produced in Job: Comp-530.

REQUIRED:

- 3.1 Correctly complete the accounts for both jobs in the cost ledger. (6 + 6) (12)
- 3.2 Calculate the profit/loss and the selling price for Job: Print-400 only. (5)
- 3.3 Calculate the cost per unit for each job. (10)
- 3.4 Calculate the over-/ or underapplication of overheads for the business. State clearly if your answer is an over-/ or underapplication. (3)

[30]

QUESTION 4

Rummay Ltd is building a new central office for Zumba FET college. It uses the percentage of completion method to determine profits.

It supplies you with the following information for the year ended 30 April 2013:

Contract price	R50 000 000
Materials issued	R1 500 000
Wages paid	R1 000 000
Overheads	R2 500 000
Material returned to suppliers	R15 000
Material transferred from another contract	R800 000
Machinery (balance on 1 May 2012)	R4 000 000
Materials on hand (30 April 2013)	R5 000
Machinery (balance on 30 April 2013)	R3 200 000
Certified work	R8 000 000
Uncertified work	R3 000 000
Cash received	R7 500 000
Total expected costs for the contract	R29 000 000
Extras	R7 000 000

The retention money must be treated as a provision for latent defects.

REQUIRED: (Round off your answers to the nearest whole.)

4.1 Calculate the percentage of completion using the following formula:

$$\frac{\text{certified work}}{\text{contract price}} \quad (4)$$

4.2 Calculate the total estimated profit on the contract. (4)

4.3 Calculate the profit for the year, using the following formula:

$$\% \text{ completed} \times \frac{\text{estimated profit}}{1} \times \frac{\text{certified work}}{\text{contract price}} \quad (6)$$

4.4 Calculate the adjusted profit after taking the provision for latent defects into account. (7)

4.5 Calculate the total cost of materials for the contract for this year. (5)

4.6 Calculate the depreciation on machinery for the year. (2)

4.7 Has this contract been completed or not? Give ONE reason for your answer. (2)

[30]

QUESTION 5

5.1 Sharp Industries makes blue overalls for all major industries.

To make 1 overall (STANDARD INFORMATION), the following is used:

4 ½ metres of material at a standard price of R120 per metre
5 hours of labour @ R20 per hour

At the end of April 2013, you are supplied with the following actual results:

11 000 metres of material was purchased at a total price of R1 375 000.
2 000 overalls were made, using 9 500 meters of material.
10 500 labour hours were used at a total cost of R231 000.

REQUIRED:

Calculate the following variances (state whether each variance is favourable or unfavourable):

5.1.1 Price of material

5.1.2 Quantity of material

5.1.3 Labour rate

5.1.4 Labour efficiency

(4 × 6) (24)

5.2 The following information was extracted from the records of Black Rock TVs:

Total Labour Variance:

= Labour rate variance ± Labour efficiency variance

= 9 000 (UNF) – 4 500 (FAV)

= 4 500 (UNF)

Additional information:

- According to standard information, it takes 2 labour hours to make 1 TV
- Standard rate of labour = R45
- Actual rate of labour = R55
- Actual time worked = 900
- 500 TVs were actually produced

Recalculate the total labour variance using an alternate formula.

(6)
[30]

QUESTION 6

- 6.1 Pyaar Producers makes teddy bears. The following was extracted from its records for the year ended 31 March 2013:

Total teddy bears produced and sold	50 000
Variable manufacturing overhead cost per unit	R18,50
Total fixed manufacturing overhead cost	R440 000
Fixed administrative and selling costs	R120 000
Variable administrative and selling costs	R150 000
Direct materials	R500 000
Direct labour	R630 000
Selling price per teddy bear	R90,00

REQUIRED:

- 6.1.1 Prepare the income statement of Pyaar Producers according to the absorption cost method. (11)
- 6.1.2 Prepare the income statement of Pyaar Producers according to the direct cost method. (11)
- 6.2 Frezi Kubheka, an inexperienced bookkeeper, calculated the breakeven point of Best Burgers as follows:

Breakeven units:

$$= \frac{\text{Total sales} - \text{Total fixed cost}}{\text{Variable cost per unit}}$$

$$= \frac{70\,000 - 6\,000}{10}$$

$$= \frac{64\,000}{10}$$

$$= 6\,400$$

Additional information:

- 1 000 burgers were produced and sold during the period.

REQUIRED:

- 6.2.1 Recalculate the breakeven units because the owner, Mr Dlamini, suspects that Frezi has calculated it incorrectly. (5)
- 6.2.2 What does the breakeven units mean (as calculated above)? (1)
- 6.2.3 Why is it important for a business to know its breakeven units? (2)

[30]

QUESTION 7

7.1 The following budgeted information was supplied to you by Vera Enterprises:

Material	R580 000
Labour	R750 000
Variable overheads	R300 000
Fixed overheads	R400 000
Budgeted production units	R500 000

Fixed costs will remain the same up to 500 000 units. Thereafter, it will increase to R550 000.

The expected selling price is R11 per unit.

Using the format below, calculate all missing figures if 450 000 units and 600 000 units are produced.

	UNIT PRICE	450 000 UNITS	600 000 UNITS
Material			
Labour			
Variable overheads			
Fixed overheads			
Total costs			
Total sales			
Total expected income			

(18)

7.2 Ballito Buyers is considering buying the following new machine costing R1 000 000:

Rate of return: 15%

Projected cash inflow from the machine:

Year 1: R100 000

Year 2: R250 000

Year 3: R400 000

Year 4: R450 000

Discounted factors:

Period	10%	12%	14%	15%	16%
1	0,909	0,893	0,877	0,870	0,862
2	0,826	0,797	0,769	0,756	0,743
3	0,751	0,712	0,675	0,658	0,641
4	0,683	0,636	0,592	0,572	0,552
5	0,621	0,567	0,519	0,497	0,476

- 7.2.1 Calculate the present net value of the machine. (9)
 - 7.2.2 Should the business buy this machine? Give ONE reason for your answer. (3)
[30]
- TOTAL: 200**