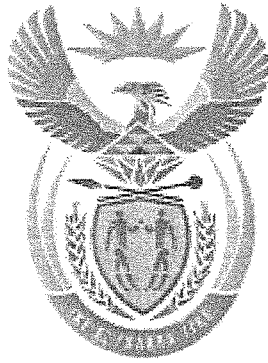


2013/11/043



# higher education & training

Department:  
Higher Education and Training  
REPUBLIC OF SOUTH AFRICA

N260(E)(N26)H  
NOVEMBER EXAMINATION

NATIONAL CERTIFICATE

**COST AND MANAGEMENT ACCOUNTING N6**

(4010196)

26 November 2013 (Y-Paper)  
13:00–16:00

Nonprogrammable calculators may be used.

This question paper consists of 11 pages and an answer book of 12 pages.

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

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**INSTRUCTIONS TO INVIGILATORS**

1. Ensure that ALL candidates use the 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 AND INFORMATION**

1. Answer ALL questions in the 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**

- 1.1 Choose a description below (numbered A–G) to match the list of budgets numbered 1.1.1–1.1.5. Write only the corresponding letter (A–G) next to the question number (1.1.1–1.1.5) in the ANSWER BOOK. Example 1.1.6 H.

BUDGETS		DESCRIPTION	
1.1.1	Production budget	A	This is the first budget that is prepared and all other budgets are based on this budget
1.1.2	Raw materials budget	B	This budget is prepared to evaluate the possibility of purchasing of a non-current asset
1.1.3	Sales budget	C	This budget shows the amount of materials to be purchased
1.1.4	Cash budget	D	This budget indicates the amount of finished goods to be produced to satisfy the sales budget
1.1.5	Capital budget	E	This budget determines the bank balance at the end of a particular period
		F	This budget is also known as the master budget
		G	This budget determines the total labour requirements for a particular period

(5 × 1)

(5)

- 1.2 Study the manufacturing overheads control account of Cole CC below and answer the questions that follow:

MANUFACTURING OVERHEADS CONTROL			
Bank	45 000	Production control	50 000
Cost of sales	5 000		
	50 000		50 000

- 1.2.1 What is the amount of the actual overheads incurred? (1)
- 1.2.2 Has overheads been over or under-applied in this business? (1)
- 1.2.3 If overheads are recovered at a rate of 40% of prime cost, calculate the actual prime cost incurred by this business. (3)

- 1.2.4 Calculate the total manufacturing cost incurred by Cole CC. (3)
- 1.2.5 If the direct labour cost is R70 000, calculate the direct material cost. (2)

1.3 The following information was extracted from the records of OneTime Contractors:

Contract price	2 500 000
Extras	1 500 000
Total costs to date	2 800 000
Certified work	4 000 000
Cash received	3 500 000

- 1.3.1 Is the above contract complete or incomplete? (1)
- 1.3.2 Give a reason for your answer in QUESTION 1.3.1 above. (1)
- 1.3.3 Calculate the provision for latent defects if the business treats the retention money as a provision for latent defects. (3)
- 1.3.4 Calculate the profit on this contract that will be recorded in the income statement. (5)

1.4 The following information was extracted from the records of NSPS Producers:

Selling price per unit	R10
Variable cost per unit	R8
Break-even units	2 000 units

- 1.4.1 Calculate the total fixed costs. (4)
- 1.4.2 Briefly explain what the 2 000 breakeven units mean. (2)
- 1.4.3 If the business sells 2 500 units, will it make a profit or a loss? Give a reason for your answer. (2)
- 1.4.4 Calculate the breakeven value. (2)

1.5 The following standard information was extracted from School Builders:

2 m<sup>2</sup> of wood is needed to make ONE student desk. The standard price of the wood is R50 per m<sup>2</sup>.

1 300 m<sup>2</sup> of wood was used to produce 600 student desks.  
The business paid R71 500 for the wood.

- 1.5.1 How much should the business have paid for the wood it purchased? (2)

- 1.5.2 Has the business paid more or less than it planned to pay for this wood? State by how much. (2)
- 1.5.3 Is this variance favourable or unfavourable for the business? (1)
- 1.5.4 Give ONE possible reason for this variance in QUESTION 1.5.3. (1)
- 1.5.5 How much wood should the business have used to make 600 students desks? (2)
- 1.5.6 The business actually used 1 300 m<sup>2</sup> of wood to make 600 student desks (given). Is this usage of wood favourable or unfavourable for the business? State by how much. (2)

- 1.6 The following information was supplied to you by South-End Factory. The business is currently working at 60% of its capacity:

Sales	R500 000
Variable costs	R150 000
Fixed costs	R100 000

Calculate the following:

- 1.6.1 Total sales if the business works at 80% of its capacity (2)
- 1.6.2 Total variable cost if the business works at 50% of its capacity (2)
- 1.6.3 Total fixed cost if the business works at 90% of its capacity (1)
- [50]

**QUESTION 2**

- 2.1 The following incorrectly prepared and incomplete job card was presented to you by the owner of Mass Producers CC on 30 June 2013:

<b>JOB EAST205</b>	
Selling price	?
Less: Costs	
• Direct materials	20 000
• Direct labour	40 000
• Selling and administrative expenses	15 000
• Manufacturing overheads	30 000
Add: Balance b/d	18 000
Profit (25%)	?
Number of unit produced	10 000

- 2.1.1 Prepare the job card correctly. (11)
- 2.1.2 Calculate the cost per unit for this job. (3)
- 2.1.3 Was this job started during June 2013 or during a previous period? Give a reason for your answer. (2)

- 2.2 The following incomplete accounts appeared in the cost ledger of Sherlock Ltd on 31 October 2013. The business uses a job costing system and was not busy with any other jobs.

**COST LEDGER****JOB: RURU-007**

Balance b/d	83 000		
Material control	22 000		
Labour control	30 000		

**JOB: GUGU-008**

Material control	8 000		
Labour control	10 000		

Additional information:

- Overheads are recovered at a rate of 70% of direct labour cost.
- Only job RURU-007 is complete.
- The balance on the material control account on 1 October 2013 was R14 000.
- R60 000 materials was purchased during October 2013 from a supplier.

2.2.1 Complete the production control account in the general ledger of Sherlock Ltd on 31 October 2013. Show ALL your workings. (10)

2.2.2 Complete the material control account in the general ledger of Sherlock Ltd on 31 October 2013. (4)  
[30]

### QUESTION 3

3.1 The following information was extracted from the records of Palmview Contractors on 31 July 2013, regarding contract LENNOXTON SCHOOL. The business uses the percentage of completion method to determine profits.

Contract price	R8 000 000
Materials issued	R190 000
Wages paid	R360 000
Overheads	R220 000
Material returned to suppliers	R15 000
Material transferred to another contract	R40 000
Machinery (balance on 1 August 2012)	R550 000
Materials on hand (31 July 2013)	R18 000
Machinery (balance on 31 July 2013)	R480 000
Certified work	R1 000 000
Uncertified work	R200 000
Cash received	R950 000
Extras	R400 000

Prepare the contract account for LENNOXTON SCHOOL in the general ledger of Palmview Contractors.

NB: Only 70% of the profit must be transferred to the income statement. The remainder must be treated as a provision for latent defects. (14)

3.2 The following information was extracted from the records of Merebank Building Contractors at the end of the financial year 28 February 2013 regarding contract bond-007:

Contract price	R7 000 000
Extras	R500 000
Total expected costs for the contract	R3 000 000
Certified work	R1 500 000
Cash received	R1 000 000
Percentage of completion	45%
Provision for latent defects	20% of profits

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

3.2.2 Calculate the profit for the year using the following formula:

$$\% \text{ completed} \times \frac{\text{estimated profit}}{1} \times \frac{\text{cash received}}{\text{certified work}} \quad (5)$$

- 3.2.3 Calculate the adjusted profit after taking the provision for latent defects into account. (4)
- 3.2.4 Briefly explain the term *extras*. (2)
- 3.2.5 Is contract costing an example of process or product-orientated costing? (1)
- [30]

#### QUESTION 4

- 4.1 Doorring Stationers produces diaries and desk calendars.

The business has determined (STANDARD INFORMATION) that to make 100 diaries, it would need to use one ream of paper at a standard price of R45 per ream.

At the end of the year, it was determined that the business ACTUALLY produced 2 000 diaries using 25 reams of paper that was purchased for R1 000.

Calculate the following variances showing clearly the formula used. State whether each variance is favourable or unfavourable:

- 4.1.1 Material quantity (6)
- 4.1.2 Material price (6)

- 4.2 Timmy Tins Ltd produces 5-litre cans that are used for various purposes.

##### BUDGETED RESULTS AT NORMAL CAPACITY:

To make one can, the business uses 2 labour hours at a rate of R80 per hour.

Fixed overheads: R60 000  
 Variable overheads: R80 000  
 Labour hours: 10 000 hours

##### ACTUAL RESULTS:

12 000 labour hours were used at a total cost of R984 000  
 5 900 cans were produced  
 Fixed overheads: R70 000  
 Variable overheads: R83 000

Calculate the following variances showing clearly the formula used. State whether each variance is favourable or unfavourable:

- 4.2.1 Labour rate
- 4.2.2 Labour efficiency



4.2.3 Fixed manufacturing overhead volume

(3 × 6) (18) [30]

QUESTION 5

5.1 The following information was extracted from the records of Crawford Bazaar at the end of the financial year 31 August 2013:

Marginal income	90 000
Net profit	15 000
Total cost	130 000

Calculate the following:

5.1.1 Fixed cost

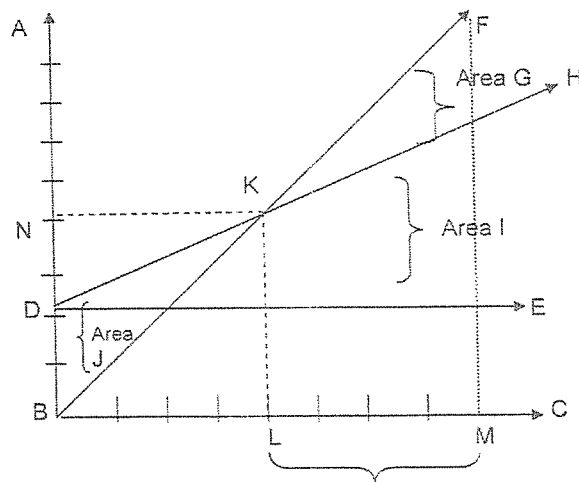
5.1.2 Variable cost

5.1.3 Sales

(3 × 3) (9)

5.1.4 Was direct or absorption costing used in the above example? (1)

5.2 Use the breakeven graph below to answer the following questions:



REQUIRED:

Label the following:

5.2.1 Line BF

5.2.2 Line DE

- 5.2.3 Line DH
- 5.2.4 Briefly explain why Line DH does not start at zero.
- 5.2.5 Area I
- 5.2.6 Area G
- 5.2.7 Area J
- 5.2.8 Point L
- 5.2.9 Point N
- 5.2.10 The distance between points L and M

(10 × 2)

(20)  
[30]**QUESTION 6**

- 6.1 Green Enterprises produces cast-iron garden tables and chairs. The following information was extracted from their records on 30 September 2013:

	Tables	Chairs
Estimated sales (in units) for October 2013	300	500
Selling price per unit	R800	R250
Stock of finished goods on 30 September 2013	15	53
Required closing stock at the end of each period	10	50

Prepare the production budget for Green Enterprises for October 2013 for tables and chairs.

(10)

- 6.2 Exclusive Designs manufactures high-quality taps and tiles. The manager supplied you with the following information on 30 April 2013:

	Taps	Tiles
Estimated number of units to be produced in May 2013 (from the production budget)	950	1 500
Production wages per hour	R55	R20
Production hours per unit	18	20

Prepare the labour budget for Exclusive Designs for taps and tiles for the next period.

(10)

- 6.3 Virgo Bakery wants to buy a new delivery vehicle to deliver bread daily to retailers in the area. Mrs Devi, the owner, is considering the following two vehicles:

	MAZDA	ISUZU
Cost	160 000	160 000
Net present value	(58 000)	(40 000)
Expected rate of return	15%	15%

- 6.3.1 Advise Mrs Devi which vehicle she should purchase for her business. (1)
- 6.3.2 Give a reason for your answer in QUESTION 6.3.1 above. (2)
- 6.3.3 Advise Mrs Devi what she should consider when making a decision to buy a new delivery vehicle based on its net present value. (1)
- 6.3.4 Calculate the total amount of the cash inflow for MAZDA. (3)
- 6.3.5 Calculate the total amount of the cash inflow for ISUZU. (3)
- [30]
- TOTAL: 200**