higher education
& training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

NATIONAL CERTIFICATE

COST AND MANAGEMENT ACCOUNTING N6

(4010196)

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This question paper consists of 11 pages.

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DEPARTMENT OF HIGHER EDUCATION AND TRAINING
REPUBLIC OF SOUTH AFRICA

NATIONAL CERTIFICATE
COST AND MANAGEMENT ACCOUNTING N6
TIME: 3 HOURS
MARKS: 200

INSTRUCTIONS AND INFORMATION

1. Answer all the questions.
2. Read all the questions carefully.
3. Number the answers according to the numbering system used in this question paper.
4. Start each section on a new page.
5. Write neatly and legibly.

SECTION A

QUESTION 1

1.1 Various options are given as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number (1.1.1–1.1.10) in the ANSWER BOOK.

1.1.1 Person or firm executing a contract:

A Contracting party
B Contractor
C Contractee
D Contract debtor

1.1.2 Delays in production result in …

A an unfavourable material quantity variance.
B an unfavourable labour efficiency variance.
C a favourable labour efficiency variance.
D a favourable labour rate variance.

1.1.3 ONE of the following is not a characteristic of the marginal costing method:

A Fixed costs are recovered on the basis of number of units manufactured.
B Fixed overheads are charged against income when cost is incurred.
C Fixed costs are recovered on the basis of units sold.
D Fixed costs are incurred in order to have the capacity to produce.

1.1.4 Payment made at different stages by the contracting party:

A Tender price
B Uncertified payment
C Progress payment
D Extra work payment

1.1.5 A breakeven analysis shows the following information:

BEQ = 700; TFC = 28 000; SP/U = 15

How much is the marginal income per unit?

A R4
B R11
C R15
D R21 000

1.1.6 Total profit reflecting portion of work completed at particular date:

A Retention money
B Contingency money
C Attributable profit
D Provision for latent defects

1.1.7 When the contract price equals the certified work amount, this means the …

A work is yet to be completed.
B contract is complete.
C contractee has forfeited profit.
D contract is not completed on time.

1.1.8 Sales minus manufacturing cost equals …

A gross profit.
B marginal income.
C net profit.
D net income.

1.1.9 Advantage of direct costing method:

A Fixed overheads are linked to specific activity.
B Income is better matched with expenses.
C Fixed overheads are spread evenly over the number of units produced.
D There will be no under- or over-applied fixed overheads, because it is applied as a whole.

1.1.10 TWO methods used for contract accounting:

A Certified and uncertified work
B Extra work and cost to date
C Fixed-price contract and cost plus contract
D Direct and indirect contract costing

(10 × 1) (10)

1.2 Indicate whether the following statements are TRUE or FALSE by writing only 'True' or 'False' next to the question number (1.2.1–1.2.10) in the ANSWER BOOK.

1.2.1 Sales budgets give details about receipts and payments for a specific future period.

1.2.2 A business is at equilibrium point when its expenses equal its income.

1.2.3 A sales budget determines how much raw material are needed in the planned production.

1.2.4 Capital budgets are compiled to help with decisions concerning investment in land, buildings and replacement of other expensive fixed assets.

1.2.5 Marginal costing is also referred to as absorption costing.

1.2.6 Direct and indirect materials cannot both be recorded in the materials control account.

1.2.7 Bad debts will affect the cash budget.

1.2.8 Direct materials, direct labour and manufacturing overheads are elements of production costs.

1.2.9 Variable costs vary according to the level of activity.

1.2.10 Retention money refers to part of the profit withheld by the contractee against defective work.

(10 × 1) (10)

1.3 Choose a term from COLUMN B that matches a description in COLUMN A. Write only the letter (A–E) next to the question number (1.3.1–1.3.5) in the ANSWER BOOK.

COLUMN A		COLUMN B	
1.3.1	Comparing actual costs with standard costs	A	dividends
1.3.2	Difference between sales and breakeven value	B	favourable
1.3.3	Work in progress	C	uncertified
1.3.4	Actual costs being less than standard costs	D	cost control
1.3.5	Part of profit of company paid to shareholders	E	safety margin

(5 × 1) (5)

1.4 Use the information below to answer the questions.

Contract price	2 500 000
Extras	250 000
Total cost to date	900 000
Provision for latent defects (10% of profits)	5 000
Certified work	425 000
Cash received	400 000

Calculate each of the following:

1.4.1 Adjusted profit on the contract

1.4.2 Provision for latent defects if retention money is used

(2 × 5) (10)

1.5 Below is the calculated overheads rate variance.

(SR – AR)AT
= (R3,50 – 3,90) 165 000
= (0,40)165 000
= R66 000 unfavourable

NOTE: Budgeted labour hours = 125 000

Calculate each of the following:

1.5.1 Budgeted variable overheads (2)

1.5.2 Actual variable overheads (3)

1.6 Study the information below and answer the questions.

Balance b/d	
Materials	250 000
Labour	900 000

Additional information:

Manufacturing overheads are recovered at 130% of direct material costs.

5 750 units were produced.

Calculate each of the following:

1.6.1 Manufacturing overheads (3)

1.6.2 Production costs (5)

1.6.3 Cost per unit (2)
[50]

TOTAL SECTION A: 50

SECTION B

QUESTION 2

Below is an extract from the records of Naidoo's, a company that manufactures peanut butter.

STANDARD INFORMATION

The company uses 20 kg sugar per unit at a standard rate of R10,00 per kg and 2,5 kg of peanuts at R50,00 per kg.

2 labour hours and 30 minutes are required to produce ONE unit at a standard rate of R30,00 per hour.

The actual records of the business reflect the following:

150 units were produced.

3 300 kg of sugar and 255 kg of peanuts were used.

1 500 kg sugar were purchased at R9,50 per kg and 50 kg peanuts were purchased at R52,50 per kg.

400 labour hours were clocked at a total cost of R18 000.

Fixed overheads	:	R33 000
Variable overheads	:	R26 500

Budgeted information:

Fixed overheads	:	R38 500
Variable overheads	:	R20 250

Labour hours: 350

REQUIRED

Calculate the following variances and indicate whether each variance is favourable or unfavourable:

2.1 Material price for sugar

2.2 Quantity of material for peanuts

2.3 Labour rate

2.4 Labour efficiency

2.5 Variable manufacturing overhead rate variance

2.6 Variable manufacturing overhead efficiency variance

(6 × 5) **[30]**

QUESTION 3

Below is an extract from the records of Smith Ltd for the second quarter of 2018.

	AMOUNT
Favourable bank balance on 1 April 2018	80 000
Interest payable in May 2018	15 000
Vehicle bought cash on 1 April 2018	35 000
Monthly salaries	25 000

OTHER ACTUAL AND BUDGETED INFORMATION

	ACTUAL		BUDGETED		
	February	March	April	May	June
Sales	400 000	450 000	500 000	550 000	600 000
Purchases	250 000	300 000	350 000	400 000	450 000
Depreciation	10 000	10 000	10 000	10 000	10 000

ADDITIONAL INFORMATION

1. 45% of all sales are on credit.

2. Collections from debtors are as follows:

   - 30% during month of sale
   - 25% in month following sale
   - 35% in second month following sale
   - 5% in third month following sale
   - The rest is bad debts

3. 10% discount is allowed on cash sales.

4. It is company policy to increase salaries by 8,5% in May every year.

5. 50% of all purchases is on credit and paid in the month following the month of purchase.

REQUIRED

Draw up the following:

3.1 Debtor's collection schedule for second quarter (10)

3.2 Cash budget for April, May and June 2018 (20)
[30]

QUESTION 4

Below are the results of the financial records for February 2018 of Capricorn Pioneers, manufacturers of baby dolls.

Total sales in units	50 000
Variable manufacturing overheads	R55 000
Fixed manufacturing overhead costs	R30 500
Administrative costs (45% fixed)	R40 000
Advertising costs (75 variable)	R35 000
Selling costs (50% fixed)	R43 650
Direct labour	R85 000
Direct material	R150 000
Selling price per unit	R65,00

4.1 Prepare the income statement of Capricorn Pioneers according to the absorption method. (10)

4.2 The information below was extracted from T&T Spare Parts for the financial period March 2018.

Total sales in units	R100
Total fixed costs	R25 000
Variable cost per unit	R45
Number of units sold	1 250

Calculate the following and round the figures to the nearest rand:

4.2.1 Breakeven quantity (5)

4.2.2 Breakeven value (5)

4.2.3 Margin of safety ratio (3)

4.3 Draw the breakeven graph (7)

[30]

QUESTION 5

5.1 The following is additional information regarding the results of the financial records for February 2018 of Capricorn Pioneers:

Total contract price	880 000
Cost incurred	450 000
Future cost to be incurred	385 000
Certified work	650 000
Cash received	550 000
Provision for defects	3% of certified work
Extras	30 000

Calculate each of the following:

5.1.1 % of completion of the contract using the following formula:

$$\frac{\text{Cost to date}}{\text{Total contract cost}} \times \frac{100}{1}$$ (3)

5.1.2 Total estimated profit (5)

5.1.3 Profit for the year, using the following formula:

$$\text{\% completed} \times \frac{\text{total estimated profit}}{1} \times \frac{\text{cash received}}{\text{certified work}}$$ (8)

5.1.4 Adjusted profit for the year, taking the provision for latent defects into consideration (4)

5.2 Below are the results of Gift Producers for the financial year ending April 2018.

DETAILS	
Contract price	R6 000 000
Materials issued	R1 100 000
Wages paid	R900 000
Overheads	R1 000 000
Material returned to suppliers	R120 000
Machinery balance: 01/05/17	R650 000
Machinery balance : 31/04/18	R475 000
Certified work	R3 500 000
Uncertified work	R50 000
Cash received	R2 500 000
Extras	R600 000
Provision for latent defects	6,5% of profit

Draw up the contract account for Gift producers for the year ending 31 April 2018. (10)

[30]

QUESTION 6

6.1 Vhafamadi Manufactures makes denim shoes. They are currently busy with two jobs, YY50 and YY60.

Job YY50	**45 000**
Materials	
Denim fabric	15 000
Shoe laces	5 250

Balances on 1 May 2017

Transaction during the year

	DENIM FABRIC	SHOE LACES
Purchases	75 000	30 000
Issues:		
Job YY50	25 000	5 000
Job YY60	30 000	3 500

Additional information:

- All purchases are on credit.
- Purchases of indirect material during the year were R15 000.
- During the year a total of R10 000 indirect material was issued to production.
- Direct labour costs incurred during the year is R35 000 at 3 500 hours clocked and worked during the period.
- Summary of labour hours:
  Job YY50 1 500 hours
  Job YY60 2 000 hours
- Overheads are applied at 65% of direct labour costs.

Record the transactions in the general journal (materials only). (11)

6.2 Enter the following transactions in the general ledger:

6.2.1 Material control account (7)

6.2.2 Production control account (6)

6.2.3 Account for Job YY 50 in the cost ledger (6)
[30]

TOTAL SECTION B: 150
GRAND TOTAL: 200