

**QUESTION 3**  
**PRODUCTION COST STATEMENT**

**3.1.1 BAKONA BIN MANUFACTURERS**  
**NOTES TO THE FINANCIAL STATEMENTS**

	<b>DIRECT/RAW MATERIAL COST</b>		<b>R</b>
	Opening stock	✓	57 900
	Purchases (1 622 700 ✓ – 23 100 ✓)	✓	1 599 600
	Carriage on purchases	✓	28 800
			1 686 300
	Closing stock	✓	(34 200)
		☑	1 652 100

	<b>DIRECT LABOUR COST</b>		<b>R</b>
	Factory wages (1 152 000 ✓✓ + 288 000 ✓✓)	✓	1 440 000
	UIF contribution	✓	11 520
		☑	1 451 520

	<b>FACTORY OVERHEAD COST</b>		<b>R</b>
	Indirect materials (8 100 ✓ + 125 900 ✓ – 7 400 ✓)	✓	126 600
	Indirect labour (241 000 ✓ + 2 410 ✓)	✓	243 410
	Factory maintenance	✓	85 000
	Rent expense (133 000 x 50%)	✓✓✓	66 500
	Water and electricity (36 000 x 60%)	✓✓	21 600
	Depreciation	✓	52 000
	Sundry expenses	✓	25 000
		☑	620 110

**3.1.2 PRODUCTION COST STATEMENT OF BAKONA BIN MANUFACTURERS  
FOR THE YEAR ENDED 28 FEBRUARY 2009**

	<b>TOTAL</b>
<b>Direct/Raw materials cost</b>	<input checked="" type="checkbox"/> 1 652 100
Direct labour cost ✓	<input checked="" type="checkbox"/> 1 451 520
<b>Direct/Prime cost</b>	<input checked="" type="checkbox"/> 3 103 620
Factory overhead cost ✓	<input checked="" type="checkbox"/> 620 110
<b>Total cost of production</b>	<input checked="" type="checkbox"/> 3 723 730
<b>Work-in-process on 1 March 2008</b>	✓ 169 500
	3 893 230
<b>Work-in-process on 28 February 2009</b>	✓ (120 600)
<b>Cost of production of finished goods</b>	<input checked="" type="checkbox"/> 3 772 630

**3.1.3 Calculate the unit cost of production per plastic bin completed.**

$$\frac{3\,772\,630}{58\,000} = R65,05$$

✓

**3.2 Kool Manufacturers**

**3.2.1 One example of a fixed cost:**  
Rent expense, Salary of bookkeeper, etc ✓

**One example of a variable cost:**  
Raw materials, indirect labour, advertising, etc ✓

**3.2.2 Explain why it is important to calculate the expected break-even point for a business before the start of a financial year.**

Good explanation = 2 marks; Satisfactory = 1 mark; Incorrect = 0 marks ✓✓

- So that any potential problems of low production can be anticipated.
- To start corrective action promptly before losses occur.
- No profits are made until break-even is reached.

**3.2.3 Calculate the break-even point.**

SP per unit = R40

VC per unit = R300 000 / 12 000 units = R25

Contribution per unit = R15

✓✓      ✓✓     

BEP = R210 000 / R15 = 14 000 units

**3.2.4 Comment on your calculation in 3.2.3. What advice would you offer to Kool Manufacturers? Briefly explain.**

Give credit if responses are based on an incorrect calculation above.

**Comment:** *Compare BEP to the 12 000 units produced* ✓

The business is not producing enough units – they are below the BEP which means that the business will be making a loss.

**Advice:**

Good advice = 2 marks; Satisfactory = 1 mark; Incorrect = 0 marks      ✓✓

Look at ways of economizing to reduce costs

Increase selling price if possible