

**GENERAL LEDGER OF SAL MANUFACTURERS
BALANCE SHEET ACCOUNTS SECTION**

Dr					RAW MATERIALS STOCK					B		Cr
20.5					20.6							
Mar	1	Balance	b/d	40 000	Feb	28	Raw materials issued	GJ				165 000
20.6							Balance		c/d			20 000
Feb	28	Creditors control	CJ	100 000								
		Bank	CPJ	30 000								
		Bank	CPJ	15 000								
				185 000								185 000
Mar	1	Balance	b/d	20 000								

Dr					WORK-IN-PROGRESS STOCK					B		Cr
20.5					20.6							
Mar	1	Balance	b/d	20 000	Feb	28	Finished goods stock	GJ				390 000
20.6							Balance		c/d			22 000
Feb	28	Raw materials cost	GJ	165 000								
		Direct labour cost	GJ	50 000								
		Factory overhead	GJ	177 000								
				412 000								412 000
Mar	1	Balance	b/d	22 000								

Dr					FINISHED GOODS STOCK					B		Cr
20.5					20.6							
Mar	1	Balance	b/d	60 000	Feb	28	Cost of sales	GJ				395 000
20.6							Balance		c/d			55 000
Feb	28	Work-in-progress stock	GJ	390 000								
				450 000								450 000
Mar	1	Balance	b/d	55 000								

FINAL ACCOUNTS / COST ACCOUNTS SECTION

Dr					DIRECT MATERIALS COST					C		Cr
20.6					20.6							
Feb	28	Raw materials issued	GJ	165 000	Feb	28	Work-in-progress stock	GJ				165 000

Dr					DIRECT LABOUR COST					C		Cr
20.6					20.6							
Feb	28	Salaries and wages	GJ	50 000	Feb	28	Work-in-progress stock	GJ				50 000

Dr					FACTORY OVERHEAD COST					C		Cr
20.6					20.6							
Feb	28	Consumable stores*	GJ	9 000	Feb	28	Work-in-progress stock	GJ				177 000
		Salaries and wages	GJ	30 000								
		Depreciation	GJ	8 000								
		Rent (90 000 x 2/3)	GJ	60 000								
		Electricity	GJ	60 000								
		Sundry expenses	GJ	10 000								
				177 000								177 000

*12 000 - 3 000

**GENERAL LEDGER OF VUKA MANUFACTURERS
 BALANCE SHEET ACCOUNTS SECTIONS**


Dr					RAW MATERIALS STOCK					B	Cr
20.7					20.8						
Mar	1	Balance	b/d	15 000	Feb	28	Creditors control	CAJ		6 000	
20.8							Raw materials issued	GJ		178 000	
Feb	28	Creditors control	CJ	180 000			Balance	c/d		11 000	
				195 000						195 000	
Mar	1	Balance	b/d	11 000							

WORK-IN-PROGRESS STOCK					B				
20.7					20.8				
Mar	1	Balance	b/d	12 000	Feb	28	Finished goods stock	GJ	434 000
20.8							Balance	c/d	6 000
Feb	28	Raw materials cost	GJ	178 000					
		Direct labour cost	GJ	90 000					
		Factory overhead cost	GJ	160 000					
				440 000					440 000
Mar	1	Balance	b/d	6 000					

FINISHED GOODS STOCK					B				
20.7					20.8				
Mar	1	Balance	b/d	22 000	Feb	28	Cost of sales	GJ	414 000
20.8							Balance	c/d	42 000
Feb	28	Work-in-progress stock	GJ	434 000					
				456 000					456 000
Mar	1	Balance	b/d	42 000					

COST ACCOUNTS SECTION FACTORY OVERHEAD COST					C				
20.8					20.8				
Feb	28	Consumable stores	GJ	8 000	Feb	28	Work-in-progress stock	GJ	160 000
		Salaries and wages	GJ	20 000					
		Lease	GJ	45 000					
		Rent (80 000 x $\frac{700}{1,000}$)	GJ	56 000					
		Elect. (40 000 x 70%)	GJ	28 000					
		Sundry expenses	GJ	3 000					
				160 000					160 000

Note:
 Calculate the Cost of sales (mark-up of 25% on sales of R517 500). As the closing balance in the Finished goods account is given, the Work-in-progress can be calculated and substituted into the Work-in-progress account and the closing balance calculated.

TASK 9.8  **FOX Manufacturers: Drafting ledger accounts with calculations**

**GENERAL LEDGER OF FOX MANUFACTURERS
BALANCE SHEET ACCOUNTS SECTION**

Dr					RAW MATERIALS STOCK					B		Cr
20.5					20.6							
Mar	1	Balance	b/d	90 000	Feb	28	Creditors control	CAJ			12 000	
20.6							Raw materials issued	GJ			651 000	
Feb	28	Creditors control	CJ	300 000			Balance	c/d			32 000	
		Bank	CPJ	230 000								
		Creditors control	CJ	75 000								
				695 000							695 000	
Mar	1	Balance	b/d	32 000								

					WORK-IN-PROGRESS STOCK					B		
20.5					20.6							
Mar	1	Balance	b/d	120 000	Feb	28	Finished goods stock	GJ			1 205 000	
20.6							Balance	c/d			14 880	
Feb	28	Direct materials cost	GJ	651 000								
		Direct labour cost	GJ	90 900								
		Factory overhead cost	GJ	357 980								
				1 219 880							1 219 880	
Mar	1	Balance	b/d	14 880								

					FINISHED GOODS STOCK					B		
20.5					20.6							
Mar	1	Balance	b/d	35 000	Feb	28	Cost of sales	GJ			1 200 000	
20.6							Balance	c/d			40 000	
Feb	28	Work-in-progress stock	GJ	1 205 000								
				1 240 000							1 240 000	
Mar	1	Balance	b/d	40 000								

FINAL ACCOUNTS / COST ACCOUNTS SECTION

					DIRECT MATERIALS COST					C		
20.6					20.6							
Feb	28	Raw materials issued	GJ	651 000	Feb	28	Work-in-progress stock	GJ			651 000	

					DIRECT LABOUR COST					C		
20.6					20.6							
Feb	28	Salaries and wages ^[1]	GJ	90 900	Feb	28	Work-in-progress stock	GJ			90 900	

Dr

FACTORY OVERHEAD COST

C

Cr

20.6				20.6					
Feb	28	Consumable stores ^[2]	GJ	26 000	Feb	28	Work-in-progress stock	GJ	357 980
		Salaries and wages ^[3]	GJ	50 500					
		Depreciation ^[4]	GJ	36 480					
		Rent ^[5]	GJ	150 000					
		Electricity ^[6]	GJ	80 000					
		Sundry expenses ^[7]	GJ	15 000					
				357 980					357 980

^[1] 90 000 + 900

^[2] 7 000 + 22 000 - 3 000

^[3] 50 000 + 500

^[4] 500 000 - 120 000 x 12% x 80%

^[5] 250 000 x 60%

^[6] 160 000 x $\frac{3}{6}$

^[7] 30 000 x $\frac{3}{6}$

SELLING AND DISTRIBUTION COST

C

20.6				20.6					
Feb	28	Rent expense ^[1]	GJ	50 000	Feb	28	Profit and Lossca/c	GJ	205 333
		Electricity ^[2]	GJ	53 333					
		Sundry expenses ^[3]	GJ	10 000					
		Commission	GJ	90 000					
		Bad debts	GJ	2 000					
				205 333					205 333

^[1] 250 000 x 20%

^[2] 160 000 x $\frac{2}{6}$

^[3] 30 000 x $\frac{2}{6}$

ADMINISTRATION COST

C

20.6				20.6					
Feb	28	Salaries ^[1]	GJ	40 400	Feb	28	Profit and Loss a/c	GJ	131 187
		Depreciation ^[2]	GJ	9 120					
		Rent expense ^[3]	GJ	50 000					
		Electricity ^[4]	GJ	26 667					
		Sundry expenses ^[5]	GJ	5 000					
				131 187					131 187

^[1] 40 000 + 400

^[2] 500 000 - 120 000 x 12% x 20%

^[3] 250 000 x 20%

^[4] 160 000 x $\frac{1}{6}$

^[5] 30 000 x $\frac{1}{6}$

Note:

Using the sales figure the cost of sales can be calculated (50% mark up) and thus the Work-in-progress figures in the Finished goods account, as you have the closing balance. This figure can then be substituted into the Work-in-progress stock account and the closing balance calculated.

TASK 9.9

Fairbreeze Manufacturers: Completion of ledger accounts with calculations

**GENERAL LEDGER OF FAIRBREEZE MANUFACTURERS
BALANCE SHEET ACCOUNTS SECTION**

Dr					B				
RAW MATERIALS STOCK									
20.6					20.7				
Jul	1	Balance	b/d	120 000	Jun	30	Raw materials issued	GJ	495 000
20.7							Balance	c/d	60 000
Jun	30	Creditors control	CJ	300 000					
		Bank	CPJ	135 000					
				555 000					555 000
Jul	1	Balance	b/d	60 000					

WORK-IN-PROGRESS STOCK									
20.6					20.7				
July	1	Balance	b/d	60 000	June	30	Finished goods stock	GJ	1 170 000
20.7							Balance	c/d	66 000
June	30	Direct materials cost	GJ	495 000					
		Direct labour cost	GJ	150 000					
		Factory o/head cost	GJ	531 000					
				1 236 000					1 236 000
July	1	Balance	b/d	66 000					

FINISHED GOODS STOCK									
20.6					20.7				
June	1	Balance	b/d	180 000	June	30	Cost of sales	GJ	1 185 000
20.7							Balance	c/d	165 000
July	30	Work-in-progress stock	GJ	1 170 000					
				1 350 000					1 350 000
July	1	Balance	b/d	165 000					

FINAL ACCOUNTS / COST ACCOUNTS SECTION

DIRECT MATERIALS COST									
20.7					20.7				
June	30	Raw materials issued	GJ	495 000	June	30	Work-in-progress stock	GJ	495 000

DIRECT LABOUR COST									
20.7					20.7				
June	30	Salaries and wages	GJ	150 000	June	30	Work-in-progress stock	GJ	150 000

Dr				FACTORY OVERHEAD COST				C		Cr	
20.7					20.7						
June	30	Consumable stores	GJ	27 000	June	30	Work-in-progress				
		Salaries and wages	GJ	90 000			stock	GJ	531 000		
		Depreciation	GJ	34 000							
		Rent	GJ	180 000							
		Electricity	GJ	170 000							
		Sundry expenses	GJ	30 000							
				531 000					531 000		

TASK 9.10 Mac Bicycle Manufacturers: Interpretation of a ledger account

9.10.1 Explain the 2 balance amounts, i.e. R80 000 and R79 000.

R80 000 is the value of stock that is still in the production process at the beginning of the year and the R79 000 is the equivalent at the end of the year.

9.10.2 Name 3 items that could be included in the R162 000.

Handles, chains, seats, wheels, etc.

9.10.3 What is the difference between direct and indirect labour cost?

Direct labour: The people who are making the bicycles – they are directly involved in the manufacturing process.

Indirect labour: Those people who work in the factory but are not directly involved in the manufacturing process, e.g. cleaners, maintenance, etc.

9.10.4 Name 5 items that could be included in the Factory overhead cost account.

Electricity, rent, indirect labour, consumables stores, depreciation, petrol, etc.

9.10.5 What GAAP principle governs that Factory overhead cost should be shown as one figure?

Concept of materiality – not important to know the individual details in the Work-in-progress account – they are reflected in the ledger accounts.

Matching concept – all overhead costs are transferred to the Factory overhead cost so that the total can be shown.

9.10.6 If the business made 450 bicycles, calculate the cost price of each bicycle.

$R360\ 000 \div 450 = R800$.

9.10.7 If the business wishes to make a profit of 50% on cost when each bicycle is sold, what would the selling price be?

$R800 + 50\% (R400) = R1\ 200$.

9.10.8 What is the difference between Finished goods and Trading stock accounts?

Finished goods are produced by the business while Trading stock is bought for resale.

9.10.9 Why is the folio reference GJ (General Journal) used in the ledger account?

These are transfer entries.

TASK 9.11

Bongi Sweet Manufacturers: Interpretation of ledger account

9.11.1 Write down the letters (A) – (D) and fill in the missing details.

	Answer	Explanation
A	R27 500	5 500 x R5
B	R3 500	Balancing figure
C	Raw materials cost	Only cost item missing
D	GJ	Transfer entries

9.11.2 Explain why the stock figure from the beginning of the year to the end of the year has decreased.

There are fewer goods on the production line at the end of the year than there was at the beginning of the year.

9.11.3 At present it is taking 2.45 days for the sweets to emerge from the factory. Bongi believes that this time should be 2.1 days. Give her 3 suggestions as to how she could speed up the process without reducing the quality of the sweets.

Offer incentive bonuses to the staff.
Training for the staff.
Streamline activities – prevent duplications and waiting.
Invest in better (quicker) equipment.
Etc.

9.11.4 On an average, 8% of the sweets are 'ruined' in the production process and are, therefore, sold below cost at the factory shop. This results in a loss of profits. Give Bongi 3 suggestions as to how to improve this 'spoil' rate.

Incentive bonuses.
Introduce checkpoints.
Making people personally responsible above an acceptable level.
Streamline activities.

TASK 9.12

Springbok Manufacturers: Cost calculations

9.12.1 Direct material cost per unit

Direct material cost ÷ No. of units made
 $240\ 000 \div 5\ 000 = R48$

9.12.2 Direct labour cost per unit

Direct labour cost ÷ No. of units made
 $180\ 000 \div 5\ 000 = R36$

9.12.3 Prime cost per unit

Direct materials cost (DMC) + Direct labour cost (DLC)
 $48 + 36 = R84$


9.12.4 Factory overhead cost per unit

Factory overhead costs (FOC) ÷ No. of units made
 $330\ 000 \div 5\ 000 = R66$

9.12.5 Cost of production of finished goods per unit

Cost of production of finished goods ÷ Number of units made OR
DMC per unit + DLC per unit + OR Prime cost + FOC per unit
 $48 + 36 + 66 = R150$

9.12.6	Selling and distribution cost per unit
Selling & distribution cost (SDC) ÷ No. of units sold 80 000 ÷ 5 000 = R16	
9.12.7	Administration cost per unit
Administration cost (AC) ÷ No. of units sold 150 000 ÷ 5 000 = R30	
9.12.8	Variable cost per unit
DMC + DLC + SDC or Prime cost + SDC 48 + 36 + 16 = R100	
9.12.9	Selling price per unit
Cost x $\frac{200}{100}$ 150 x $\frac{200}{100}$ = R300	
9.12.10	Total fixed costs
FOC + AC = R330 000 + 150 000 = R480 000	
9.12.11	Contribution per unit
SP per unit – VC per unit = 300 – 100 = R200	
9.12.12	Break-even point
$\frac{\text{Total fixed costs}}{\text{SP per unit} - \text{VC per unit}}$ $\frac{480\,000}{300 - 100} = 2\,400 \text{ units}$	

TASK 9.13  **BOSS Manufacturers: Cost calculations and internal control**

9.13.1	Direct material cost per unit
576 000 ÷ 18 000 = R32	
9.13.2	Direct labour cost per unit
468 000 ÷ 18 000 = R26	
9.13.3	Prime cost per unit
32 + 26 = R58	
9.13.4	Factory overhead cost per unit
342 000 ÷ 18 000 = R19	
9.13.5	Cost of production of finished goods per unit
58 + 19 = R77	
9.13.6	Selling and distribution cost per unit
270 000 ÷ 18 000 = R15	
9.13.7	Administration cost per unit
189 000 ÷ 18 000 = R10.50	
9.13.8	Variable cost per unit
32 + 26 + 15 = R73	

9.13.9	Selling price per unit
2 520 000 ÷ 18 000 = R140	
9.13.10	Total fixed costs
342 000 + 189 000 = R 531 000	
9.13.11	Contribution per unit
140 – 73 = R67	
9.13.12	Break-even point
$\frac{531\ 000}{140 - 73} = 7\ 925.4 \text{ units} = 7\ 926 \text{ units}$	
9.13.13	Management is not fully satisfied with the CONTROL over the five cost accounts during the year. Compare the costs to the previous year and give reasons (quoting comparative figures) for the changes to the following five cost accounts. Suggest ways to improve efficiency, where applicable.
<ul style="list-style-type: none"> ◦ Direct materials cost. Decreased from R36.80 to R32. Less wastage. Economical use of raw materials. Cheaper supplier found to supply specified quality materials. Raw materials purchased in bulk – lower cost. Training of employees to use materials efficiently, etc. ◦ Direct labour cost. Increased from R20 to R26. Increased by 30% - above the inflation rate of 6%. Annual salary increase. Increase in overtime wages to cope with the increase demand of 3 000 units. Increase in the number of workers , etc. ◦ Factory overhead cost. Decreased from R20.50 to R19. Larger number of units made and sold, resulted in a decrease of fixed cost. Expenses well-controlled – no abuse evident, etc. ◦ Selling and distribution cost. Increased from R13 to R15 (15.4% increase). Commission on sales increased which resulted in 3 000 more units being sold. Cost of packaging , advertising increased , etc. ◦ Administration cost. Increased from R9.70 to R10.50 (8% increase). Increase in office expenses – electricity, salaries, petrol, etc. Could be abuse of stationery, telephone usage, vehicle used for personal use, etc. Total costs increased from R100 to R102.50. 	

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TASK 9.14 CAPS Manufacturers: Interpreting ledger accounts

**9.14.1 GENERAL LEDGER OF CAPS MANUFACTURERS
 BALANCE SHEET ACCOUNTS SECTION**

Dr				RAW MATERIALS STOCK				B	Cr
20.4					20.5				
Apr	1	Balance	b/d	30 000	Mar	31	Creditors control	CAJ	4 000
20.5							Raw materials		
Mar	31	Creditors control	CJ	70 000			issued	GJ	91 000
		Bank	CPJ	6 500			Balance	c/d	11 500
				106 500					106 500
Apr	1	Balance	b/d	11 500					

				WORK-IN-PROGRESS STOCK				B	
20.4					20.5				
Apr	1	Balance	b/d	32 000	Mar	31	Finished goods	GJ	431 800
20.5							stock		
Mar	31	Raw materials cost	GJ	91 000			Balance	c/d	41 000
		Direct labour cost	GJ	56 000					
		Factory o/head cost	GJ	293 800					
				472 800					472 800
Apr	1	Balance	b/d	41 000					

				FINISHED GOODS STOCK				B	
20.4					20.5				
Apr	1	Balance	b/d	120 000	Mar	31	Cost of sales	GJ	500 000
20.5							Balance	c/d	51 800
Mar	31	Work-in-progress stock	GJ	431 800					
				551 800					551 800
Apr	1	Balance	b/d	51 800					


**FINAL ACCOUNTS / COST ACCOUNTS SECTION
 DIRECT LABOUR COST**

				C					
20.5				20.5					
Mar	31	Wages	GJ	56 000	Mar	31	Work-in-progress stock	GJ	56 000

				FACTORY OVERHEAD COST				C	
20.5				20.5					
Mar	31	Factory maintenance	GJ	8 000	Mar	31	Work-in-progress stock	GJ	293 800
		Factory electricity	GJ	30 000					
		Factory rent	GJ	235 800					
		Depreciation on equip.	GJ	15 000					
		Consumable stores	GJ	5 000					
				293 800					293 800

Dr				TRADING ACCOUNT				F		Cr
20.5				20.5						
Mar	31	Cost of sales	GJ	500 000	Mar	31	Sales	GJ	800 000	
		Profit and loss a/c	GJ	300 000						
				800 000					800 000	

- 9.14.2** What is the largest factory overhead expense?
 Factory rent: R235 800
- 9.14.3** Suggest two ways that the expense mentioned above could be reduced or eliminated.
- Approach the landlord and ask for reduction in annual rent.
 - Try to obtain new premises where rent payment is cheaper.
 - Take a loan and purchase own building – use present rental for repayment on loan.
- 9.14.4** There appears to be a big difference between the previous year's closing balance and the current year's closing balance in the finished goods stock. Give one possible reason for this. Fully explain your answer.
- There appears to be a big difference between the previous years' closing balance and the current years' closing balance in the finished goods stock. Give one possible reason for this. Fully explain your answer.
- It is possible that industrial action negatively impacted on production process.
 - It is possible that no planning was done last year for major national events, such as World Cup tournament or elections, which may result in many employees taking more leave than normal – thereby targets could not be met.
- 9.14.5** Explain two ways in which the amount for the gross profit (to be transferred to profit and loss) could be increased in future.
- The first way would be to increase mark-up from 60% to 70% provided cognizance is taken of competition and other market factors.
 - An attempt should be made to reduce direct materials cost or factory overhead cost thereby reducing cost of finished goods. Maintaining the selling price will result in increased profit.

TASK 9.15  SA Manufacturers (1): Calculations and problem solving

- 9.15.1** Calculate the unit cost of producing one Bafana Bafana T-shirt.
 $R14\,920\,000 \div 100\,000 = R149.20$
- 9.15.2** Calculate the percentage gross profit that will be achieved if the order was completed as per budget with no Work-in-progress stock either at the beginning or the end of the project.
- Gross profit = $20\,000\,000 - 14\,920\,000 = R5\,080\,000$
 $\frac{5\,080\,000}{4\,920\,000} \times 100\% = 34.05\%$
- 9.15.3** Do you think that the gross profit percentage is satisfactory? Give reasons for your answer.
- Yes – it is a large order, and the business placing the order would expect to receive a reduced rate for bulk order such as this one.
- 9.15.4** Identify TWO possible problems that the present 40 permanent workers would have with the current plans of management? Suggest a solution to the two problems that you have identified.
- Two possible problems:
- There would be unhappiness over obvious extra payment for the additional 25 staff.
 - It appears that only managers are to receive a bonus and not ordinary employees on the factory floor.
- Solution:
- At the very worst pay new staff at the same rate as the existing staff. In fact new staff ought to be paid slightly lower rate, during training for about two weeks and then pay the same rate as the existing staff.

- No bonuses to workers but generous bonuses being awarded to managers is a recipe for disaster. It is suggested that ALL workers be paid a bonus. Managers could receive a percentage higher than ordinary staff members – e.g. 20% more. Half of the R900 000 allocated be set aside for bonus and the balance set aside for staff refreshments and upgrading staff facilities such as furniture (chairs); microwave ovens; fridges; etc.

TASK 9.16 SA Manufacturers (2): Business ethics

Refer to the details described in Task 9.14.

Note to the Teacher:

Even though the answers may appear to be obvious – it is good to see how learners react to temptation. The human mind is clear on knowing what is right and what is wrong but the seat of motivation, the heart, often has mixed emotions such as sense of justice, greed, love and envy.

Allow detailed answers (together with class discussion) on this scenario and similar case studies as per media reports.

The following aspects must be mentioned in learners' responses:

1. The legality and morality of "sewing" the tag "Made in South Africa" when the T-shirt was not made in South Africa.
2. Why is it necessary to avoid paying import/custom duty? Is there fraud and bribery of officials involved?
3. The advance payment of R2 000 000 maybe part of a scam. What is the credibility of the businessman concerned? How is it possible for him to give guarantees?
4. Is it possible for one government to give guarantees to a business organisation? Should not the South African government be involved in guarantees from a foreign government?
5. If this order is sub-contracted to a foreign country, then money would be going out of the country at the expense of local citizens, such as those in Port Elizabeth. It is better to have more local people employed so as to strengthen the local economy.

TASK 9.17 Sharpe Shoe Manufacturers: Ethics & internal control

9.17.1	This is both an ethical and internal control issue. He should offer his existing staff the opportunity to earn more income if the business is doing well as it will earn their support and they might need the extra money. It is also a control issue because the temporary workers will not be as skilled as the permanent workers and the quality of the product is likely to be negatively affected. This could seriously affect the reputation of the business and affect its long-term sustainability.
9.17.2	This is an ethical matter (and a legal matter). This amounts to exploitation of his workers. Siphon cannot change the conditions of employment to make a higher profit. He must realise that happy workers will tend to be more efficient. He cannot threaten them with losing their jobs if they do not agree to unreasonable demands.
9.17.3	It is reasonable and ethical for Siphon to pass on the increased production cost to the retailers, who will pass it on to the consumers. However, Siphon must realise that the raw materials make up only part of the total cost of the product – there are also labour and overhead costs, plus he adds on a reasonable profit. For example if the raw material cost accounts for R200 out of a total price of R500 per pair of shoes, then the price should go up by only R20. On the R500 price this is only 4%.
9.17.4	This is unethical and dishonest. If he wants the support of his loyal retailers he should treat them fairly. The retailers will get wise to the fact that if the price goes up because of petrol, then the price should also go down if the petrol price decreases. If high prices are retained, this will affect demand for the product and will affect the long-term prospects (sustainability) of the business.
9.17.5	This is an internal control matter. Obviously the wages clerk or the foreman is involved in this fraud. As internal auditor you should do a full investigation and Siphon should take disciplinary action against the culprits.

9.17.6	This is an internal control matter. Either the workers are making mistakes resulting in an increased volume of off-cuts, or the quality of the raw materials is the problem. The reason must be investigated and resolved as this is effectively increasing the cost of the completed articles.
9.17.7	This is unethical and affects the quality of the shoes produced. The end-user will ultimately realise that the quality has deteriorated and will not buy the shoes in future. Siphso should discontinue the bonus as this is causing the foreman to make inappropriate decisions. Rather he should establish quality checks as the batches of shoes are completed.
9.17.8	This may be an ethical issue. His business is doing well, so it is reasonable to assume that he needs the full amount of factory space to continue the business. If he confines the workers to a smaller area, this can affect their health and their efficiency. Siphso must not be greedy and should focus on his core activity, i.e. making good shoes.
9.17.9	This is an ethical issue. Siphso should try to find another brand ambassador. The public will get wise to the fact that the famous soccer player is not wearing the shoes at all times, and this will affect the credibility of Siphso's product.
9.17.10	This is an internal control matter. The quality of the shoes is apparently deteriorating and this must be sorted out as soon as possible. Siphso must establish quality checks as the batches of shoes are completed.

TASK 9.18  **Knock-on effect of petrol prices**

9.18.1	Explain in your own words how the petrol price increases affect the components (direct materials, direct labour and factory overheads) of the cost of producing a finished good in a manufacturing business.
<p>Raw materials cost increases because of the increased cost of transporting them to the factory. Direct labour cost increases because employers will have to ultimately pay higher wages because of inflation (all goods will cost more). Factory overheads (and also selling & distribution costs) will go up directly because of the increase in motor vehicle expenses, and all overheads will increase due to the 'knock-on' effect.</p>	
9.18.2	Explain why this could also lead to a reduction in employment. What effect will this have on the country?
<p>The cost of all products will become more expensive. Consumers will 'tighten their belts' and reduce spending. Fewer products will be sold and therefore fewer products will be manufactured, which mean manufacturing businesses will cut the number of jobs they can offer.</p>	
9.18.3	Refer to the last quotation in the report above. In your opinion, will a lower fuel price towards the end of the year solve the problem? Explain.
<p>Teachers should allow debate on this, e.g. some learners might think that manufactures might be dishonest and not reduce the prices when the petrol price decreases. There might also be opinions on what manufacturers can do to minimise the impact on the consumer, e.g. find cost-savings in other areas.</p>	