

**GRADE 12**  
**WEEK 23 - Lesson 3 of 12**

**LESSON**  
**81**

**MANUFACTURING**

**ANALYSIS OF PRODUCTION COST STATEMENT**

**ACTIVITY 17**

**ANALYSIS OF PRODUCTION COST STATEMENT**

You are provided with information relating to Lollo Enterprises for July 2014. The business makes tasty pellets for pets. The business is personally owned and managed by Lolita Meeca.

**REQUIRED:**

- 1 Prepare the Production Cost Statement for July 2008. Show workings in brackets on the Production Cost Statement.
- 2 Prepare the Income Statement for July 2014. Show workings in brackets.
- 3 In order to be able to print the logo on the packaging of his product, Peter will need to purchase the card board boxes from a local supplier rather than import them from a neighbouring country.
  - 3.1 Give TWO reasons why using a local supplier is likely to reduce the unit cost calculated above.
  - 3.2 Calculate the unit cost of producing a complete box of tasty pellets in July 2014.
  - 3.3 By doubling production to 70 000 units during August 2014 the profit will more than double. Briefly explain why.
- 4 In order to analyse the performance of the business, the accountant knows that it is essential to work out the break-even point of production.
  - 4.1 Calculate the break-even-point in units.
  - 4.2 Should the accountant be happy with the business' present production level? Why?

**INFORMATION:**

<b>1. Production and sales information of Lollo Enterprises</b>	<b>July 2014</b>
Number of finished boxes of pet pellets produced	35 000
Number of units sold	30 000
Mark-up cost	40%
Selling price per unit	?

<b>2. Stock at the beginning and end of the month</b>	<b>1 July 2014</b>	<b>31 July 2014</b>
Raw material stock:		
▪ Stock of ingredients to make pet pellets	R70 000	R85 000
▪ Stock of card board boxes	Nil	R14 400
Work-in-process stock	R20 000	R24 000
Finished goods stock	R1 400	R7 000
Indirect material stock (cleaning materials)	Nil	Nil
Stock of packing materials for deliveries	R4 200	R1 300

3. Raw materials (bought from local supplier) comprise all ingredients for the production of pet pellets as well as card board box containers (imported from a supplier in a neighbouring country.)
- Ingredients were bought during the month on credit for R330 000 (these were delivered free of charge).
  - Bought 60 000 cardboard boxes from a neighbouring country for a total cost of 24 000 pula. One pula is equivalent to R1,30.
  - Import duty is 10%.
  - Transport cost paid on these boxes, R8 100.
4. Remuneration is as follows:
- The 12 direct workers are each required to work 180 hours per month, in other words, 20 days at 9 hours per day. Their normal rate of pay is R30 per hour. However, during July 60 hours were lost as a result of power cuts. The workers were required to work 60 hours overtime weekends but only 10 workers were available for this. The overtime rate is double the normal rate.
  - The factory foreman is paid a fixed salary of R12 000 per month irrespective of overtime. He had to be paid a bonus of R8 000 for working over the weekends.
  - The bookkeeper is paid a monthly salary of R5 600.
  - The cleaner is paid a fixed salary of R4 000 per month. This is split between the factory, the office and the sales department in the ratio 5: 2: 3 respectively.
  - The sales person was paid commission of R42 380 in total.
5. Electricity and water paid during the month was R27 800. This has been allocated as follows:
- Office: R450
  - Sales department: R1 200
  - The factory plant and machinery accounts for the rest.
6. Cleaning materials bought for cash, R14 200. Transport costs on these were paid out of the petty cash, R800. All these materials were used. The factory uses 80% of these indirect materials, while the rest is used equally by the Administration and Selling and Distribution departments.

7. Rent paid was R16 000. This is to split according to floor area:
  - Factory 400 square meters
  - Office 30 square meters
  - Sales department 70 square meters
  
8. Depreciation for the month:
  - Depreciation on delivery vehicle, R5 800.
  - Depreciation on factory plant, R45 000.
  - Depreciation on office equipment, R800.
  
9. Other transactions for July:
  - Packing materials (for deliveries to customers) bought, R7 200 (R1 300 of this was unused).
  - Petrol bought for the delivery vehicle and salesmen's sales vehicles, R16 500.
  - Repairs to factory machines, R58 400.

**ANSWER**

<b>1 Production Cost Statement of Lollo Enterprises – July 2014</b>		
	<b>Notes</b>	<b>R</b>
Primary costs		
Total manufacturing costs		
Cost of production of finished goods		

<b>2 Income Statement of Lollo Enterprises – July 2014</b>	

3.1 Give TWO reasons why using the local supplier is likely to reduce the unit cost calculated above.


3.2 Calculate the unit cost of completing a complete box of tasty pellets in July 2014.

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3.3 By doubling the production to 70 000 units during August 2014 the profit made will more than double. Briefly explain why.

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4.1 Calculate the break-even point in units

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4.2 Should the accountant be happy with the business' present production level?  
Why?

YES / NO

**Why?**

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