

MANUFACTURING: PRODUCTION COST STATEMENT 25 JULY 2013

Lesson Description

In this lesson we:

- Prepare a production cost statement
- Prepare the notes to the production cost statement
- Understand the concept of break-even point

Key Concepts

- A production cost statement is prepared by a manufacturing business
- It has three main components:
 - Direct material cost
 - Direct labour cost
 - Factory overheads
- Remember that Prime costs = Direct material costs + direct labour costs
- Factory overheads = all other costs (excluding prime costs) that are involved in manufacturing
- Factory overheads **include** indirect materials and indirect labour but **exclude** any non-factory costs
- The goal of the production cost statement is to calculate the total cost of production!
- Understand the difference between fixed and variable costs: fixed costs stay the same as production increases (e.g. rent) while variable costs differ according to the level of production (e.g. raw materials, wages)
- Understand what is meant by a break-even point: the point at which the business earns exactly enough revenue to cover its costs (zero profit or loss). Who can remember the formula for the break-even point?
- Learn the format of the production cost statement well – sometimes the answer book is entirely blank!
- Sometimes the notes appear on the face of the production cost statement; at other times they are shown separately.
- Remember that most of the materials used in the production cost statement can be calculated using the formula Opening Stock + Purchases – Closing Stock (from the periodic inventory system).

Questions

Questions 1

You are provided with information relating to Zola Manufacturing for the financial year ended 29 February 2008. They sell their goods at a mark-up of 100% on cost.

Required

Prepare the Production Cost Statement of Zola Manufacturing for the year, together with the appropriate notes. Use the format provided.

(30)

Answer the questions that follow.

(5)

Information

The following balances appeared, among others, in the ledger on 1 March 2007 (the beginning of the financial year):

Factory equipment - at cost	700 000
Accumulated depreciation on factory equipment	240 000
Office equipment - at cost	180 000
Accumulated depreciation on office equipment	28 000
Stock of finished goods (600 units)	66 000
Work-in-progress stock	30 560
Raw materials stock	40 000

Transactions during the year ended 29 February 2008:

- Raw materials were imported from England at a cost of R880 000.
- Customs duty on these goods was paid at 10% of cost price in Rands.
- The cost of shipping these materials from England was R26 000.
- Salaries and Wages paid:
 - Direct R52 000
 - Indirect R12 000
 - Office staff and management R60 000
 - 1 Office worker at R12 000 per month
- Pension Fund:
 - Factory R 5 250
 - Office R 1 500
- UIF: Factory R 1 040
- Medical Aid:
 - Factory R 2 500
 - Office R 1 200
- Consumable stores purchased during the year:
 - Factory R67 000
 - Office R38 000
- Depreciation on all equipment is calculated at 10% p.a. on cost. New factory equipment costing R300 000 was brought on 1 September 2007.
- Selling expenses were:
 - Advertising R20 000
 - Delivery expenses R44 000

11. Maintenance: Repairs to factory equipment paid, R100 000. A further R6 000 is owed for repairs during February 2008, but this has not been paid.
12. The following were paid for factory and office. These are to be allocated between the factory and the office in the ratio 80% to 20% respectively.
- Rent R144 000
 - Insurance, water and electricity R100 000
13. Stocks on hand at the end of the year were:
- Stock of finished goods (400 units) R44 000
 - Work-in-progress stock R74 000
 - Raw materials stock R80 000
 - Factory consumable stores R3 000

[35]

Answer Booklet

Zola Manufacturing

Notes to the Production Cost Statement for the year ended 28 February 2009

1	Direct material costs	

(7)

2	Direct labour cost	

(5)

3	Manufacturing overhead costs	

(12)

Calculate the gross profit for the year:

(3)

Explain what is meant by a break-even point.

(2)