

- 1 The accounting period of Stone Manufacturers ends on the last day of February. In addition to the manufacturing section, the business also has a sales and an administrative section.

### Information

#### BALANCES

|  |  |
|--|--|
| Raw materials inventory                                |  |
| Work-in-progress                                       |  |
| Finished inventory                                     |  |
| Consumables stores on hand (indirect material factory) |  |

| 28 Feb 20.9 | 29 Feb 20.8 |
|-------------|-------------|
| R           | R           |
| 27 365      | 21 945      |
| 9 312       | 12 880      |
| 32 610      | 30 360      |
| 7 298       | 5 979       |

Transactions during the year:

|  |  |
|--|--|
| Credit purchases                         |  |
| Consumable stores (indirect materials)   |  |
| Raw materials                            |  |
| Cash payments                            |  |
| Carriage on raw material purchased       |  |
| Wages: direct labour                     |  |
| indirect labour                          |  |
| Salaries: Sales staff                    |  |
| Factory staff                            |  |
| Administration staff                     |  |
| Purchases of stationery: sales section   |  |
| Rent expenses: Shop                      |  |
| Factory buildings                        |  |
| Maintenance: Shop                        |  |
| Factory buildings                        |  |
| Selling expenses (excluding salaries)    |  |
| Administrative expenses                  |  |
| Cash receipts                            |  |
| Sales of finished goods                  |  |
| Additional information:                  |  |
| • Depreciation office and shop equipment |  |
| • Depreciation: Factory plant            |  |

| R         |
|-----------|
| 13 360    |
| 166 933   |
| 5 661     |
| 147 678   |
| 20 982    |
| 87 876    |
| 126 720   |
| 234 000   |
| 2 733     |
| 28 800    |
| 43 200    |
| 12 255    |
| 23 700    |
| 17 610    |
| 34 500    |
| 1 232 032 |
| 14 260    |
| 17 085    |

### Additional information

- During the year 10 000 units were completed.
- The total fixed cost amounted to R567 543.
- Variable cost amounted to R423 071.

## Required

- 1.1 Prepare the General Ledger accounts
  - 1.2 Calculate the following:
    - 1.2.1 Direct material cost per unit finished
    - 1.2.2 Prime/direct cost per finished goods
    - 1.2.3 Cost of finished goods per unit
    - 1.2.4 Fixed cost per unit
    - 1.2.5 Variable cost per unit
    - 1.2.6 Selling price per unit
  - 1.3 Calculate the break-even point.
  - 1.4 Did the business make a profit or loss? Justify your answer.
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- 2 You are provided with information relating to Simple Printers for the financial year ended 29 February 20.8.

## Information

The following balances appeared, amongst others, in the Ledger on 1 March 20.7

|   | <b>R</b> |
|---|----------|
| Office equipment                                | 135 000  |
| Factory plant                                   | 900 000  |
| Vehicles  | 480 000  |
| Accumulated depreciation: office equipment      | 50 625   |
| Accumulated depreciation: factory plant         | 352 800  |
| Accumulated depreciation: Vehicles              | 120 360  |
| Raw materials inventory                         | 28 000   |
| Work-in-progress inventory                      | 51 600   |
| Stock of finished goods                         | 30 400   |
| Consumables stores on hand (Indirect materials) | 4 600    |

Summary of transactions for the year ended 29 February 20.8.

|   | <b>R</b>  |
|---|-----------|
| Office stationery purchased                   | 2 330     |
| Raw materials purchased (60% on credit)       | 900 000   |
| Indirect materials purchased                  | 49 750    |
| Carriage on purchases of raw materials (cash) | 38 500    |
| Sales of finished goods                       | 3 800 000 |
| Advertising                                   | 72 000    |
| Vehicle expenses                              | 136 250   |
| Factory wages                                 | 481 500   |
| Salaries: Factory foreman                     | 225 000   |
| Administrative staff                          | 275 000   |
| Sales staff                                   | 247 500   |
| Rates   | 72 144    |
| Insurance                                     | 78 000    |
| Electricity and water                         | 75 000    |

## Additional information

- 1 Inventory
  - 1.1 Inventory on hand on 29 February 20.8:

|                    |         |
|--------------------|---------|
| Work-in-progress   | R33 400 |
| Finished goods     | R32 600 |
| Raw materials      | ?       |
| Indirect materials | R800    |
  - 1.2 Raw materials costing R136 000, purchased from Tech Suppliers were returned on 29 February 20.8. This transaction was not recorded.
- 2 Salaries and Wages

Salaries, 13<sup>th</sup> cheque is owed to the Factory foreman. The amount consist of R2 250 more than the monthly salary.

The following must also be taken into consideration:  
UIF deductions of 1% apply to all employees. The business contributes an additional 1%.

All employees contribute to the GP Pension fund. The contribution is earnings 7.5%, while the business contributes twice the amount of the employee's contribution towards the Pension fund.
- 3 Expenses
  - 3.1 Electricity and water must be apportioned in the ratio of 3 : 2 between the factory and the administrative sections respectively.
    - 3.2.1 Rates on property amounting to R33 066 was paid for the period 1 January 20.8 to 30 June 20.8.
    - 3.2.2 Rates and insurance must be distributed equally between the factory and administrative section.
  - 3.4 The vehicle is used to transport raw materials to the factory as well as deliver finished products to customers. All related expenses must be shared equally between manufacturing and the selling departments.
  - 3.5 Depreciation for the year is as follows:
    - Office equipment at 15% p.a. on the cost price
    - Factory plant 20% p.a. using the diminishing balance method
    - Vehicles at 10% p.a. using the diminishing balance method. This is shared equally between the factory and the selling departments.
- 4 Goods are sold at a mark-up of 90% on cost.

## Required

- 2.1 Prepare the following ledger accounts ending 29 February 20.8. Show all calculations in brackets.

RAW MATERIALS INVENTORY  
FINISHED GOODS INVENTORY  
MANUFACTURING OVERHEADS COST  
ADMINISTRATIVE COST  
PROFIT AND LOSS ACCOUNT

WORK-IN-PROGRESS INVENTORY  
CONSUMABLE STORES INVENTORY  
SELLING AND DISTRIBUTION COST  
TRADING ACCOUNT

- 2.2 The internal auditor discovered that there were discrepancies with the vehicle expenses. The petty cash vouchers did not always match the amounts paid out.
- 2.2.1 Who is an internal auditor?
- 2.2.2 What role does the internal auditor play in a business?
- 2.2.3 Why is internal auditing important in a business?
- 2.2.4 What measures can the business put into place to control vehicle expenses?
- 2.3 The internal auditor also discovered that the purchaser of raw materials received kick-backs from various suppliers. He noticed that this person was placing and receiving the inventory and also arranging for the payments to the suppliers.
- 2.3.1 Do you think it was ethical to receive kick-backs? Explain.
- 2.3.2 What are the six basic guidelines for ethical business operations that must be adhered to measure whether the actions by business employees are ethical?
- 2.3.3 What internal control measures can be applied to prevent this type of corruption taking place?
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### 3 Information

Shameela Traders manufactures fruit juices. It is the policy of the business that employees can drink as much fruit juices as they want to when they are working, but they are not allowed to take any fruit juices off the premises. The business uses a time-and-attendance clock system to calculate all factory employees' working time. The internal auditor discovered that for the past two months strange things happened in the business. These are two discoveries she made:

- A spaza shop next to the factory sells Samantha Traders fruit juices at less than cost price.
- Two employees working in the factory worked 20 hours overtime per week for the past two months while the rest of their shift's workers did not work any overtime.

Upon investigation, the internal auditor discovered the following:

- These two employees came in on a Saturday and Sunday, clocked in, but never worked in the factory.
- The security camera showed that one worker took fruit juices from Shameela Traders' premises while the other one received the "stock" on the pavement outside the premises. The "stock" was then delivered to the spaza shop to be sold.

### Required

- 1 Do you approve of these employees' weekend actions? Comment on your answer.
  - 2 What internal procedures can the internal auditor suggest to management to ensure that stock theft or stock shrinkage does not happen again?
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