

Manufacturing Accounts



- 2 (a) Explain **why** it is necessary for a manufacturing business to prepare a Manufacturing Account in addition to a Trading and Profit and Loss Account.

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- (b) Explain **each** of the following terms in connection with a manufacturing business.

- (i) Cost of materials consumed

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.....[2]

- (ii) Prime cost

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.....[2]

- (iii) Production cost

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.....[2]

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- (c) The financial year of El Sayed Manufacturing Company ends on 31 August. The following information is provided.

Stocks	At 1 September 2002	At 31 August 2003
	\$	\$
Raw material	7040	6220
Work in progress	810	950
Finished goods	5780	6100

For the year ended 31 August 2003

	\$
Sales of finished goods	180500
Purchases of raw materials	43820
Wages – factory operatives	40190
factory supervisors	18400
office and sales staff	37000
General expenses – factory	5340
office	3600
Rates and insurance	7500

Additional information –

- The factory machinery cost \$42000 and the office machinery cost \$23000. In each case the annual depreciation charge is 20% on cost.
- The rates and insurance are to be apportioned - factory 4/5 and office 1/5.
- On 31 August 2003 wages due were – factory operatives \$1170
office staff \$600.

Extract the necessary information from the above figures and prepare the Manufacturing Account of El Sayed Manufacturing Company for the year ended 31 August 2003.

- 2 Mark Sekota started trading as Red Barn Manufacturing on 1 September 2004. The business makes wooden barns which are supplied in sections for customers to construct to their own designs.

Mark Sekota provides the following information:

	At 1 September 2006	At 31 August 2007
	\$	\$
Stocks – Raw materials	43 500	37 000
Work in progress	21 400	15 800
Finished goods	142 100	163 500

For the year ended 31 August 2007

	\$
Sales of finished goods	2 249 400
Purchases of raw materials	576 000
Direct factory wages	473 600
Indirect factory wages	197 600
Factory general expenses	335 500

The factory machinery is being depreciated using the reducing balance method at 20% per annum. The machinery originally cost \$250 000 and the accumulated depreciation at 1 September 2006 was \$90 000.

REQUIRED

- (a) Explain to Mark Sekota why it is important that his stocks are valued at the lower of cost and net realisable value.

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- (c) Prepare the trading account of Red Barn Manufacturing for the year ended 31 August 2007.

Red Barn Manufacturing
Trading Account for the year ended 31 August 2007

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[5]

Mark Sekota is concerned that his rate of stock turnover of finished goods is slower than it was in the previous financial year.

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REQUIRED

- (d) Using your answer to (c) calculate, correct to two decimal places, the rate of stock turnover of finished goods. **Show your workings.**

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[2]

- (e) State **two** ways in which the rate of stock turnover of finished goods may be improved.

(i)

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(ii)

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[2]

[Total: 22]

- 4 Gideon Yeboah is a manufacturer. He provided the following information.

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	At 1 April 2007	At 31 March 2008
	\$	\$
Stock - raw materials	21 230	19 410
work in progress	11 680	12 130
finished goods	46 900	53 170

For the year ended 31 March 2008

	\$
Sales of finished goods	825 000
Purchases of raw materials	255 620
Purchases of finished goods	13 200
Direct factory wages	194 060
Factory general expenses	133 910

The following additional information is available on 31 March 2008:

- 1 Direct factory wages accrued amounted to \$4800.
- 2 The factory general expenses include insurance on the factory which is prepaid by \$210.
- 3 The factory machinery was valued at \$92 000.
On 1 April 2007 the factory machinery was valued at \$103 000. Additional machinery costing \$21 000 was purchased during the year. There were no sales of machinery during the year.

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REQUIRED

- (a) (i) State the basis on which Gideon Yeboah should value his stocks.

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..... [1]

- (ii) Name **one** accounting principle Gideon Yeboah is applying by valuing his stocks on this basis.

..... [1]

- 2 Ahmed Zaki manufactures office furniture. His financial year ends on 30 April.

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REQUIRED

- (a) Explain why it is necessary for Ahmed Zaki to prepare a manufacturing account at the end of his financial year.

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 [2]

- (b) During the year ended 30 April 2010 Ahmed Zaki purchased some finished goods from another manufacturer.

Suggest **two** reasons why Ahmed Zaki purchased these goods rather than manufacturing them himself.

1

 2
 [2]

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Ahmed Zaki provided the following information:

	At 1 May 2009	At 30 April 2010
	\$	\$
Inventory (stock) – raw material	33 400	35 230
Stock – work in progress	14 200	13 900

For the year ended 30 April 2010

	\$
Purchases of raw materials	408 160
Direct factory wages	325 270
Indirect factory wages	130 200
Factory general expenses	198 280

Additional information on 30 April 2010:

- Indirect factory wages accrued amounted to \$1520.
- Factory general expenses include prepaid insurance, \$400.
- On 1 May 2009 the factory machinery was valued at \$162 000. Additional machinery costing \$19 500 was purchased during the year. There were no sales of machinery during the year. On 30 April 2010 the factory machinery was valued at \$150 000.

3 Herman Wagner makes furniture.

He provided the following information for the year ended 30 April 2012

	\$
Inventories 1 May 2011 – Raw materials	14 300
Finished goods	12 100
Work in progress	6 520
Revenue	600 000
Purchases of raw materials	168 900
Purchases of finished goods	3 450
Carriage on purchases of raw materials	2 600
Wages – Factory direct	193 700
Factory indirect	43 600
Administration	121 100
General expenses – Factory	24 450
Administration	9 640
Factory machinery at cost	98 000
Office equipment at cost	14 500
Provision for depreciation of factory machinery	35 280
Provision for depreciation of office equipment	4 350
Loose tools 1 May 2011 at valuation	950

Additional information

- 1 At 30 April 2012:

	\$
Inventories were valued at	
Raw materials	16 400
Finished goods	11 300
Work in progress	6 970
- 2 The factory general expenses include rates and insurance, \$6200, which should be apportioned – factory $\frac{3}{4}$ and office $\frac{1}{4}$.
- 3 The factory indirect wages include \$10 000 taken by Herman Wagner for personal use.
- 4 The factory machinery is being depreciated at 20% per annum using the reducing balance method.
The office equipment is being depreciated by 10% per annum using the straight line method.
- 5 During the year additional loose tools, \$45, were purchased.
At 30 April 2012 the loose tools were valued at \$890.

(b) Define and give **one** example of **each** of the following types of inventory in Herman Wagner's business.

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(i) Raw materials
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..... [2]

(ii) Work in progress
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..... [2]

(iii) Finished goods
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..... [2]

(c) Explain why Herman Wagner revalues the loose tools at the end of each financial year rather than using the straight line or reducing balance method of depreciation.

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After the preparation of the manufacturing account for the year ended 30 April 2012, Herman Wagner prepared an income statement showing a gross profit of \$170 200 and total expenses of \$144 000.

For
Examiner's
Use

On 1 May 2011 Herman Wagner's capital was \$130 000. On that date he borrowed \$20 000 (repayable on 30 April 2016) from Cashco Ltd.

REQUIRED

(d) Calculate the return on capital employed (ROCE) for Herman Wagner.

Use the total capital employed on 1 May 2011.

The calculation should be correct to **two** decimal places.

Show your workings.

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(e) The return on capital employed (ROCE) calculated on 30 April 2011 was 19.50%.

State and explain whether Herman Wagner will be satisfied with the ratio you calculated in (d).

Will he be satisfied?

Explanation

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..... [3]

[Total: 30]

- 1 Zabeel opened a manufacturing business on 1 November 2011.

The following information was provided at 31 October 2012.

	\$
Revenue	183 400
Purchases of finished goods	9 200
Purchases of raw materials	54 300
Returns from customers	2 600
Returns to suppliers of raw materials	2 100
Factory direct wages	46 000
Factory indirect wages	11 210
Office and administration wages	23 950
Rates and insurance	6 000
Factory general expenses	21 660
Office and selling expenses	9 400
Carriage on raw materials	480
Carriage on sales	630
Discount allowed	130
Discount received	420

Additional information

- 1 On 31 October 2012 Inventories were valued at:
- | | |
|------------------|--------|
| raw materials | 4 300 |
| work in progress | 10 200 |
| finished goods | 12 620 |
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- 2 On 31 October 2012 factory direct wages outstanding amounted to \$2150 and factory general expenses prepaid were \$370.
- 3 60% of the rates and insurance relates to the factory and 40% relates to the office.
- 4 Machinery costing \$64 500 was purchased on 1 November 2011. Depreciation is to be charged at 20% per annum on cost.
- 5 Loose tools, \$980, were purchased on 1 November 2011. Additional tools, \$130, were purchased during the year. No loose tools were disposed of during the year. On 31 October 2012 the loose tools were valued at \$820.

REQUIRED

- (a) Select the relevant figures and prepare the manufacturing account of Zabeel for the year ended 31 October 2012.

