Patterns for Africa ('PFA') is a newly established organization in Johannesburg, South Africa. PFA provides jobs to jobless people who have crafting skills. PFA specializes in the making and sale of cushions with an African flare. Material used for the making of these cushions are hand-painted by its employees. All employees are also owners of the organization and share in the profits made by the organization. The organization strives to give back to the community by providing jobless people the opportunity to start a career. PFA strives to pay out all profits at the end of the year to its owners. Thandi Mathemba is the founder and head of operations of PFA. She is currently busy with the analysis of the previous financial period's results.

The following actual information for the previous financial period is available to Thandi:

	Notes	Rand
Sales (9 732 cushions)		1,946,400
Less: Cost of Sales		
Labour	1	(765,800)
Material purchased	2	(243,300)
Overhead expenses	3	(158,205)
Gross profit		**779,095**
Less: Other expenses		
Water and electricity	4	(119,000)
Rent of administrative building	5	(240,000)
Telephone expenses	6	(85,000)
Other operating expenses	7	(35,095)
Profit share paid to employees	8	(300,000)
Net profit		**0**

Notes:

(1) Besides the profit-share that is yearly paid out to employees, they are also paid a wage of R20 per hour worked on the making of cushions. Due to PFA being a newly established business, employees are still in a learning phase and the time is takes to make cushions decreases as the employees become more used to their tasks. On average, the time it takes for an employee to make the first cushion is 2.5 hours. A learning curve percentage of 80% is present in this industry.

(2) Direct material amounts to R25 per cushion.

(3) Overhead expenses consists out of a fixed and variable amount. Variable overheads varies per labour hour and fixed overheads were the same each month. The monthly overhead expenses were as follows:

Month	Hours	Amount	Month	Hours	Amount
January	1,600	13,200	July	1,500	13,000
February	1,650	13,300	August	1,650	13,300
March	1,550	13,100	September	1,600	13,200
April	1,559	13,200	October	1,600	13,200
May	1,598	13,150	November	1,598	13,150
June	1,700	13,400	December	1,540	13,005
Total overheads for the year					**158,205**

(4) Water and electricity are paid based on the following sliding scales (kl = kilolitres; kWh = kilowatt hour)

Water		Electricity	
First 6,000 kl	Free	First 100 kWh	Free
6,001 kl - 10,000kl	R12 per kl	101 kWh - 500 kWh	R2 per kWh
10,001 kl and above	R54 per kl	500 kWh and above	R5 per kWh

(5) Rental amounts to R20,000 per month.

(6) A fixed monthly fee of R945 are payable to the telecommunication service provider as well as a cost of R2.50 per calling minute and R0.50 per megabyte of data used.
(7) Other expenses are all fixed costs paid for operational purposes.
(8) There were 30 employees employed by PFA and they all received a payout at year-end of R10,000 from the profits for the year.

1. Award: **5.00 points** Problems? Adjust credit for all students. Required information

Select the correct answer from the options below.

- → The fixed portion of operating expenses are fixed per month. The fixed cost per hour will therefore decrease as the labour hours in a specific month increase. The variable portion of operating expenses are variable per month. The variable cost per hour will therefore stay constant with a change in the labour hours in a specific month.
- The fixed portion of operating expenses are fixed per month. The fixed cost per hour will therefore stay constant with a change in the labour hours in a specific month. The variable portion of operating expenses are variable per month. The variable cost per hour will therefore decrease as the labour hours in a specific month increase.
- The fixed portion of operating expenses are fixed per month. The fixed cost per hour will therefore increase as the labour hours in a specific month increase. The variable portion of operating expenses are variable per month. The variable cost per hour will therefore stay constant with a change in the labour hours in a specific month.
- The fixed portion of operating expenses are fixed per month. The fixed cost per hour will therefore stay constant with a change in the labour hours in a specific month. The variable portion of operating expenses are variable per month. The variable cost per hour will therefore increase as the labour hours in a specific month increase.

Since fixed costs are fixed per month, the total cost cannot change, irrespective of the number of labour hours for that month. Therefore, the more labour hours are worked, the fixed cost that are allocated per labour hour will decrease, as the total amount of fixed costs stay constant. Because variable costs are variable per labour hour, it means that the total variable costs will accumulate with an increase in labour hours and will accumulate with a fixed rate per labour hour.

References

Multiple Choice	Learning Objective: LO1 Explain the effect of a change in activity on both total variable costs and per unit variable costs
Difficulty: Basic	Learning Objective: LO2 Explain the effect of a change in activity on both total fixed costs and fixed costs expressed on a per unit basis

2. Award: **5.00 points** Problems? Adjust credit for all students. Required information

Using the high-low method, calculate the fixed monthly overhead cost.

10000 ± 10%

High-low:
Variable cost per hour: (R13,400 - R13,000) / (1,700 - 1,500) = R2 per hour
Fixed cost per month: R13,400 - (R2 x 1,700) = R10,000 **OR** R13,000 - (R2 x 1,500) = R10,000

References

Numeric Response	Difficulty: Basic	Learning Objective: LO4 Analyse a mixed cost using the high–low method

3. Award: **5.00 points** Problems? Adjust credit for all students.

Stover Company uses the weighted-average method in its process costing system. Information concerning Department A for the month of June follows:

	Units	Materials Costs
Work in process, beginning	17,000	£12,800
Started in June	82,000	69,700
Units completed	85,000	
Work in process, ending	14,000	

All materials are added at the beginning of the process. Compute the cost per equivalent unit for materials costs.

- £1.01
- £0.85
- £0.97
- → £0.83

The cost per equivalent unit = (Total material cost)/(Units completed + Ending work in progress) = (£12,800 + £69,700)/(85,000 units + 14,000 units) = £0.83

References

Multiple Choice Difficulty: Basic

4. Award: **5.00 points** Problems? Adjust credit for all students.

Go-Go Tanks is a newly established company that manufactures and sells water tanks in the drought threatening Western Cape region of South Africa. The demand for water tanks have increased the last couple of months, and the company's chief executive officer (CEO) is ready to report on its financial results for the last financial year. This is however the first time the CEO has to report on this, and is unsure as to what information must be included in the financial reports.

Required:

1.	When external reporting is done, the CEO will have to report on	summarized data for the entire organization	
	, but when internal reporting is done the CEO would have to report in detail on	segments, departments, products, customers and employees	
2.	To prepare financial accounting statements in accordance with International Financial Reporting Standards is a function of		
	financial accounting		
3.	Management accounting places a lot of emphasis on precision rather than estimates when decisions are made within an organization.		
	This statement is	false	

4. Which of the following are functions of financial accounting? **(You may select more than one answer. Single click the box with the question mark to produce a check mark for a correct answer and double click the box with the question mark to empty the box for a wrong answer.)**

- Making decisions regarding the expansion of the business.
- Reporting the profits of the prior year in accordance with IFRS.
- Reporting on the profitability of a division.
- Reporting to shareholders.

Explanation:

1. When external reporting is done, the CEO will have to report on summarized data for the entire organization, but when internal reporting is done the CEO would have to report in detail on segments, departments, products, customers and employees.

2. To prepare financial accounting statements in accordance with International Financial Reporting Standards is a function of financial accounting.

3. Management accounting places less emphasis on precision than financial accounting and uses estimates when decisions are made within an organization.

4. Financial accounting functions include reporting on information for the use of external parties. Therefore, only reporting profits for the prior year in accordance with IFRS and reporting to shareholders are done for external parties.

References

Worksheet Difficulty: Basic

5.

Award: **5.00 points** Problems? Adjust credit for all students.

Fabert Company uses the weighted-average method in its process costing system. The Assembly Department started the month with 16,000 units in its beginning work in process inventory that were 40% complete with respect to conversion costs. An additional 60,000 units were transferred in from the prior department during the month to begin processing in the Assembly Department. During the month 65,000 units were completed in the Assembly Department and transferred to the next processing department. There were 11,000 units in the ending work in process inventory of the Assembly Department that were 50% complete with respect to conversion costs.
What were the equivalent units for conversion costs in the Assembly Department for the month?

- 64,100
- 65,000
- → 70,500
- 55,000

Equivalent unit of conversion cost = Units completed during the month + Number of partially completed units × Percentage completion = 65,000 units + (11,000 units × 50%) = 65,000 units + 5,500 units = 70,500 units

References

Multiple Choice Difficulty: Intermediate

6. Award: **5.00 points** Problems? Adjust credit for all students.

Newcastle Company's beginning and ending inventories for the month of January were as follows:

	January 1	January 31
Direct Materials	£80,000	£78,000
Work in Process	£155,000	£166,000
Finished Goods	£90,000	£88,000

Production data for month follow:

Direct labour cost incurred	£215,000
Actual manufacturing overhead cost incurred	£145,000
Direct materials purchases	£160,000

Newcastle applies the manufacturing overhead cost to jobs at the rate of 75% of the direct labour cost incurred. This rate has been used for many years. The company does not close the under- or over applied manufacturing overhead to the Cost of Goods Sold until the end of the year.

Newcastle Company's cost of goods manufactured for January was:

- £499,000.
- £490,250.
- £497,000.
- → £527,250.

Opening direct material	£80,000
Add: Purchases	160,000
Less: Closing direct material	78,000
Direct material consumed	£162,000
Direct material consumed	£162,000
Add: Direct labour	215,000
Add: Manufacturing overhead (75% × £215,000)	161,250
Total manufacturing cost	£538,250
Total manufacturing cost	£538,250
Add: Opening work in process	155,000
Less: Closing work in process	166,000

Cost of goods manufactured	£527,250

References

Multiple Choice Difficulty: Intermediate

7.

Award: **5.00 points** Problems? Adjust credit for all students.

Which of the following characteristics applies to process costing, but does not apply to job order costing?

- Separate, identifiable jobs
- The use of predetermined overhead rates
- → The use of equivalent units of production
- The need for computing weighted averaging

The equivalent units are computed in process costing but not in job order costing.

References

Multiple Choice Difficulty: Basic

8.

Award: **5.00 points** Problems? Adjust credit for all students.

Karvel Corporation uses a predetermined overhead rate based on machine-hours to apply manufacturing overhead to jobs. For the month of August, Karvel estimated total manufacturing overhead costs at £300,000 and total machine-hours at 75,000 hours. Actual results for the period were manufacturing overhead costs of £290,000 and 75,000 machine-hours. As a result, Karvel would have:

- applied less overhead to Work in Process than the actual amount of overhead cost for the year.
- found it necessary to recalculate the predetermined overhead rate.
- applied an amount of overhead to Work in Process that was equal to the actual amount of overhead.
- → applied more overhead to Work in Process than the actual amount of overhead cost for the year.

The estimated total manufacturing overhead cost of £300,000 is more than the actual manufacturing overhead costs. As Karvel Corporation uses a predetermined overhead rate based on machine-hours to apply manufacturing overhead to jobs; it has applied more overhead to Work in Process than the actual amount of overhead cost for the year.

References

Multiple Choice	Difficulty: Intermediate

Hulletts Ltd, based in KwaZulu-Natal is a province of South Africa that was created in 1994 when the Zulu bantustan of KwaZulu and Natal Province were merged. It is located in the southeast of the country, enjoying a long shoreline beside the Indian Ocean and sharing borders with three other provinces, of which it is most famous for its sugarcane fields. The company has its own sugarcane field and sells a variety of products. The budgeted statement for one its product for the coming year are shown below

Statement of profit or loss for the year ended 28 February 2018

	R
Sales (90 000 units)	450,000
Less: Cost of sales	317,700
Gross profit	132,500
Less: Operating expenses	138,600
Selling expenses	22,500
- Variable (sales commission)	
- Fixed	63,900
Administrative expenses (fixed)	52,200
Net loss	(6,300)

Additional information:

Manufacturing costs consisted of direct materials R79,200; direct labour R90,000; manufacturing overheads R148,500 of which fixed overheads were R114,300.

Variable manufacturing costs vary with units manufactured; variable selling expenses consist of sales commission, which is determined as a percentage of revenue. The company operates a just-in-time system therefore there was no stock at the beginning or end of the year.

Fixed selling expenses included advertising expenses of R27,000 and salaries of R36,900.

The company has sufficient capacity to manufacture 150,000 units per annum despite a planned production and sales volume of only 90,000 units.

Hullett Ltds profitability has drastically dropped since last year and in an attempt to improve the company's profitability, two proposals have been formulated after a meeting with various departmental heads, the facts of which are given below. You are required to comment on each of the proposals. Each of the proposals is to be considered independently of each other. Normal income tax as well as value added tax must be ignored.

Proposal 1 - The marketing division carried out a survey and it was concluded that the sales volume can be increased by 50% by changing the design of the packaging format to smaller sizes with a modern logo. It is estimated that the selling price will in this case simultaneously be increased by 8% per unit.

The current packaging cost amounts to R0,09 per unit and is completely variable. The variable cost related to the new format will amount to R0,43 per unit. A single amount of R1,200 will be incurred in re-designing the packaging format. This amount will be recovered in full during the first year during which the product is sold in the new format.

Proposal 2 - Sales personnel are paid a substantial commission on units sold over and above a basic salary in order to encourage them to be aggressive in their sales efforts. It has been established that sales can be influenced by increasing or decreasing the amount spent on advertising.

References

Section Break Difficulty: Advanced Learning Objective: LO1 Explain how changes in activity affect contribution margin and profit

9. Award: **5.00 points** Problems? Adjust credit for all students. Required information

Which of the following costs can be regarded as fixed costs for proposal 1?

→ ☐ Manufacturing overheads of R114,300

→ ☐ Selling expenses of R63,900

→ ☐ Administrative expenses of R52,200

☐ Packaging costs of R12,000

Total fixed cost	R
Manufacturing overheads	114,300
Selling expenses	63,900
Administrative expenses	52,200
Redesigning costs	1,200
	231,600

References

Check All That Apply Difficulty: Advanced Learning Objective: LO1 Explain how changes in activity affect contribution margin and profit

10. Award: **5.00 points** Problems? Adjust credit for all students. **Required information**

The number of units that will have to be sold during the first year based on proposal 1 in order to break-even is 91,000 units.

- True
- → False

Breakeven sales in units	=	Fixed cost / CM per unit
	=	231,600 / 2,53
	=	91,541.5
	=	91,542 units

References

True / False	Difficulty: Advanced	Learning Objective: LO1 Explain how changes in activity affect contribution margin and profit

11. Award: **5.00 points** Problems? Adjust credit for all students. **Required information**

Based on proposal 1, the number of units that must be sold to make a profit of R30,000 using the equation method is 103,399 units.

- → True
- False

Sales = VC + FC + Profit
5.40x = 2.87x + 231,600 + 30,000
2.53x = 261,600
X = 103,399 units

12. Award: **5.00 points** Problems? Adjust credit for all students. **Required information**

The following statements apply to margin of safety for proposal 1:

→ ☐ Margin of safety ratio is 32%

☐ Margin of safety ratio is 33%

→ ☐ Margin of safety in units is 43,458.

Actual sales = 90,000 x 150%
= 135,000

$$\text{Margin of safety} = \frac{\text{Actual sales - Breakeven sales}}{\text{Actual sales}} \times 100$$

$$= \frac{135{,}000 - 91{,}542}{135{,}000} \times 100$$

$$= 32\%$$

13. Award: **5.00 points** Problems? Adjust credit for all students. Required information

The contribution margin per unit based on proposal 2 is:

- R2.53
- R2.13
- → R2.49
- R2.80

		R
Selling price		5,00
Less: Variable costs	$\left[\dfrac{R(79\ 200 + 90\ 000 + 34\ 200 + 22\ 500)}{90\ 000}\right]$	2,51
CM per unit		2,49

References

Multiple Choice Difficulty: Advanced Learning Objective: LO1 Explain how changes in activity affect contribution margin and profit

14.

Award: **5.00 points** Problems? Adjust credit for all students. **Required information**

Based on proposal 2, advertising expenses can be increased by _________in order to increase the sales volume from 90,000 units to 130,000 units, and to make a simultaneous profit of 6%, based on turnover.

R54,300

Fixed cost	=	Contribution margin - profit
	=	(130,000 x R2,49) - (130,000 x R5 x 6%)
	=	R323,700 - R39,000
	=	R284,700
Total fixed cost	=	R284,700
Normal fixed cost	=	R(114,300 + 63,900 + 52,200)
	=	R230,400
Difference	=	R54,300, which is the amount by which advertising expenses can be increased.

Knysna's Cupboard Company Proprietary Limited is owned by Piet Viviers and situated in Knysna. The company fits and installs cupboards or order for a variety of regular and one-time clients in and around the Garden Route in South Africa. Each cupboard is made by following the design preferences of the client and fitted at the clients' premises. The company has a December financial year-end.

Management accounting policies of the company:

- The company follows a job-order costing system to calculate the value of a job.
- Each individual cupboard installation is seen as a separate job.
- The costs and time spent for each job is tracked on a job cost sheet.
- Manufacturing overhead is allocated to a job based on the labour hours spent on that job.
- The standard manufacturing overhead rate was R15 per labour hour for the 2018 financial year.
- The actual direct labour cost amounts to R35 per hour.

Job information for November 2018:

The incomplete job cost sheet of one of the jobs (job 215) that were completed in November 2018 are found below:

Job cost sheet							
Job number		215		**Date initiated**		12 November 2018	
Department		Kitchen cupboards		**Date completed**		28 November 2018	
Item		Installation of kitchen cupboards		**Units completed**			
Direct materials		**Direct labour**			**Manufacturing overhead**		
Req. no.	**Amount**	**Ticket**	**Hours**	**Amount**	**Hours**	**Rate**	**Amount**
132	4,800	185.555	18	?	?	?	?
Cost summary					**Units installed**		
					Date		**Balance**
Direct materials	R				28 November 2018		?
Direct labour	R				28 November 2018		?
Manufacturing overheads	R				28 November 2018		?
Total cost of job	R						?

The following additional information is available for November 2018:

- A total of 8 jobs were completed in November.
- Total labour hours spent on all jobs amounted to 152 hours
- Total indirect labour hours spent on all jobs amounted to 23 hours.
- Total indirect material purchased and used on all jobs amounted to R1,208.
- Total manufacturing overhead costs incurred amounted to R883.

Minutes of the most recent management meeting (dated 2 December 2018):
The company's monthly management meeting were attended by the management accountant, production manager, chief executive officer and the procurement manager.

1. It has been debated whether a job-order costing system is the correct system to use for the company, since the cupboards are all made from the same wood and the process for each job is similar. The production manager indicated that a process costing system could be considered. He supported his argument with the fact that there are monthly unfinished jobs and that equivalent units can be calculated for incomplete jobs.
2. The management accountant disagreed with the production manager and indicated that he is not sure whether a process costing system will work. He is of the opinion that it will be too complex to calculate equivalent units for jobs, since the time spent on each job differs between jobs.
3. The management accountant indicated that he is of the opinion that the standard manufacturing overhead rate is currently too low and should be raised to R19 per labour hour in order to effective apply all costs to jobs.

References

Section Break | Difficulty: Intermediate | Learning Objective: LO7 Compute underapplied or overapplied overhead cost and prepare the journal entry to close the balance in Manufacturing Overhead to the appropriate accounts

15. Award: **5.00 points** Problems? Adjust credit for all students. Required information

The total cost for job 215 is:

→ ○ R5,700

○ R5,430

○ R7.713

○ R4,800

R4,800 + (R35 x 18 hours) + (R15 x 18 hours) = R5,700

References

Multiple Choice	Difficulty: Intermediate	Learning Objective: LO4 Prepare journal entries to record costs in a job-order costing system

16.

Award: **5.00 points** Problems? Adjust credit for all students.

Darden Company uses the weighted-average method in its process costing system. The first processing department, the Welding Department, started the month with 18,000 units in its beginning work in process inventory. These units were 10% complete with respect to conversion costs. The conversion cost in this beginning work in process inventory was £16,200. An additional 84,000 units were started into production during the month. 17,000 units were in the ending work in process inventory of the Welding Department. These units were 70% complete with respect to conversion costs. A total of £836,880 in conversion costs were incurred in the department during the month. What would be the cost per equivalent unit for conversion costs for the month? (Round off to three decimal places.)

- £8.286
- £9.963
- £9.000
- → £8.804

The cost per equivalent unit for conversion costs = (Cost of beginning Work in process inventory + Cost added during the period)/Equivalent units of production = (£8,36,880 + £16,200)/(18,000 units + 84,000 units - 17,000 units) + (17,000 units × 70%) = £8,53,080/(85,000 units + 11,900 units) = £8.804

References

Multiple Choice Difficulty: Intermediate

17. Award: **5.00 points** Problems? Adjust credit for all students.

Bottles for Africa has been manufacturing plastic bottles for the last couple of years. The company uses a process costing system under the weighted average method to calculate equivalent units and costs per unit. Materials are added at the beginning of the process whilst conversion costs are allocated evenly over the process. The following information is available for the past month:

Work-in-progress opening balance (500 bottles 70% complete)	R7,750
Direct materials	R2,500
Conversion costs	R5,250
Types of costs incurred:	
Direct materials opening balance	R500
Direct materials purchased	R50,000
Direct materials closing balance	R1,000
Conversion cost incurred	R580,000
Conversion cost issued to production	R600,000
Number of bottles completed	25,000
Work-in-progress closing balance (750 bottles 50% complete)	?

Required:
1. Calculate the equivalent number of units completed for both direct materials and conversion cost.

Direct materials	25,750	units
Conversion costs	25,375	units

2. Calculate the direct material and conversion cost per equivalent unit. **(Round your answers to 2 decimal places.)**

Direct materials	R	2.02	per equivalent unit
Conversion cost	R	23.85	per equivalent unit

3. Calculate the closing balance of Work-in-progress. **(Round your answer to 2 decimal places.)**

Work-in-progress	R	10,458.75

Explanation:

1. Direct materials: 25,000 + 750 = 25,750 units
   Conversion costs: [25,000 + (750 × 50%) = 25,375
2. Direct materials: [(R500 + R50,000 – R1,000) + R2,500] / 25,750 = R2.02
   Conversion cost: [R600,000 + R5,250] / 25,375 = R23.85
3. (750 × R2.02) + (750 × 50% × R23.85) = R1,515 + R8,943.75 = R10,458.75

References

Worksheet Difficulty: Intermediate

18.

Award: **5.00 points** Problems? Adjust credit for all students.

In process costing, the equivalent units computed for materials is generally the same as that computed for direct labour.

- True
- → False

In process costing, the equivalent units computed for materials is generally not the same as that computed for direct labour.

References

True / False Difficulty: Basic

19. Award: **5.00 points** Problems? Adjust credit for all students.

Which of the following would probably be the least appropriate allocation base for allocating overhead in a highly automated manufacturer of specialty valves?

- Machine setups
- Power consumption
- → Direct Labour-hours
- Machine-hours

Direct labour-hours would probably be the least appropriate allocation base for allocating overhead in a highly automated manufacturer of specialty valves as the sophisticated automated equipment has taken over functions that used to be performed by direct labour.

References

Multiple Choice Difficulty: Basic

Mrs Chutney Proprietary Limited was established more than 50 years ago by a South African lady staying in Pretoria. Her family chutney recipe became so popular amongst her friends that she decided to bottle and distribute the product. The recipe is a family secret and still today known as the top chutney in South Africa. The following costs were incurred during the current financial period (1 month):

	Notes	Rand value
Ingredients (including onions, apples, garlic, ginger, chilli flakes, vinegar, sugar, salt) purchased	1	185,400
Glass bottles (500 ml) with screw caps purchased	2	21,000
Cleaning material used to sterilise bottles and clean the factory	3	3,700
Rent of the factory in which the chutney is manufactured	4	18,000
Wages of manufacturing personnel	5	85,000
Marketing costs	6	4,850
Depreciation of manufacturing equipment	7	12,000
Depreciation of office furniture	7	5,000
Salaries of administrative staff and managers	8	105,000
Boxes purchased	9	28,000

Notes:

1. During the current financial period, 10,300 bottles (500 ml each) of chutney has been manufactured and 9,950 bottles has been sold at R34 a bottle.
2. The following additional information is available for glass bottles:

	Quantities (in number of bottles)
Bottles purchased	10,500
Bottles transferred to work-in-progesss	10,400

3. Cleaning materials are bought in bulk. Before any chutney gets bottled, it is a regulatory requirement that all bottles be sterilised first.
4. Rent for the factory are determined by a yearly renewable contract and are payable on a monthly basis.
5. Wage employees are all temporary employees and only gets paid for hours worked. Workers are required to log their hours when entering and leaving the factory.
6. An external company, Marketing Magic, is responsible for all the marketing done for Mrs Chutney. Mrs Chutney pay a monthly fee of R2,860 to Marketing Magic as well as a fixed commissioning fee per product sold by Mrs Chutney.
7. Manufacturing equipment and office furniture are depreciated over five years on a straight line basis.
8. All administrative staff and managers earns a fixed monthly salary. Managers spent on average 20% of there time on managing the factory and manufacturing processes, whilst the remainder of their time is spent on administrative tasks.
9. Boxes are used to package bottled chutney in batches of 12 bottles per box.

Manufacturing of a salad dressing

The manager of Mrs Chutney is currently considering the manufacturing of 1,000 bottles of a chutney-based salad dressing for a period of three months, in order to determine whether the market will be interested in this product. Mrs Chutney however does not have sufficient capacity to manufacture normal chutney and the salad dressing. Thus, should the salad dressing be made during the coming three months, Mrs Chutney will forfeit the normal manufacturing and sale of 1,000 bottles of normal chutney. The manager is however very keen on manufacturing the dressing, since a market survey he obtained at a cost of R85,000, indicated a need for a chutney-based salad dressing in the current market.

20. Award: **5.00 points** Problems? Adjust credit for all students. Required information

The following costs will be classified as direct costs for a box that contains 12 bottles of chutney:

- ◯ Ingredients
  Glass bottles
  Cleaning material
  Rent of the factory
  Boxes
- ◯ Ingredients
  Glass bottles
  Wages of manufactured personnel
  20% of the salaries of managers
- ◯ Ingredients
  Glass bottles
  Cleaning material
  Boxes
- → ◯ Ingredients
  Glass bottles
  Wages of manufactured personnel
  Boxes purchased

Direct costs are costs that are directly tracable to the actual product being manufactured.

References

Multiple Choice	Difficulty: Basic	Learning Objective: LO7 Define and give examples of direct and indirect costs