2 Toyah owns a factory which makes dolls' houses. Her financial year end is 31 January.

At 31 January 2024, her ledger accounts included the following balances.

	$
Inventory at 1 February 2023	
Raw materials	12 400
Work in progress	16 970
Finished goods	14 825
Revenue	390 100
Purchases of raw materials	143 000
Wages	
Factory operatives	51 000
Factory supervisor	19 000
Sales staff	30 000
Factory electricity	16 000
Rates and insurance	16 200
General factory expenses	6 155
Factory machinery – at cost	120 000
Factory machinery – provision for depreciation	52 500

Additional information

1. Inventory at 31 January 2024

Raw material	11 205
Work in progress	17 682
Finished goods	13 480

2. Rates and insurance are to be apportioned 2/3 to the factory and 1/3 to the office.

3. At 31 January 2024, general factory expenses of $235 were unpaid.

4. Factory machinery is depreciated at 25% per annum using the reducing balance method.

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REQUIRED

(a) Prepare Toyah's manufacturing account for the year ended 31 January 2024.

Toyah
Manufacturing Account for the year ended 31 January 2024

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[9]

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(b) Prepare Toyah's income statement (trading section) for the year ended 31 January 2024.

Toyah
Income statement (trading section) for the year ended 31 January 2024

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[5]

The factory produced 6936 dolls' houses during the year ended 31 January 2024.

REQUIRED

(c) Calculate the manufacturing cost of each dolls' house. Round up your answer to the nearest dollar.

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.... [1]

Idir, a competitor of Toyah's, has decided to cease trading. He has offered to sell his inventory of finished goods to Toyah at a discounted price in return for immediate payment in cash. The total price for these items is $9600. Toyah has $1415 cash at bank.

REQUIRED

(d) Advise Toyah whether or not she should buy Idir's inventory. Justify your answer by providing **two** points for and **two** points against buying this inventory.

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.... [5]

[Total: 20]

Question	Answer					Marks
2(a)	Toyah Manufacturing Account for the year ended 31 January 2024					9
		$		$		
	Cost of material consumed					
	Opening inventory of raw material			12 400		
	Purchases of raw material			143 000		
				155 400		
	Less Closing inventory of raw material			11 205		
				144 195	**(1)**	
	Direct wages			51 000	**(1)**	
	Prime cost			195 195	**(1)OF**	
	Factory overheads					
	Wages of factory supervisor	19 000				
	Factory electricity	16 000				
	Rates and insurance (16 200 × 2/3)	10 800	**(1)**			
	General factory expenses (6 155 + 235)	6 390	**(1)**			
	Depreciation of factory machinery (120 000 – 52 500) × 25%	16 875	**(1)**	69 065		
				264 260	**(1)OF**	
	Add Opening work-in-progress			16 970	*	
				281 230		
	Less Closing work-in-progress			17 682	***(1) for both**	
	Cost of production			263 548	**(1)OF**	

Question	Answer	Marks
2(b)	Toyah Income statement (trading section) for the year ended 31 January 2024 | | $ | | $ | | Revenue | | | 390 100 | **(1)** Cost of sales Opening inventory | 14 825 | * | | Cost of production | 263 548 | **(1)OF** | | | 278 373 | | | Closing inventory | 13 480 | ***(1) for both** | 264 893 | **(1)OF** Gross profit | | | 125 207 | **(1)OF**	**5**
2(c)	$\frac{\$263\,548}{6\,936}$ **OF** = $38 **(1)OF** per dolls' house (rounded up to nearest dollar)	**1**
2(d)	**For:** Sales of discounted inventory should be profitable / make a profit / increase profit margin **(1)** Selling extra inventory may increase total sales / more customers / more revenue **(1)** Completed inventory may be turned into cash quickly **(1)** Her own inventory of finished goods has decreased so there may be scope for her to sell additional inventory **(1)** **Accept other valid points** **Max (2)** **Against:** Does not have enough money to buy the inventory **(1)** If have to borrow money will incur interest charges **(1)** It may incur extra storage costs **(1)** May not be able to sell the inventory if unpopular / inferior quality **(1)** May increase selling costs **(1)** **Accept other valid points** **Max (2)** **Recommendation (1)**	**5**