4   Salman owns a footwear factory. He sells to all of the three local shoe shops.
    Salman prepares his financial statements to 30 April each year.

    At 30 April 2023, Salman's ledger account balances included the following.

	$
Inventory at 1 May 2022	
Raw materials	8190
Work in progress	15200
Finished goods	23860
Purchases of raw materials	78420
Purchases of finished goods	90144
Wages	
Factory supervisor	27500
Factory operatives	52396
Rates and insurance	17528
Factory electricity	11442
General factory expenses	8244
Factory equipment – at cost	90000
Factory equipment – provision for depreciation	43920
Balance at bank	31000 debit

Additional information

1   Inventory at 30 April 2023

Raw material	8000
Work in progress	16100
Finished goods	24590

2   Salman applies a mark-up of 50% to his cost of sales.

3   Rates and insurance are to be apportioned three quarters to the factory and one quarter to
    the office.

4   At 30 April 2023, factory electricity of $1048 was unpaid.

5   Factory equipment is depreciated at 20% per annum using the reducing balance method.

REQUIRED

(a) Prepare Salman's manufacturing account for the year ended 30 April 2023.

Salman
Manufacturing Account for the year ended 30 April 2023

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[10]

(b) Prepare the trading section of Salman's income statement for the year ended 30 April 2023.

Salman
Income Statement (trading section) for the year ended 30 April 2023

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[5]

Salman is considering converting some of his office space into additional factory capacity.

(c) Advise Salman whether he should convert some of his premises from office use to factory use. Justify your answer by providing arguments for and against this conversion of office space into additional factory capacity.

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.... [5]

[Total: 20]

Question	Answer	Marks

4(a)	**Salman**
	Manufacturing Account for the year ended 30 April 2023
	
	                                               \$ \$
	Cost of material consumed
	Opening inventory of raw material 8 190
	Purchases of raw material 78 420
	                                                        86 610
	                                                        8 000
	Less Closing inventory of raw material 78 610 **(1)**
	Direct wages 52 396 **(1)**
	Prime cost 131 006 **(1)OF**
	Factory overheads
	Wages of factory supervisor 27 500 **(1)**
	Rates and insurance (17 528 × 3/4) 13 146 **(1)**
	Factory electricity (11 442 + 1 048) 12 490 **(1)**
	General expenses 8 244
	Depreciation of factory equipment
	(90 000 – 43 920) × 20% 9 216 **(1)** 70 596
	                                                        201 602 **(1)OF**
	Add opening work-in-progress 15 200 *
	                                                        216 802
	Less closing work-in-progress 16 100 *
	Cost of production 200 702 **(1)OF**
	
	* **(1)** for both opening and closing work-in-progress
		10

Question	Answer	Marks
4(b)	Salman Income statement (trading section) for the year ended 30 April 2023	5

<div align="center">

	$	$	
Revenue		435 174	**(1)OF**
Cost of sales			
Opening inventory	23 860		
Cost of production	200 702 **(1)OF**		
Purchases of finished goods	90 144 **(1)**		
	314 706		
Closing inventory	24 590	290 116	**(1)OF**
Gross profit		145 058	**(1)OF**

</div>

Question	Answer	Marks
4(c)	**Advantages of converting office space** Will be more profitable use of space/increase output **(1)** Manufacturing appears to be profitable **(1)** May not need to purchase finished goods **(1)** Have high bank balance which will help to pay for conversion **(1)** **Accept other valid points** **Max (3)** **Disadvantages of converting office space** May not be able to sell the extra output **(1)** Conversion of office space may be costly **(1)** May have to purchase additional factory equipment **(1)** May be more appropriate/more profitable to use the funds for other things **(1)** The space is necessary for office purposes **(1)** **Accept other valid points** **Max (3)** **Max (4)** **(1) for recommendation**	5