2 Sara owns a clothing factory. She sells the clothing to a small number of local shops. She allows 30 days credit.

At 30 September 2023, Sara's ledger account balances included the following.

	$
Inventory at 1 October 2022	
Raw materials	4875
Work in progress	8125
Finished goods	12890
Purchases of raw materials	56400
Wages	
Machine operators	43300
Factory supervisor	25000
Delivery vehicle driver	14250
Rates and insurance	29600
General factory expenses	9650
Factory machinery – at cost	80000
Factory machinery – provision for depreciation	35000
Trade receivables	27000
Cash at bank	1050

Additional information

1. Inventory at 30 September 2023

Raw material	5110
Work in progress	7365
Finished goods	13725

2. At 30 September 2023 general factory expenses of $335 were unpaid.

3. Insurance of $8000 had been paid for the year July 2023 to June 2024.

4. Rates and insurance are to be apportioned equally between the factory and the office.

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

REQUIRED

(a) Prepare Sara's manufacturing account for the year ended 30 September 2023.

Sara
Manufacturing Account for the year ended 30 September 2023

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[11]

(b) Prepare the current assets section of Sara's statement of financial position at 30 September 2023.

Sara
Statement of financial position (current assets section) at 30 September 2023

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[3]

Sara's factory supervisor is very efficient at running the factory.

REQUIRED

(c) State which accounting principle Sara is complying with by **not** recording any value for this efficiency in her financial statements.

.... [1]

Sara has now been asked to supply a local drama school with theatrical costumes. The drama school would place an order with Sara each month and would require 60 days credit.

REQUIRED

(d) Advise Sara whether she should start supplying the drama school with costumes. Justify your answer by providing advantages **and** disadvantages of supplying the costumes.

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.... [5]

[Total: 20]

Question	Answer			Marks
2(a)	Sara Manufacturing Account for the year ended 30 September 2023			**11**
		$	$	
	Cost of material consumed			
	Opening inventory of raw material		4 875	
	Purchases of raw material		56 400	
			61 275	
	Less Closing inventory of raw material		5 110	
			56 165 **(1)**	
	Direct wages		43 300 **(1)**	
	Prime cost		99 465 **(1)OF**	
	Factory overheads			
	Wages of factory supervisor	25 000 **(1)**		
	Rates and insurance (29 600 – 6 000) /2	11 800 **(2) (1)OF**		
	General factory expenses (9 650 + 335)	9 985 **(1)**		
	Depreciation of factory machinery (80 000 – 35 000=) 45 000 x 25%	11 250 **(1)**	58 035	
			157 500 **(1)OF**	
	Add opening work-in-progress		8 125*	
			165 625	
	Less closing work-in-progress		7 365 ***(1) for both W in P**	
	Cost of production		158 260 **(1)OF**	
2(b)	Sara Statement of financial position (Current assets section) at 30 September 2023			**3**
	Current Assets	$		
	Inventory – Raw materials	5 110 }		
	– Work-in-progress	7 365 } **(1)**		
	– Finished goods	13 725 }		
		26 200		
	Trade receivables	27 000**}**		
	Other receivables	6 000**}**		
	Cash at bank	1 050**}(1)**		
		60 250**(1)OF**		

Question	Answer	Marks
2(c)	Money measurement **(1)**	**1**
2(d)	**Advantages of supplying drama school** Will increase sales / revenue **(1)** May increase profit **(1)** The extra work will provide security/continuity of workload **(1)** If successful, potential to supply other schools, theatre groups, etc. **(1)** **Accept other valid points** **Max 3** **Disadvantages of supplying drama school** There would be extra administration or may incur additional costs / wages / costs of production **(1)** More manufacturing and/or storage capacity may be required **(1)** May not have capacity to supply both existing customers and drama group **(1)** Allowing 60 days credit will adversely affect liquidity **(1)** **Accept other valid points** **Max 3** **Recommendation (1)**	**5**