



- 5 Grace owns a factory which makes shoes. She buys handbags from a supplier and sells the shoes and handbags.

Grace prepares her financial statements to 31 March each year. At 31 March 2025, her ledger account balances included the following:

	\$
Inventory at 1 April 2024	
Raw materials	5 345
Work in progress	13 820
Finished goods (shoes)	27 540
Purchases of raw materials	72 870
Carriage inwards of raw materials	1 220
Wages:	
Factory operatives	29 175
Factory supervisor	24 000
Office staff	26 170
Rent and insurance	12 000
Factory power	14 120
Factory equipment – at cost	180 000
Factory equipment – provision for depreciation	64 800

Additional information

- 1 Inventory at 31 March 2025:

	\$
Raw materials	7 100
Work in progress	14 390
Finished goods (shoes)	27 985
- 2 Rent and insurance is to be apportioned 65% to the factory and 35% to the office.
- 3 At 31 March 2025, Grace owed \$1315 for factory power and \$2000 for the factory supervisor's wages.
- 4 Factory equipment is depreciated at 20% per annum using the reducing balance method.





(a) Prepare Grace's manufacturing account for the year ended 31 March 2025.

[illegible]

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Grace buys handbags for \$14 each and sells them for \$27 each. Grace counted her inventory of handbags on 31 March 2025 and found that:

- She had a total of 255 handbags.
- 15 handbags needed to be cleaned before sale. Grace needed to pay a total of \$21 to have them cleaned. She expected to sell them for \$25 each.
- 3 handbags had become damaged. Grace could not repair these handbags and decided to sell them for \$13 each.

REQUIRED

(b) Calculate the valuation of Grace's inventory of handbags at 31 March 2025.

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(c) State how Grace is applying the historic cost accounting principle when she prepares her financial statements.

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..... [1]





REQUIRED

- [5]

[Total: 20]

Question	Answer	Marks																																																												
5(a)	<div>Grace</div> <div>Manufacturing Account for the year ended 31 March 2025</div> <table><thead><tr><th></th><th>\$</th><th>\$</th></tr></thead><tbody><tr><td>Cost of material consumed</td><td></td><td></td></tr><tr><td>Opening inventory of raw material</td><td></td><td>5 345</td></tr><tr><td>Purchases of raw material</td><td></td><td>72 870</td></tr><tr><td>Carriage inwards of raw material</td><td></td><td>1 220</td></tr><tr><td></td><td></td><td><u>79 435</u></td></tr><tr><td>Less Closing inventory of raw material</td><td></td><td>7 100</td></tr><tr><td></td><td></td><td><u>72 335</u> (1)</td></tr><tr><td>Direct wages</td><td></td><td>29 175 (1)</td></tr><tr><td>Prime cost</td><td></td><td><u>101 510</u> (1)OF</td></tr><tr><td>Factory overheads</td><td></td><td></td></tr><tr><td>Wages of factory supervisor (24 000 + 2 000)</td><td>26 000 (1)</td><td></td></tr><tr><td>Factory power (14 120 + 1 315)</td><td>15 435 (1)</td><td></td></tr><tr><td>Rent and insurance (12 000 × 65%)</td><td>7 800 (1)</td><td></td></tr><tr><td>Depreciation of factory equipment (180 000 – 64 800) × 20%</td><td><u>23 040</u> (1)</td><td>72 275</td></tr><tr><td></td><td></td><td><u>173 785</u> (1)OF</td></tr><tr><td>Add opening work-in-progress</td><td></td><td>13 820 *</td></tr><tr><td></td><td></td><td><u>187 605</u></td></tr><tr><td>Less closing work-in-progress</td><td></td><td>14 390 * (1) for both inventories</td></tr><tr><td>Cost of production</td><td></td><td><u>173 215</u> (1)OF</td></tr></tbody></table>		\$	\$	Cost of material consumed			Opening inventory of raw material		5 345	Purchases of raw material		72 870	Carriage inwards of raw material		1 220			<u>79 435</u>	Less Closing inventory of raw material		7 100			<u>72 335</u> (1)	Direct wages		29 175 (1)	Prime cost		<u>101 510</u> (1)OF	Factory overheads			Wages of factory supervisor (24 000 + 2 000)	26 000 (1)		Factory power (14 120 + 1 315)	15 435 (1)		Rent and insurance (12 000 × 65%)	7 800 (1)		Depreciation of factory equipment (180 000 – 64 800) × 20%	<u>23 040</u> (1)	72 275			<u>173 785</u> (1)OF	Add opening work-in-progress		13 820 *			<u>187 605</u>	Less closing work-in-progress		14 390 * (1) for both inventories	Cost of production		<u>173 215</u> (1)OF	10
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5(c)	<p>All assets and expenses are recorded at their actual cost (1)</p> <p>Factory equipment and other costs are recorded at the amount of their actual/original cost. (1)</p> <p>Accept other valid points</p> <p>Max (1)</p>	1																																																												

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Question	Answer	Marks
5(d)	<p>Points for producing handbags</p> <p>Not dependent on suppliers for price/may be able to produce them more cheaply (1)</p> <p>Not dependent on suppliers for quality (1)</p> <p>Not dependent on suppliers for reliability (1)</p> <p>Possibility of higher sales/more customers/higher profit (1)</p> <p>Accept other valid points</p> <p>Max (3)</p> <p>Points against producing handbags</p> <p>New equipment may be required (1)</p> <p>May be cheaper to purchase rather than make (1)</p> <p>May produce inferior quality goods/customers may be dissatisfied (1)</p> <p>May not be able to meet demand (1)</p> <p>May need additional factory space/additional storage space (1)</p> <p>Cost of production will increase/ cost of raw material will increase/ will need extra employees/may incur additional factory expenses (1)</p> <p>Accept other valid points</p> <p>Max (3)</p> <p>Overall For and Against: Max (4)</p> <p>Recommendation (1)</p>	5