**Question 36**

The following figures were taken from the records of Ochil Industries plc as at 31 December Year 2.

**Dr Cr**

**£000 £000**

Revenue of Finished Goods 1,680

Purchases of Raw Materials 280

Inventories at 1 January Year 2:

Raw Materials 48

Work-in-progress 22

Finished Goods 84

Direct Wages 300

Salaries 90

Insurance 100

Factory Expenses 10

Factory Power 40

Office Expenses 5

Factory Machinery at cost 700

Provision for Depreciation on Factory Machinery

at 1 January Year 2 100

Office Equipment at cost 100

500,000 Ordinary Shares of £1 each 500

Unappropriated Profit at 1 January Year 2 8

**£000**

**Notes** at 31 December Year 2

1 Inventories

Raw Materials £40

Work-in-progress £32

Finished Goods £68

2 Insurance receivable £20

3 Office expenses payable £1

4 Provide for corporation tax £196

5 Factory machinery is depreciated at 10% per annum on cost.

6 Office equipment is depreciated at 5% per annum on cost.

7 Salaries are to be apportioned between the factory and the office in the ratio 2:1.

8 Insurance, taking into account the receivable, is to be divided 75% to the factory and 25% to the office.

9 An interim dividend of 15% has been paid on ordinary shares but has been omitted from the accounts.

(a) **Prepare**, for internal use, the **Manufacturing Account** only, for the year ended   
31 December Year 2, labelling clearly the:

(i) Cost of Raw Materials Consumed

(ii) Prime Cost

(iii) Factory Cost of Production **10**

(b) **Prepare** the **Income Statement**, for internal use, (including the appropriation of available profits), for the year ended 31 December Year 2. **10**

**Total marks (20)**

**Question 36 — solution**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **(a)** | **Manufacturing Account for the year ended 31 December Year 2 ✓** | | | |  | |  |
|  |  |  | |  | **£000** | |  |
|  | Inventory of Raw Materials at start |  | |  | 48 | |  |
|  | Add Purchases of Raw Materials |  | |  |  | 280 | **(1)** |
|  |  |  | |  | 328 | |  |
|  | Less Inventory of Raw Materials at end |  | |  |  | 40 | **(1)both** |
|  | COST OF RAW MATERIALS CONSUMED ✓ | | |  | 288 |  |
|  | ADD DIRECT COSTS |  | |  |  | |  |
|  | Direct Wages |  | |  |  | 300 | **(1)** |
|  | PRIME COST ✓ |  | |  | 588 |  |
|  | ADD FACTORY OVERHEADS |  | |  |  | |  |
|  | Insurance (100– 20x 75%) | 60 | | **(2)** |  | |  |
|  | Salaries (2/3 x 90) | 60 | | **(2)** |  | |  |
|  | Factory Expenses | 10 | |  |  | |  |
|  | Factory Power | 40 | | **(1)both** |  | |  |
|  | Depreciation of Factory Machinery (10% x 700) |  | 70 | **(1)** |  | 240 |  |
|  |  |  |  |  |  | 828 |  |
|  | Add Opening Work-in-progress |  | |  |  | 22 |  |
|  |  |  | |  |  | 850 |  |
|  | Less Closing Work-in-progress |  | |  |  | 32 | **(1)both** |
|  | FACTORY COST OF PRODUCTION ✓ |  | |  | | 818 |  |
|  |  |  | |  |  | |  |
|  |  |  | |  |  | | **10** |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(b)** | **Income Statement for year ended 31 December Year 2 ✓** | | | | | | |  | | | |  | |
|  |  |  | | |  | | | **£000** | | | |  | |
|  | Revenue |  | | |  | | | 1,680 | | | | **(1)** | |
|  | LESS COST OF SALES |  | | |  | | |  | | | |  | |
|  | Opening Inventory of Finished Goods | 84 | | |  | | |  | | | |  | |
|  | ADD Factory Cost of Production |  | 818 | | | **(1)** | |  | | | |  | |
|  |  | 902 | | |  | |  | | | |  | |
|  | LESS Closing Inventory of Finished Goods |  | 68 | | | **(1)both** | | 834 | | | | |  |
|  | GROSS PROFIT ✓ |  | | |  | | 846 | | | | |  |
|  | LESS EXPENSES |  | | | |  | |  | | | | |  |
|  | Salaries | 30 | | | | **(1)both** | |  | | | | |  |
|  | Insurance | 20 | | | |  | |  | | | | |  |
|  | Office Expenses (5+ 1) | 6 | | | | **(2)** | |  | | | | |  |
|  | Depreciation on Office Equipment |  | | 5 | | **(1)** | | | 61 | | | |  |
|  | PROFIT FOR THE YEAR ✓ |  | |  | | |  | | 785 | |  |
|  | Less Corporation Tax |  | | |  | |  | | | 196 | | **(1)** | |
|  |  |  | | |  | | 589 | |  | |
|  | Add Unappropriated Profit at 1 January Year 2 |  | | |  | |  | | | 8 | | **(1)** | |
|  |  |  | | |  | | 597 | |  | |
|  | Less Ordinary Share Interim Dividend (15% x £500,000) |  | | |  | |  | | | 75 | | **(1)** | |
|  | Unappropriated Profit c/f ✓ |  | | |  | | 522 | |  | |
|  |  |  | | |  | |  | | | | | **10** | | |

**Total marks (20)**