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|  **Accounting Grade 12****Worked example (Extracted from 2020 Examination Guidelines)****BB BUCKETS** The business produces plastic buckets. You are provided with information for the financial year ended 29 February 20.9. **INFORMATION**:

|  |  |
| --- | --- |
| **A.** | **Production, sales and profit**:* 10 000 buckets were produced during the 20.9 financial year
* The selling price per bucket is R93,00
* Net profit for the 20.9 financial year per the Income Statement is R280 000.
 |
|  |  |  |  |  |
| **B.** | **Cost categories** | **Total** | **Per unit** |  |
|  | **VARIABLE COSTS** | **R430 000** | **R43,00** |  |
|  | Direct materials | R240 000 | R24,00 |  |
|  | Direct labour | R130 000 | R13,00 |  |
|  | Selling & distribution | R60 000 | R6,00 |  |
|  | **FIXED COSTS** | **R220 000** | **R22,00** |  |
|  | Factory overheads | R180 000 | R18,00 |  |
|  | Administration | R40 000 | R4,00 |  |
|  |  |  |  |  |
|  |  | **R650 000** | **R65,00** |  |

**REQUIRED:**

|  |  |
| --- | --- |
| (a) | Calculate the break-even point. |
|  |  |
| (b) | Provide a calculation to show that the net profit of R280 000 is correct. |
|  |  |
| (c) | Calculate:* The increase in profit if an extra 600 buckets are produced.
* The total profit that will be earned if an additional 600 buckets are produced.
 |
|  |  |
| (d) | Calculate:* The number of additional units that need to be produced to increase the net profit by R75 000.
* The total number of units that need to be produced to increase the net profit by R75 000.
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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **SOLUTION**:

|  |  |
| --- | --- |
| **(a)** | **Calculate the break-even point:** R220 000 = R220 000 = 4 400 unitsR93,00 – R43,00 R50,00 |
|  |  |
| **(b)** | **Provide a calculation to show that the net profit of R280 000 is correct:**(10 000 x R93,00) – R650 000 = R280 000 See (a) above***OR***: (10 000 – 4 400) X R50 = R280 000 |
|  |  |
| **(c)** | **Calculate the increase in profit if an additional 600 buckets are produced:** See (a) above600 units X R50 = R30 000**Calculate the total profit that will be earned if an additional 600 buckets are produced:** See aboveR280 000 + R30 000 = R310 000 |
|  |  |
| **(d)** | **Calculate the number of additional units that need to be produced to increase the net profit by R75 000:**R75 000 = 1 500 units R50See (a) above **Calculate the total number of units that need to be produced to increase the net profit by R75 000:**10 000 + 1 500 = 11 500 units |
|  |  |

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