

| ASSIGNMENT 02 Management Accounting |
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| Individual assignment               |
| Due date: 30 April 2019             |

## Question 1

15 marks

The Maytag Group Ltd in KwaZulu-Natal, South Africa, acquired its factory building about ten years ago. For several years the company has rented out a small annex attached to the rear of the building. The company has received rental income of R40 000 per year on this space. The renter's lease will expire soon and, rather than renewing the lease, the company has decided to use the space itself to manufacture a new product.

Direct materials cost for the new product will total R80 per unit. To have a place to sell the finished units of the product, the company will rent a small warehouse nearby. The rental cost will be R500 per month. In addition, the company must rent equipment for use in producing the new product; the rental cost will be R3 500 per month. Workers will be hired to manufacture the new product, with direct labour costs amounting to R70 per unit. The space in the annex will continue to be depreciated on a straight-line basis, as in prior years. This depreciation is R8000 per year.

Advertising costs for the new product will total R50 000 per year. A supervisor will be hired to oversee production; her salary will be R1 500 per month. Electricity for operating machines will be R1.40 per unit. Costs of shipping the new product to customers will be R9 per unit.

To provide funds to purchase materials, meet payrolls and so forth, the company will have to liquidate some temporary investments. These investments are presently yielding a return of about R4000 per year.

## Required

Identify the different types of costs involved in the case above (Hint: Prepare an answer sheet with the following column headings:

| Name of the cost | Product cost 36 |            |                  |               |                        | Period cost 37                              | Opportunity cost | Sunk cost |
|------------------|-----------------|------------|------------------|---------------|------------------------|---------------------------------------------|------------------|-----------|
|                  | Variable cost   | Fixed cost | Direct materials | Direct labour | Manufacturing overhead | (selling costs and administrative expenses) |                  |           |

R40      41      381      39      39      -R

R500      R3500      R8000      R50000      R1500      R1.40      R9

R80      R8000