1 Wincombe Manufacturing produces a single product. The following were some of the balances in the books of account on 31 December 2022.

	£
Revenue	811 000
Wages	
Manufacturing	197 000
Administrative	78 000
Non-current assets (cost)	
Manufacturing machinery	120 000
Computer equipment	60 000
Office fixtures	45 000
Provisions for depreciation	
Manufacturing machinery	40 000
Computer equipment	12 000
Office fixtures	25 000
Management salaries	125 000
Purchases of raw materials	204 000
Purchase returns of raw materials	6 800
Advertising expenses	20 850
Rent and rates payable	18 000
Rent receivable	7 500
Manufacturing expenses	
Direct	11 800
Indirect	29 200
Insurance	10 000
Royalties paid	12 500
Power and water	29 300
Trade receivables	96 000
Irrecoverable debts	3 650
Trade payables	71 400
Bank	25 600 Cr
Provision for unrealised profit	2 000
Allowance for irrecoverable debts	2 900
Inventory at 1 January 2022	
Raw materials	36 900
Work in progress	46 700
Finished goods	64 000

Additional information at 31 December 2022

(1) Inventory

Raw materials	£27 900
Work in progress	£45 600
Finished goods	£58 500

(2) Royalties had been paid on 25 000 units. They were outstanding on a further 5 000 units.

(3) Power was £1 100 accrued and water was £400 prepaid.

(4) Depreciation is charged on all non-current assets owned at the end of the year as follows.

- Manufacturing machinery at the rate of 15% per annum using the straight-line method.
- Computer equipment at the rate of 25% per annum using the reducing balance method.
- Office fixtures at the rate of 10% per annum using the straight-line method.

(5) Expenses are to be apportioned between manufacturing and administration as follows.

Expense	Basis of apportionment	Manufacturing	Administration
Management salaries	Number of staff	21	4
Rent and rates payable	Floor area (sq m)	11 000	4 000
Insurance	Agreed estimate	60%	40%
Power and water	Usage	70%	30%
Computer equipment depreciation	Hours usage per annum	4 000	8 000

(6) The provisions are to be adjusted as follows.

- Unrealised profit is to be reduced by £500
- Irrecoverable debts are to be maintained at 5% of trade receivables.
- A new provision is to be created equal to 10% of administrative wages to provide for a legal claim currently going through the law courts.

(7) Finished goods are transferred from manufacturing to the warehouse at a transfer price of £21.50 per unit. During the year 30 000 units were transferred.

Required

(a) Prepare for the year ended 31 December 2022, the:

(i) Manufacturing Account **(17)**

(ii) Statement of Profit or Loss and Other Comprehensive Income **(18)**

(iii) Provision for Unrealised Profit Account. **(4)**

(b) Explain why Wincombe Manufacturing needs to maintain a provision for unrealised profit.

(4)

Another manufacturer has approached Wincombe Manufacturing and offered to supply 30 000 units per year for a price of £21.50 per unit.

(c) Evaluate whether Wincombe Manufacturing should continue with its own production or purchase the manufactured product from the other manufacturer.

(12)

(Total for Question 1 = 55 marks)