

- 29 M Limited manufactures and sells two different colours of paint. The following actual information is available for last year.

	red paint \$	blue paint \$	total \$
revenue	350 000	150 000	500 000
direct materials and labour	180 000	65 000	245 000
allocated fixed overheads	110 000	88 000	198 000
profit/(loss)	60 000	(3 000)	57 000

The company is considering closing the blue paint department and using the extra space to increase revenue in red paint by 20%. Variable costs will increase in the same proportion as the increase in revenue.

What would be the **change** in the total profit if this action is taken?

- A \$3000 increase
- B \$29 000 increase
- C \$51 000 decrease
- D \$85 000 decrease

- 30 Why might a business prepare budgets?

- 1 to encourage planning and decision-making
- 2 to improve coordination between departments
- 3 to monitor and control costs

- A 1, 2 and 3 B 1 and 2 only C 1 and 3 only D 2 and 3 only