3 KC Global Limited provides the following budgeted information.

	January 2015	February 2015
Production	10 000 units	10 000 units
Sales	7 000 units	13 000 units
Production costs per unit:		
Direct materials	$4.50	$4.50
Direct labour	$6.00	$6.00
Variable overheads	$2.50	$2.50

Additional information

1 The budgeted selling price per unit is $17.

2 Budgeted production for the year is 120 000 units spread equally over the year.

3 There is no opening inventory at 1 January 2015.

4 Annual fixed overheads are budgeted to be $324 000.

5 Fixed overheads are absorbed on a unit basis.

REQUIRED

(a) Calculate the monthly breakeven point in units.

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(b) Prepare forecast profit statements for January and February 2015 using absorption costing.

	January 2015 $	February 2015 $

[4]

(c) Prepare forecast profit statements for January and February 2015 using marginal costing.

	January 2015 $	February 2015 $

[4]

(d) Prepare a reconciliation statement showing the difference between the absorption costing profit and the marginal costing profit for January and February 2015.

	January 2015 $	February 2015 $
Absorption costing profit		
Marginal costing profit		

[4]

(e) Explain why the absorption costing statement produces a different profit figure to the marginal costing statement.

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Additional information

The directors of KC Global Limited are considering an advertising campaign starting in January 2015. This will cost $60 000 spread evenly over the year. The volume of sales and production would both increase by 10%.

REQUIRED

(f) Prepare a revised profit statement for January 2015, using absorption costing.

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(g) State **three** situations where marginal costing would help in making a short term decision.

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(h) Evaluate the limitations of marginal costing.

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