4 J Limited produces and sells a single product. The budgeted operating statement of the company for the year ending 31 March 2019 is as follows:

	$000	$000
Sales income (20 000 units)		2 900
Direct materials	500	
Direct labour	300	
Production overheads	680	
		(1 480)
Gross profit		1 420
Selling overheads		(898)
Profit for the year		522

The variable production overheads will be $5 per unit.

The variable selling overheads will be $10 per unit.

REQUIRED

(a) (i) Calculate the budgeted contribution per unit.

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(ii) Calculate the budgeted margin of safety in units.

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(iii) Calculate the budgeted margin of safety as a percentage.

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Additional information

The sales manager believes that production and sales can be increased to 25 000 units per year based on the following plan.

1 The company spends $250 000 on an advertising campaign which will last for one year only.

2 The unit selling price is reduced by 15%.

3 The direct material unit cost is reduced by 5%.

REQUIRED

(b) Prepare statements to calculate the following in the first year if the directors decide to proceed with this plan.

(i) the revised budgeted contribution

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(ii) the revised budgeted total profit

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Additional information

If the directors decide to proceed with the sales manager's plan they would do so for a period of 3 years.

If the directors decide **not** to proceed with the sales manager's plan they estimate that profit for the years ending 31 March 2019, 31 March 2020 and 31 March 2021 will be $522 000, $322 000 and $220 000 respectively.

REQUIRED

(c) Advise the directors whether or not they should accept the sales manager's plan. Justify your answer using **both** financial **and** non-financial factors and any relevant calculations.

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(d) State **three** assumptions made when using cost–volume–profit (CVP) analysis.

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(e) State **two** advantages of using CVP analysis.

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