3 Airlie Limited manufactures one product. The following information is available for the production of one unit of product for the year ending 30 June 2014.

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Selling price	32.00
Direct materials	6.50
Direct labour	8.50
Fixed factory overheads	5.00
Variable factory overheads	3.00
Fixed selling and administration overheads	3.50
Variable selling and administration overheads	2.50

The budgeted output is 18 000 units per year, which represents 75% of total production capacity.

REQUIRED

(a) Calculate the breakeven point in units.

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.... [5]

(b) Calculate the breakeven point as a percentage of capacity.

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.... [3]

(c) Prepare a marginal cost statement to show Airlie Limited's budgeted total profit for the year ending 30 June 2014 based on the budgeted output of 18 000 units.

Marginal cost statement
year ending 30 June 2014

	$	$

[3]

Additional information

1 The directors are considering purchasing additional machinery at a cost of $45 000.

2 This will increase capacity by 10%.

3 The machinery will be written off over five years, with an estimated residual value of $5000.

4 The directors plan to reduce the selling price by 12.5% and this will increase demand by 50%.

5 Fixed selling and administration overheads will increase by 10%.

REQUIRED

(d) Calculate the revised breakeven point in units.

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.... [5]

(e) Calculate the revised breakeven point as a percentage of capacity.

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.... [3]

(f) Prepare a marginal cost statement to show Airlie Limited's revised total profit for the year ending 30 June 2014 if the machinery is purchased.

Revised marginal cost statement
year ending 30 June 2014

	$	$

[4]

(g) Advise the directors whether they should go ahead with their plans. Give reasons for your answer.

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