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[2]

[4]

### Additional information

The directors of Costello Limited are concerned about the future prospects of the company. Employees have spare capacity and the machinery is not being fully utilised.

The company has been approached by a large retailer asking for a quotation to produce 100 bookcases each week. The retailer requires the bookcases to have a different finish that would add \$2.25 to the direct material cost.

## REQUIRED

- (d)** Calculate the selling price that the directors should charge the retailer in order to achieve a 20% contribution to sales ratio.

[4]

### Additional information

Having considered the situation, the directors have decided to quote a price of \$29 per bookcase to the retailer. The additional work will involve employing one additional member of staff at a weekly salary of \$140.

The contract with Dando plc to produce 220 bookcases per week would still be maintained at the price of \$30 per bookcase.

## REQUIRED

- (e) Prepare a profit statement for Costello Limited to show the **total** annual contribution and **total** annual profit if the retailer accepts the quotation.

[5]

- (f)** Advise the directors whether or not they should proceed with the additional order for the retailer. Give reasons for your answer.

[4]

### Additional information

Businesses may value inventory using different methods.

### REQUIRED

- (g) Explain **two** advantages and **one** disadvantage of using the AVCO method of inventory valuation.

Advantage 1 .....

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Advantage 2 .....

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Disadvantage .....

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