3 Aloysius Dixon of Dixon's Tableworks anticipates that in 2009 he will be able to sell 10 000 tables at $1100 each. However, his works manager has already produced the following figures for 2009 based on the factory's current production of 8000 tables per annum.

	$	$
Sales (8000 x $1100)		8 800 000
Direct materials	1 024 000	
Direct wages	5 000 000	
Production overhead	640 000	
Sales overhead	480 000	7 144 000
Profit		1 656 000

All overheads are 50 % fixed, 50 % variable.

250 000 labour hours are worked.

There are 3 options under consideration which allow sales to increase to 10 000 tables.

Option 1
Purchase 2000 tables from another manufacturer at $920 each.

Option 2
Lease new and improved machinery at a cost of $260 000 for the year. This would allow production of 10 000 tables per annum with no change in unit variable costs. This was previously under consideration and $40 000 had been spent on a feasibility study.

Option 3
Using the existing machinery, introduce an evening shift thus providing an additional 62 500 labour hours. Wage rates for this shift would have to increase by 15 % to take into account unsocial hours to be worked. Also the additional staff needed would have to be trained at a cost of $50 000 - this cost to be absorbed in 2009.

REQUIRED

(a) Calculate the original unit contribution.

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(b) Prepare financial statements showing in detail the calculations for the **additional** profits or losses arising from **each** of the **three** options.

[22]

(c) State which option should be accepted, giving **one** advantage and **one** disadvantage, of that option.

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