**4** Costello Limited is a manufacturing business that produces one product, a wooden bookcase. All production is sold to just one customer, Dando plc.

Costello Limited is contracted to produce 220 bookcases for the customer each week at a contract price of \$30 per bookcase.

Employees are paid a fixed salary each week plus a bonus based on output.

The costs incurred by Costello Limited are as follows:

	\$
Direct material cost	22.00 per unit
Production labour	
Salaries	345.00 per week
Bonus	0.50 per unit
Finishing labour	
Salaries	280.00 per week
Bonus	0.25 per unit
Machine hire	150.00 per week
Administration costs	500.00 per week
Property costs	260.00 per week

## **REQUIRED**

(a)

alculate the <b>weekly</b> break-even point in units.
[5 <u>]</u>

(b)	Calculate the weekly margin of safety in <b>units</b> and in <b>revenue</b> .						
	[2]						
(c)	Prepare an <b>annual</b> profit statement using marginal costing.						
	[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**

rice that the directors should charge the retailer in order to achieve a es ratio.	(d)
[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)	e) Prepare a profit statement for Costello Limited to show the total annual contribution a 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 <b>two</b> a valuation.	dvantages a	and <b>one</b>	disadvanta	age of u	sing the	AVCO r	nethod o	of inv	entory
	Advantage 1									
							••••••			
	Advantage 2									
	Disadvantage									
										16.