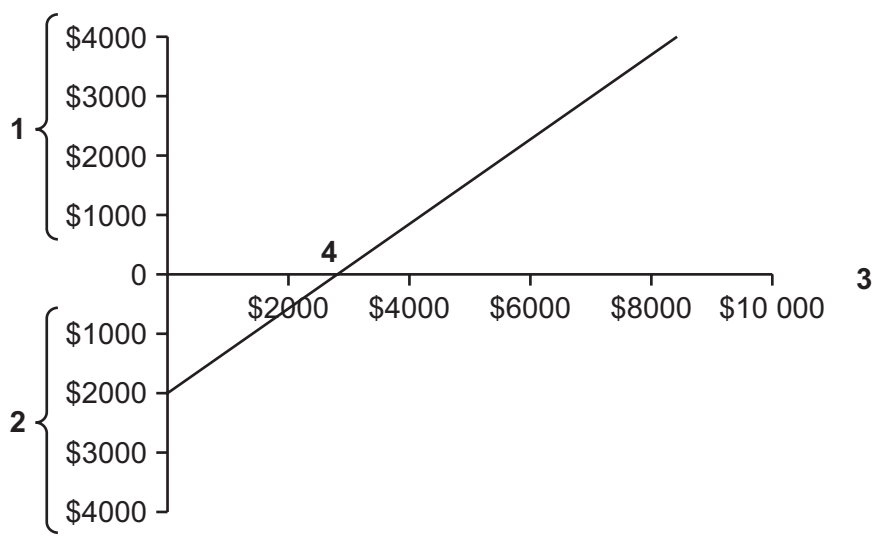


3 The following Contribution/Sales chart was prepared for Larry Ltd for the first year of business.

Larry Ltd – Profit (Contribution/Sales) Chart



Selling price is \$30 per unit  
 Fixed costs (shown) \$2000  
 Variable costs are \$9.00 per unit  
 All of the output of 300 units is sold.

**REQUIRED**

(a) (i) State what **each** of the numbers 1, 2, 3 and 4 on the chart represent.

- 1 .....
- 2 .....
- 3 .....
- 4 ..... [4]

(ii) Calculate the break-even point in both units and sales value. The formula for your calculations **must** be shown.

- .....
- .....
- .....
- .....
- ..... [4]

(iii) Define and explain margin of safety.

.....

.....

.....

.....

..... [4]

(iv) Calculate the margin of safety in units **and** in value.

.....

.....

..... [4]

In the second year of business, expected production and sales is 400 units, and fixed costs are expected to rise by 15 %. Selling price and variable costs will remain as before.

**REQUIRED**

(b) (i) Calculate the anticipated profit in the second year of business.

.....

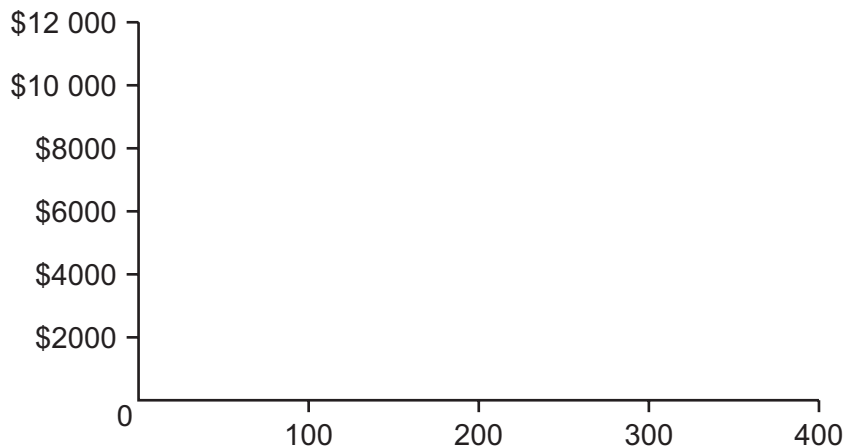
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..... [4]

(ii) Prepare a break-even chart for the second year of business.



[6]

**REQUIRED**

(c) State **four** assumptions made when using break-even charts.

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..... [4]