4 Ethan owns a factory which produces hand-painted pots. The factory employees receive piecework payments.

REQUIRED

(a) State what is meant by 'piecework payments'.

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.... [1]

(b) Explain what is meant by 'production overheads'.

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.... [2]

Additional information

The following budgeted information is available for the year ending 30 June 2020.

1 Sales ($12 per unit)

	$
1 July – 30 Sept 2019	171 000
1 Oct – 31 Dec 2019	171 000
1 Jan – 31 Mar 2020	186 000
1 Apr – 30 June 2020	192 000

2 Costs for the **year**

	$
Advertising	24 000
Direct labour	270 000
Direct material C	48 000
Direct material D	90 000
Fixed production overheads	30 000

3 The salesperson receives a basic salary plus commission payment.

Basic salary	$51 000 per annum
Commission	3.5% of sales revenue

REQUIRED

(c) Calculate for the year ending 30 June 2020:

(i) the **total** budgeted fixed selling expenses

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.... [1]

(ii) the **total** budgeted variable selling expenses

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.... [1]

(iii) the **total** budgeted contribution

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.... [1]

(iv) the **total** budgeted profit.

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.... [1]

Additional information

Ethan has received an order, directly from a customer, for an **additional** 15 000 pots at a selling price of $8 per pot. The order is to be delivered in November 2019.

The following information is relevant to this order.

1 The existing labour force can produce a maximum of 70 000 pots each year.

2 Additional temporary labour can be hired at $5.25 per unit.

3 The current supplier can only guarantee the material prices for a maximum of 70 000 pots. To purchase extra material C to produce any units in excess of 70 000 the cost will increase by 5% and the cost of material D will increase by 2%.

4 There is sufficient space in the factory to produce the order.

REQUIRED

(d) Calculate the additional profit or loss made on this order.

[13]

(e) Advise Ethan whether or not he should accept the order. Justify your answer taking into account **both** financial and non-financial factors.

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.... [5]

(f) State **two** benefits and **three** limitations to a business of using cost–volume–profit analysis.

Benefit 1 ....

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Benefit 2 ....

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Limitation 1 ....

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Limitation 2 ....

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Limitation 3 ....

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[5]