

- The following budgeted information was available for the year ended 31 December 2023.

A customer placed an order for 250 units in November 2023. The following budgeted information is available about the production of one unit.

Selling prices are set to achieve a profit margin of 40%.

- [5]

Additional information

Actual production hours for the year ended 31 December 2023 were as follows:

	Cutting department	Finishing department
Labour hours	16 200	7 900
Machine hours	24 300	5 800

Total actual overheads were the same as budgeted overheads.

- (b) Calculate the over-absorption or under-absorption of overheads for **each** production department for the year ended 31 December 2023.

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Additional information

K Limited uses marginal costing at **another** factory where a single type of product is made.

The following budgeted information is available.

	\$ per unit
Selling price	42
Direct materials	12
Direct labour (1.5 hours per unit)	18
Other variable costs	3

Fixed costs per month are \$38 500.

Currently the factory is producing 9920 units per month.

- (c) Calculate both the **total** monthly contribution and the **total** monthly profit currently being made in this factory.

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Additional information

The directors hope to increase demand by changing the selling price. They are considering the following two options.

Option A

- 1 Reduce the selling price per unit by 5%.
- 2 Increase production by 4000 units on the current production level.
- 3 A commission of \$0.25 per unit will be paid.
- 4 Overtime will be required on all units produced over 12 400 units and is paid at a premium of 25%.
- 5 Cancel the current advertising campaign costing \$8000 a month.

Option B

- 1 Reduce the selling price per unit to \$41.
- 2 Increase production by 10% on the current production level.
- 3 Invest in more up-to-date machinery at a cost of \$180 000.
- 4 It is proposed to partly finance the purchase of new machinery by borrowing \$150 000 at 8% per annum interest.
- 5 Machinery is depreciated by 25% per annum on cost.
- 6 As a result of improvements to machinery, the time each worker takes to produce one unit will be reduced by 8% and a higher quality product can be made.

- (i) Option A

[6]

(ii) Option B

[6]

- [7]