4 Zinan is a manufacturer and makes a single product. He currently uses marginal costing.

The following budgeted information is available for two years.

	Year 1	Year 2
	$	$
Direct labour	38 500	45 500
Direct material	24 750	29 250
Factory costs	13 750	15 250
	Units	Units
Sales	10 000	11 000
Production	11 000	13 000

The following information is also available.

1 Of the factory costs, $5500 are fixed for each year and the remainder are variable.

2 Variable cost per unit is not expected to change.

3 Fixed selling costs are $3500 for Year 1. These are expected to increase by 2% for Year 2.

4 Variable selling costs are expected to be 5% of the sales revenue for each year.

5 The selling price is $18 per unit.

6 There was no opening inventory in Year 1.

REQUIRED

(a) Calculate the budgeted variable cost of production per unit.

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.... [2]

(b) Calculate the **total** budgeted contribution for **each** year.

[6]

(c) Calculate the budgeted production cost **per unit** for **each** year.

[2]

Additional information

Zinan is considering using absorption costing.

REQUIRED

(d) State **two** limitations of absorption costing.

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.... [2]

(e) Calculate the **total** budgeted profit for **each** of the two years using absorption costing.

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(f) Explain why profit calculated using absorption costing would be different to profit calculated using marginal costing.

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Additional information

During actual production of a large order for 3000 units, Zinan discovers that the customer has ceased trading. If he cannot find another customer for these units he will have to decrease production for Year 1 and reduce staff.

To prevent this from happening, Zinan is proposing to attract new customers for the 3000 units with a marketing campaign.

The following information is available in respect of **only** the 3000 units.

1 The budgeted selling price would be reduced by 7.5%.

2 Advertising costs would be $1000.

3 There would be additional direct labour costs of $0.15 per unit.

REQUIRED

(g) Prepare a statement to calculate the effect on profit for Year 1 if the proposal is accepted.

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(h) Advise Zinan whether or not he should go ahead with the marketing campaign. Justify your answer using **both** financial and non-financial factors.

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