

- The following information was available for the quarter ended 30 September 2016:

	\$
Sales (58 000 units)	203 000
Direct materials	48 140
Direct labour	38 860
Variable production overheads	23 200
Fixed production overheads	20 450
Fixed administration overheads	32 250
Selling expenses	35 900

Selling expenses include the sales commission, but all other selling expenses are fixed.

REQUIRED

- (a)** Prepare a marginal cost income statement for the quarter ended 30 September 2016.

[4]

(b) Calculate the break-even point in units for the quarter.

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..... [2]

Additional information

The directors' target profit is \$20 000 per quarter. They were concerned that the profit for the quarter ended 30 September 2016 was below the target profit.

The directors realised that action must be taken in order to increase the profit.

In order to improve the profits they are considering two proposals.

Proposal A

- 1 Retain the current selling price.
- 2 Reduce the number of employees in administrative staff, saving \$48 000 per annum.
- 3 Source less expensive materials to reduce direct material cost by \$0.10 per unit.
- 4 Reduce the sales commission by 2%.

Proposal B

- 1 Improve the product and increase the selling price by 10%. This will increase the direct material cost by \$0.15 per unit.
- 2 Spend \$5000 per quarter on advertising to raise awareness of the improved product.
- 3 Reduce the numbers of administrative staff, saving \$48 000 per annum.
- 4 Retain the sales commission at 10%.

REQUIRED

- (c) Calculate the number of **units** required to be sold **per quarter** to achieve a profit of \$20 000 for:

- (i) Proposal A

[4]

- (ii) Proposal B

[6]

- (d) Recommend to the directors which proposal they should adopt. Justify your answer by discussing the benefits and drawbacks of **each** proposal.

Recommendation

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Proposal A

Benefits

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Drawbacks

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Proposal B

Benefits

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Drawbacks

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(e) State **three** advantages and **three** disadvantages of a system of budget preparation.

Advantages

1

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2

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3

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Disadvantages

1

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2

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3

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