4 W Limited operates a system of marginal costing. The company makes two products, Product A and Product B. The directors provided the following budgeted information for a year.

	Product A	Product B
Production and sales (units)	10 000	6 000
	$	$
Allocated fixed overheads	130 000	120 000
Per unit		
selling price	60	80
direct material	14	16
direct labour	15	21
variable overheads	10	15

REQUIRED

(a) Prepare a statement for the year to show:

the budgeted **total** contribution for **each** product

the budgeted **total** profit for **each** product

the budgeted **total** profit.

	Product A $	Product B $	Total $

[8]

Additional information

Included in the allocated fixed overheads is rental of machinery at a cost of $100 000 a year. This cost is allocated 75% to Product A and 25% to Product B.

The directors are now considering two options.

Option 1: Continue with the existing machinery rental on the same terms.

Option 2: Taking out a new rental agreement for new machinery. The new rental agreement would consist of a fixed fee of $28 000 a year plus $4 for each unit produced. The fixed fee would be split across the products in the same proportions as under the current agreement.

REQUIRED

(b) Complete the following table to show the effect of Option 2.

	Product A	Product B	Total
Revised unit contribution			
Revised allocated total fixed overheads, total for the year			
Revised budgeted profit for the year			

Workings:

[9]

(c) Advise the directors which option they should choose. Justify your answer using **both** financial and non-financial factors.

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(d) Explain how unit contribution can be used by a business manufacturing multiple products when there is a shortage of production materials.

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(e) State **two** other uses of marginal costing to a business.

1 ....

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2 ....

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