

- 4 DL Limited will soon be introducing a system of budgetary control. The directors are aware that this should provide a number of advantages. However, they are not sure how budgetary control will affect the company's departmental managers.

**REQUIRED**

- (a) Explain **three** ways in which the introduction of a system of budgetary control will affect the departmental managers of a business.

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**Additional information**

DL Limited manufactures a single product at one of its factories. The following information is available about one unit of production.

Selling price	\$69
Direct materials	2 kg at \$3.30 per kg
Direct labour	5.2 hours at \$8.30 per hour
Other variable costs	\$2.24

The factory's fixed costs are \$374 000 per annum.

The factory has the capacity to make 28 000 units per annum in normal working conditions.

## REQUIRED

(b) Calculate the contribution per unit.

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## Additional information

The annual target profit for this factory is \$50 000. During the year ended 31 December 2019 24 500 units were made and sold and the target profit was not achieved.

## REQUIRED

(c) Calculate by how much the target profit was **not** achieved for the year ended 31 December 2019.

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### **Additional information**

The directors are considering two options to increase demand for the product above the current level of 24 500 units. The current factory capacity of 28 000 units could increase by a maximum of 20% by the use of overtime. Overtime will be paid at 1.25 times the basic rate.

#### **Option A**

- 1 Reduce the selling price of the product by \$3 per unit.
- 2 Demand will increase by 40% on 2019 levels.
- 3 Suppliers of materials will provide an additional discount of 5%.
- 4 Fixed costs will not be affected.

#### **Option B**

- 1 Borrow \$20 000 at an interest rate of 8% per annum to finance improvements to machinery.
- 2 This machinery will be depreciated at 20% per annum.
- 3 The cost of material will be reduced to \$3 per kg.
- 4 An advertising campaign will be launched at a cost of \$5000 per month.
- 5 The factory will operate at full capacity without the need for overtime working.
- 6 The selling price per unit will remain unchanged.

## REQUIRED

**(d)** Calculate the annual profit if the directors choose:

(i) Option A

[6]

(ii) Option B

[5]

- (e)** Advise the directors which option they should choose, taking account of financial **and** non-financial factors. Justify your choice.

[7]