4 Connie manufactures three products: A, B and C. She has provided the following budgeted information for one unit of each product for the year ending 31 December 2021.

	Product A	Product B	Product C
	$	$	$
Selling price	15.00	20.00	25.00
Direct Materials	5.00	5.50	6.00
Direct Labour	4.00	5.00	7.50
Variable Overheads	2.50	3.50	2.50

Total fixed costs for the year are expected to be $100 000.
ecast annual demand for **each** product is 12 000 units.

REQUIRED

(a) Explain what is meant by contribution.

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(b) Calculate the budgeted unit contribution for **each** product.

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(c) Calculate the budgeted **total** profit for the year ending 31 December 2021 if the demand is fully met.

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Additional Information

Connie has now discovered that her landlord may limit the use of the premises resulting in a total of only 78 000 machine hours being available.

The number of machine hours to make **each** product are:

Product A	2
Product B	4
Product C	4

Fixed costs will remain unchanged.

REQUIRED

(d) (i) Prepare the optimum production plan for the year ending 31 December 2021 based on the available machine hours.

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(ii) Calculate the budgeted **total** profit for the year ending 31 December 2021 based on the optimum production plan.

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Additional information

If Connie pays her landlord $65 000 she will be able to have unlimited machine hours.

REQUIRED

(e) Advise Connie whether or not she should pay her landlord $65 000. Justify your advice.

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(f) Define the following terms:

(i) Variable cost

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(ii) Semi-variable cost

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(iii) Fixed cost

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(g) State **three** assumptions made when using marginal costing.

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