

- 3 Gala Sounds Ltd manufactures DVD players which sell for \$80 each. Production is 150 000 units per annum, all of which are sold.

Unit costs at that level of production are:

	\$
Direct materials	40
Direct labour	8
Variable overheads	10
Fixed overheads	11

**REQUIRED**

- (a) Calculate one year's **total** profit or loss.

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The sales manager believes that if the selling price could be reduced to \$75 per unit, an additional 50 000 units would be sold.

The existing production of 150 000 units is based on a single day shift working a full day without overtime. The sales manager believes that an evening shift might also be introduced, using one-third of the number of workers employed on the day shift. This would mean that an annual total of 200 000 units could be produced.

As a result of the changes, the following would take place:

- 1 To compensate for unsocial hours, evening shift workers will be paid an additional \$2 per unit.
- 2 Variable overheads for the evening shift increase by 10%.
- 3 Economies of scale mean that a discount of 15 % will be received on purchase of **all** direct materials.
- 4 Fixed costs increase by \$1 000 000.

All production will continue to be sold.

## REQUIRED

**(b)** Calculate the **additional** profit or loss on the introduction of the new shift system.

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Other factors need to be taken into consideration before introducing a new shift system.

**REQUIRED**

(c) Discuss, briefly, **three** of these factors.

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