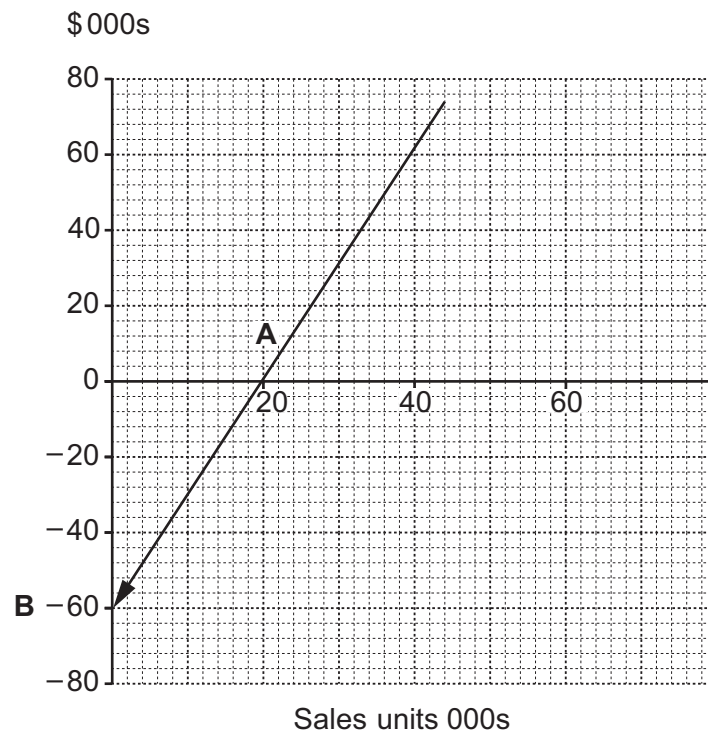


- 4 Lin, a manufacturer, makes three products: X, Y and Z. He uses cost-volume-profit (CVP) analysis in his business. He has prepared the following profit/volume (P/V) chart for product X for the year ending 31 December 2016.



REQUIRED

- (a) Identify from the P/V chart for the year ending 31 December 2016:

- (i) what point A 20 000 represents

.....
 [1]

- (ii) what point B (\$60 000) represents

.....
 [1]

- (b) State what is meant by P/V ratio.

.....
 [1]

(c) State **two** benefits and **two** drawbacks of CVP analysis.

Benefits

1

.....

.....

2

.....

.....

Drawbacks

1

.....

.....

2

.....

.....

[4]

Additional information

Lin has provided you with the following budgeted information for the year ending 31 December 2016.

	X	Y	Z
Annual sales (units)	15 000	5 000	8 000
	\$	\$	\$
Selling price (per unit)	8	10	7
Variable cost (per unit)	5	4	2
Annual allocated fixed costs	60 000	25 000	30 000

Lin is considering stopping production of X.

REQUIRED

(d) Calculate for the year ending 31 December 2016:

(i) the total contribution for each product

.....

.....

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.....

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..... [3]

(ii) the total profit or loss for each product

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.....

..... [1]

- (e) Discuss whether or not Lin should continue to produce all three products. Justify your answer.

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..... [4]

Additional information

Since preparing his budget, Lin has received two separate orders.

order 1 the customer has offered an amount in total of \$10 000.

order 2 the customer has offered a price per unit for each separate product.

The details are as follows:

<u>Order 1</u>	
	units
X	1000
Y	1000
Z	1000
Proposed total order price \$10 000	

<u>Order 2</u>		
	units	proposed price per unit \$
X	1000	6
Y	1000	5
Z	1000	4

Lin has spare production capacity and the fixed costs will not be affected by the orders.

REQUIRED

- (f) Calculate the contribution gained or lost on **each** order.

[5]

(g) Advise Lin whether or not **each** of the orders should be accepted. Justify your decision.

[6]

(h) Explain, giving **two** reasons, why a business needs to plan for the future.

[4]