4 Brady manufactures one product which is sold through agents who receive a 10% commission based on the selling price.

The following budgeted information is available for December 2022.

	$
Sales revenue (12 000 units)	78 000
Direct materials	21 600
Direct labour	14 400
Variable production overheads	4 800
Fixed production overheads	9 200
Fixed administrative overheads	6 100
Selling expenses including sales commission	13 200

All selling expenses with the exception of sales commission are fixed.

REQUIRED

(a) Calculate for December 2022:

(i) budgeted total contribution

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(ii) budgeted total profit

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(iii) break-even point in units.

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(b) State the formula for calculating the margin of safety.

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Additional information

Brady has a monthly target profit of $10 800.

REQUIRED

(c) Calculate how many units Brady would have to sell in December 2022 in order to achieve the target profit.

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Additional information

Brady is aware that he needs to make changes in order to achieve his monthly target profit and he is proposing the following:

1 Improve the specification of the product and increase the selling price by $0.30 per unit.

2 The new materials will increase the direct material price by $0.40 per unit.

3 Reduce the direct labour rate by 5% per unit.

4 Reduce the sales commission to 8%.

5 Reduce the administrative overheads by $18 000 per annum by making one member of staff redundant.

6 Increase the advertising budget by $2500 per month.

Brady is confident that these measures will produce additional sales of 1000 units each month.

REQUIRED

(d) Prepare a budgeted marginal cost statement for December 2022 if Brady makes the proposed changes.

Brady
Budgeted marginal cost statement for December 2022

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Workings:

[10]

(e) Advise Brady whether or not he should make the proposed changes. Justify your advice by discussing the issues that he should consider.

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(f) State **two** advantages of cost–volume–profit analysis.

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[2]

(g) State **two** limitations of cost–volume–profit analysis.

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