4 DH Limited manufactures a single product. The following information is available for one unit of that product:

	$
Selling price	20
Direct material	8
Direct labour	5
Variable overhead	3
Fixed overhead	2

Budgeted production is 200 000 units per annum.

REQUIRED

(a) Calculate the annual break-even point in units.

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.... [2]

(b) Calculate the **total** budgeted annual contribution and **total** budgeted annual profit.

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.... [2]

Additional information

The directors are considering reducing the selling price of the product by 10%. The new selling price would be lower than that of competitors. The directors are confident that as a result of this, sales volume would increase by 50%.

In order to produce the budgeted units, the company's labour force is currently working at 80% capacity. Workers will be paid an overtime premium of 25% for all production over 100% capacity.

The additional production would enable the company to qualify for 12.5% discount on all direct materials.

The revised production would result in the fixed overhead cost per unit reducing by 30% for **all** units produced.

REQUIRED

(c) Calculate the **total** budgeted annual profit if the directors proceed with their plans.

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.... [8]

(d) Calculate the revised break-even point in units if the directors proceed with their plans.

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.... [2]

(e) Calculate the margin of safety in units **and** as a percentage if the directors proceed with their plans.

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.... [2]

(f) Advise the directors whether or not they should proceed with their plans to reduce the selling price. Give reasons for your answer.

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.... [5]

Additional information

The company has used the same direct material supplier for many years, but the directors have now been informed that there will possibly be a shortfall of available material in the next six months. They have sourced an alternative material from a new supplier at the same price.

REQUIRED

(g) State **three** issues the directors should consider before changing a supplier.

1 ....

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2 ....

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3 ....

.... [3]

Additional information

The directors of DH Limited also use absorption costing.

REQUIRED

(h) State the meaning of each of the following terms.

(i) Allocation

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.... [2]

(ii) Apportionment

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(iii) Absorption

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