

- 3 A division of Hobbs Limited manufactures one product, the Wye. The directors had prepared the following forecast for the year ending 30 June 2016.

	\$000
Sales revenue	4400
Direct materials	1400
Direct labour	1000
Variable administration costs	400
Fixed administration costs	300
Other fixed overheads	1200

Budgeted sales for the year ending 30 June 2016 are expected to be 40 000 units.

#### REQUIRED

(a) Calculate for product Wye:

(i) the contribution per unit

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..... [2]

(ii) the budgeted break-even point in units

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.....  
..... [2]

(iii) the margin of safety in units

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..... [1]

#### Additional information

The directors have been warned that trading conditions are likely to change in the coming year and they plan to make the following changes to their forecasts.

- 1 Reduce the selling price of the product by 10%.
- 2 Budget for a 20% increase in sales.
- 3 Budget for a 3% increase in direct labour.
- 4 Budget for a 10% decrease in fixed costs.

## REQUIRED

(b) Calculate for product Wye:

(i) the revised contribution per unit

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..... [4]

(ii) the revised break-even point in units

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..... [2]

(iii) the revised margin of safety in units

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..... [1]

## Additional information

Another division of Hobbs Limited also manufactures one product, the Exe.

The following data is available for the year ending 30 June 2016.

Unit selling price	\$20
Unit variable costs	\$15
Budgeted fixed costs per annum	\$30 000
Budgeted sales	8000 units

## REQUIRED

(c) Calculate the monthly break-even point in **revenue**.

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..... [2]

- (d) Prepare a break-even chart for product Exe for the year ending 30 June 2016. Clearly indicate the areas of profit and loss.



(e) State **three** assumptions the accountant must make when preparing a break-even chart.

- 1 .....  
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  - 2 .....  
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  - 3 .....  
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- [3]

**Additional information**

The company uses marginal costing in order to calculate its break-even point for its 'make or buy' decisions.

**REQUIRED**

(f) State **three** further reasons why a business might use a marginal costing system.

- 1 .....  
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  - 2 .....  
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  - 3 .....  
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- [6]