4 Dev manufactures two products, Aye and Bee. He operates a system of marginal costing.

(a) Explain **one** difference between marginal costing and absorption costing.

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(b) Explain **one** difference between a direct cost and an indirect cost.

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.... [2]

(c) State the meaning of the following terms:

(i) break-even point

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(ii) margin of safety.

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.... [1]

(d) State **three** situations where marginal costing can help in decision-making.

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[3]

Additional information

Dev's business operates from one rented factory.

The forecast data for the year ending 31 December 2024 is as follows:

	Aye $	Bee $
Revenue (60 000 units at $11.00)	660 000	
Revenue (80 000 units at $8.50)		680 000
Direct materials	(192 000)	(256 000)
Direct labour	(156 000)	(208 000)
Supervisor fixed salaries	(60 000)	(35 000)
Variable overheads	(114 000)	(152 000)
Fixed factory overheads	(33 000)	(44 000)
Profit / (loss)	105 000	(15 000)

The fixed factory overheads are allocated on the basis of units produced.

(e) Calculate the break-even point **in units** for Aye.

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(f) Calculate the break-even point **in units** for Bee.

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Additional information

Dev is concerned about the forecast loss for Bee. He is considering two options.

Option 1

Replace the current model Bee with an upgraded model Bee.

Increase the selling price of Bee by 10%.

Increase the direct material price by $0.45 per unit using an upgraded material.

Pay $18 000 for an advertising campaign to announce the upgraded model.

Dev believes that this will result in a 20% increase in units of Bee sold.

Option 2

Discontinue production of Bee.

Make the supervisor of Bee redundant thereby incurring redundancy costs of $6000.

Increase the advertising budget for Aye initially by $8000.

Reduce the selling price of Aye by $0.44 per unit.

Dev believes that this will result in a 50% increase in units of Aye sold.

(g) Calculate the revised **total** profit of the business if **option 1** is adopted.

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(h) Calculate the revised **total** profit of the business if **option 2** is adopted.

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(i) Advise Dev which option he should choose. Justify your answer.

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