

Paper 2 ~ Question 3

(c)		Proposal 1		Proposal 2
Fixed costs per month		\$		\$
Rental		101,300		-
Production costs		750,000		750,000
Administrative expenses		<u>100,000</u>		<u>100,000</u>
		951,300		850,000
Variable costs per month (3300 units with 60 scrapped units)				
Material A		337,500	(337500*1.05)	354,375
Material B		39,500	39500-11675	27,825
Direct labour cost	189000*0.4	75,600	189000*0.8	151,200
Variable production overheads		<u>26,680</u>	49000*0.9	<u>44,100</u>
		479,280		577,500
Sales proceeds of scrapped units	60*50	\$ 3,000		\$ -
Variable cost per unit	(479280-3000)/(3300-60)	\$ 147	577500/3300	\$ 175
Contribution per unit		\$ 453		\$ 425
Breakeven in unit (litre)	(951300/453)	2100 litres	850000/175	2000 litres
i.e. in terms of number of finished goods sold		(2)		(2)