SECTION 3 (80 marks)
Answer **ONE** question

8. Marginal Costing

Ivor Ltd produces a single product. The company's profit and loss account for the year ended 31/12/2010, during which 90,000 units were produced and sold, was as follows:

	€	**€**
Sales (90,000 units)		1,170,000
Materials	390,000	
Direct labour	236,000	
Factory overheads	82,000	
Selling expenses	105,000	
Administration expenses	130,000	(943,000)
Net profit		227,000

The materials, direct labour and 40% of the factory overheads are variable costs. Apart from sales commission of 5% on sales, selling and administration expenses are fixed.

You are required to calculate:

(a) The company's break-even point and margin of safety.

(b) The number of units that must be sold in 2011 if the company is to increase its net profit by 20% over the 2010 figure, assuming the selling price and cost levels and percentages remain unchanged.

(c) The profit the company would make in 2011 if it reduced its selling price to €11, increased fixed costs by €15,000 and thereby increased the number of units sold to 110,000, with all other cost levels and percentages remaining unchanged.

(d) The selling price the company must charge per unit in 2011, if fixed costs increase by 12% but the volume of sales and profit remains the same.

(e) The number of units that must be sold at €16 per unit to provide a profit of 10% of the sales revenue received from these same units.

(f) (i) List and explain **two** limitations/assumptions of marginal costing.

(ii) Explain what is meant by a step fixed cost.
Roughly sketch a graph of step fixed costs using the following rental payments:

Rent €	€5,000	€12,000	€19,000	€28,000
Output (units)	20,000	30,000	40,000	50,000

(80 marks)