

Question two2

by Question Two2 Question Two2

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Question Two.

A. Business Name: ANK Furniture LTD

Description of the products: Office and Household Furniture

Business Purpose: Design, Manufacture, Distribute and selling of decorative and functional office and household furniture as well as business equipment.

¹ Name of the cost	Fixed/Variable	\$ value per item	Explanation as to why fixed or variable
Rent	Fixed	\$15000	Fixed because it does not vary in relation to output
Raw materials (Plywood, Natural wood, adhesives, laminates, plastics etc.)	variable	\$1000 per part	Vary with volume of services and goods generated by the business
Cost of labor	Variable	\$20000	Vary with volume of services and goods generated by the business.

The cost variables are always based on the output delivered. They include commissions, cost of labor and material used. They change over time and is directly associated with business.

Fixed cost on the other hand, always remain in the same stated regardless of the amount of output produced. This includes rent, interest and insurance among others.

B. with the plan of producing about 100 units,

So; to determine the selling price of the produces, I applied the formula;

Selling Price= Total cost + Profit (20%)

Material = 20 per hour

Labor= 20 per hour

$$(20/60 \text{ min}) * 5 = \$1.67 \text{ per unit}$$

Fixed OH= Rent= \$15000, administration=\$50000, expenses=\$20000

Here, will consider fixed OH allocation based on the units number reason being, Number of units is the cost drivers.

Fixed cost per Unite= (\$ 85000/2000) = \$42.5 per unit

So total cost per unit = \$20+\$1.67+\$42.5

$$= \$64.7$$

Selling price= Total cost + Profit (20%)

$$\$64.17 + \$12.834 = \$77$$

C.

$$\text{BEP (Units)} = (\text{Fixed cost} / \text{Total contribution Unit}) = 85000 / 55.33 = 1563 \text{ Units}$$

$$\text{BEP (Dollars)} = (\text{Fixed cost} / \text{Total contribution Ratio}) = \$85000 / 71.85\% = \$118302$$

D. Margin of safety: This is the Difference of the sales that is Break-even sales and Actual sales. In other terms, the margin safety is total outputs sales of the business at break-even point.

Margin of safety can be found using the formula;

$$\text{MOS} = [(\text{Actual sales} - \text{Breakeven sales}) / \text{Actual sales}]$$

$$= (40000 - 1536) / 40000$$

$$= 96.16\%$$

$$\text{MOS in Units} = (\text{Actual Sales} - \text{BEP Sales}) / (\text{Selling Price})$$

$$= (\$2695000 - \$118302) / 77$$

$$= 33463 \text{ Units}$$

$$\text{MOS In dollars} = \text{Actual Sales} - \text{BEP Sales}$$

$$2695000 - 118302$$

$$= \$2576698$$

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