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

**8. Marginal and Absorption Costing**

**(a)** Murphy Ltd, produces a single product. The company's profit and loss account for the year ended 31/12/2013, during which 16,000 units were produced and sold, was as follows:

| | € | € |
|---|---|---|
| Sales (16,000 units) | | 480,000 |
| Materials | 120,000 | |
| Direct labour | 110,000 | |
| Factory overheads | 60,000 | |
| Administration expenses | 105,000 | 395,000 |
| Net profit | | 85,000 |

The materials, direct labour and ⅓ of the factory overheads are variable costs. €65,000 of the administration expenses are fixed.

**You are required to calculate**:

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

(ii) Roughly sketch a graph, showing **your** break-even point.

(iii) The profit the company would make in 2014 if it reduced its selling price by 5%, increased advertising by €5,000 and thereby increased sales to 19,000 units, with all other cost levels and percentages remaining unchanged.

(iv) The number of units that must be sold at €26 per unit to provide a profit of 20% of the sales revenue received from these same units.

(v) The profit the company would make in 2014 if a commission of 5% of sales is given to sales personnel and €1 extra per unit spent on new packaging, thereby increasing the sales to 17,000 units at €34 per unit.

**(b)** Barry Ltd, produced 10,000 units of product A during the year ended 31/12/2013. 9,000 of these units were sold at €4 per unit. The production costs were as follows:

| | |
|---|---|
| Direct Materials | €0.60 per unit |
| Direct Labour | €0.50 per unit |
| Variable Overhead | €0.40 per unit |
| Fixed Overhead Cost for the year | €4,000 |

**You are required to**:

(i) Prepare Profit and Loss statements under Marginal Costing and Absorption Costing principles for Barry Ltd.

(ii) Outline the differences between Marginal and Absorption costing.
Indicate which method should be used for financial accounting purposes and why.

**(80 marks)**