



## Exercises

Exercises 6.3 to 6.5 are more advanced than Exercises 6.1 and 6.2. Those with coloured numbers have answers at the back of the book.

If you wish to try more exercises, visit [MyAccountingLab/](http://MyAccountingLab/)

- ✶ 6.1** The management of a business is concerned about its inability to obtain enough fully trained labour to enable it to meet its present budget projection for its three services, Alpha, Beta and Gamma.

	<i>Alpha</i> £000	<i>Beta</i> £000	<i>Gamma</i> £000	<i>Total</i> £000
Variable costs				
Materials	6	4	5	15
Labour	9	6	12	27
Expenses	3	2	2	7
Allocated fixed costs	<u>6</u>	<u>15</u>	<u>12</u>	<u>33</u>
Total cost	24	27	31	82
Profit	<u>15</u>	<u>2</u>	<u>2</u>	<u>19</u>
Sales revenue	<u>39</u>	<u>29</u>	<u>33</u>	<u>101</u>

The amount of labour likely to be available will cost £20,000. All of the variable labour is paid at the same hourly rate. You have been asked to prepare a statement of plans ensuring that at least 50 per cent of the budgeted sales revenues are achieved for each service, and that the balance of labour is used to produce the greatest profit.

**Required:**

- Prepare a statement, with explanations, showing the greatest profit available from the limited amount of skilled labour available, within the constraint stated. *Hint:* Remember that all labour is paid at the same rate.
- What steps could the business take in an attempt to improve profitability, in the light of the labour shortage?