

A1. Cutlery Co

1. What will be the selling price of a table spoon with a cost of £3 and a mark-up of 35%?

B: Correct

2. What will be the selling price of a knife with a cost of £6 and a sales margin of 40%?

C: Correct

3. What will be the cost of a fork with a selling price of £8 and a sales margin of 30%?

A: Correct

4. What will be the cost of a teaspoon with a selling price of £8 and a mark-up of 25%?

A: Correct

5. If the sales price of a serving spoon is £11 and its cost is £8, what is its sales margin? Budget?

B: Correct

A2. Price Setting Strategies

1. For a branded product, where customers are prepared to pay a high price, they should have:

C: Correct

2. For a low cost product, where customers are not prepared to pay a high price, they should have:

B: Correct

3. For short-term pricing decisions where there is spare capacity, they should consider using:

A: Correct

4. For long-term pricing decisions, they should consider using:

C: Correct

5. With an innovative product at the beginning of its product life-cycle, they should consider:

C: Correct

A3. Weekenders

1. What is the total variable cost, when the price is set at £600?

B: Correct

2. What is the contribution per weekend break, when the price is set at £650?

D: Correct

3. What is the total contribution when the price is set at £700?

A: Correct

4. Which of these is an incorrect fixed cost per weekend break?

D: Correct

5. At what price should they set a weekend break?

B: Correct

A4. Domus

| Number of coffee machines | Selling price per coffee machine | Variable cost Per coffee machine | Fixed cost per coffee machine | Contribution per coffee machine | Total contribution |
|---------------------------|----------------------------------|----------------------------------|-------------------------------|---------------------------------|--------------------|
| 300,000 | £60 | £40 | £15 | £5 | £1,500,000 |
| 250,000 | £65 | £40 | £18 | £7 | £1,750,000 |
| 200,000 | £70 | £40 | £22.50 | £7.50 | £1,500,000 |
| 150,000 | £75 | £40 | £30 | £5 | £750,000 |

The optimum price is therefore £65

A5. Fragrant

| \$ | | | |
|---------------------------------|-------|---------------------|----------------------|
| | | 40.00 | 36.00 |
| Selling price | | | |
| Bottle | 3.00 | | |
| Outer Packaging | 2.00 | | |
| Fragrance | 10.50 | | |
| Other materials | 5.00 | | |
| Direct labour | 12.50 | | |
| Total variable costs per bottle | | 33.00 | 33.00 |
| Contribution per bottle | | 7.00 | 3.00 |
| Total contribution | | 7,000 (\$7 x 1,000) | 15,000 (\$3 x 5,000) |
| Delivery costs | | 1,500 | 2,500 |
| Additional fixed costs | | 5,000 | 5,000 |
| profit | | 500 | 7,500 |

Therefore, they should accept the contract for 5,000 bottles of perfume.

A6 Lawncut

a) the motor division should be transferring motors to the lawnmower division at variable cost as there is spare capacity ie £75 plus a reasonable margin but below the market price of £200.

b) If there were spare capacity in both divisions, the minimum price that the group would accept to sell lawnmowers to an external customer is the combined variable costs of the two divisions ie £75+£400 = £475.

c) If the motor division supplies 500 motors to the other divisions, and external sales increased to 600 motors components, the motor division will be operating at capacity. It should therefore be supplying the lawnmower division at market price ie: £200.

A7. Domingo

| £k | Total for 1m ice creams |
|----------------|-------------------------|
| Contract price | 500 |

| | |
|------------------------|-----|
| Milk | 120 |
| Additional ingredients | 75 |
| Packaging | 20 |
| Outer Box | 50 |
| Direct labour | 40 |
| Total variable costs | 305 |
| Distribution | 160 |
| Contribution | 145 |
| Packaging machine | 50 |
| Net contribution | 95 |

It would be advisable for Domingo to accept the contract for 1 million ice-creams.

Production overheads are not taken into account when calculating the contribution, as these will not change in the short-term, whether or not the contract is accepted.

A8. Difference between target and life cycle costing

Target costing should be carried out before a product is produced whereas life cycle costing can take place at any time in the life of a product.

Target costing considers the unit cost of a product, identifying the cost gap between the acceptable cost to make an adequate return for the company, and the estimated cost based on the product specification. Life cycle costing will include the total cost

of making all the products over many years, not just a unit cost and include pre and post manufacturing costs.

Both techniques can be used simultaneously and are complementary. They are not alternative methods of costing but are designed to answer different questions.