

A1. Cutlery Co

Cutlery co manufactures steel spoons, knives, and forks. The managing director is considering using either a sales margin or cost-plus method to price the products.

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

A 4.61
B 4.05
C 4.95
D 1.95

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

A 8.40
B 9.60
C 10.00
D 15.00

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

A 5.60
B 2.40
C 6.15
D 4.71

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

A 6.40
B 6.00
C 2.00
D 10.00

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

- A 72.7%
- B 27.3%
- C 37.5%
- D 35%

A2. Price setting strategies

A Board of directors is trying to determine the most appropriate strategies in setting prices for their products. The management accountant explains some principles that they should be considering.

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

- A A penetration-price strategy to exploit price elasticity.
- B A penetration-price strategy to exploit price inelasticity.
- C A price-skimming strategy to exploit price elasticity.
- D A price-skimming strategy to exploit price inelasticity.

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

- A A penetration-price strategy to exploit price elasticity.
- B A penetration-price strategy to exploit price inelasticity.
- C A price-skimming strategy to exploit price elasticity.
- D A price-skimming strategy to exploit price inelasticity.

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

- A Marginal costing.
- B Absorption costing.
- C Activity-based costing.
- D Target costing.

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

- A Marginal costing only.
- B Absorption costing only.
- C Absorption and activity-based costing correct.
- D Marginal and absorption costing.

- A A penetration-price strategy to exploit price elasticity.
- B A penetration-price strategy to exploit price inelasticity.
- C A price-skimming strategy to exploit price elasticity.
- D A price-skimming strategy to exploit price inelasticity.

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

A3. Weekenders

A travel company needs to determine the price of a weekend break for two people. The costs include two nights in a hotel and train tickets and are estimated to be £400. The management accountant has provided some estimates of the number of weekend breaks that they could sell at various price levels. There will be a fixed cost to run the administration of £150,000, which will increase by £10,000 as they will need to recruit another member of staff when more than 4,500 weekend breaks are sold.

Volume: number of weekend breaks	6,000	5,000	4,000	3,000
Selling price £	600	650	700	750

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

- A £3,600,000
- B £2,400,000
- C £240,000
- D £1,200,000

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

- A £650
- B £400
- C £218
- D £250

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

- A £1,200,000
- B £1,050,000
- C £1,040,000
- D £120,000

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

- A Price £600; fixed cost per weekend break:£26.66
- B Price £650; fixed cost per weekend break:£32.00
- C Price £700; fixed cost per weekend break:£37.50
- D Price £750; fixed cost per weekend break:£53.33

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

- A £600
- B £650
- C £700
- D £750

A4. Domus

The Sales Director of Domus, a manufacturer of household goods, is trying to set the price of its most popular coffee machine. Its market research department has given it the following data, showing how many coffee machines could be sold at different price levels. The variable cost of each coffee machine is estimated to be £40 and the management accountant has also provided some estimates of fixed costs.

Required:

Advise Domus on what considerations should be taken into account before setting the most effective price.

Number of coffee machines	Selling price per coffee machine	Fixed cost per coffee machine
300,000	£60	£15
250,000	£65	£18
200,000	£70	£22.50
150,000	£75	£30

A5. Fragrant

Fragrant makes beauty products, including perfume. During the summer months, there is spare capacity on the production lines. The managing director has been approached by a clothing manufacturer who would like to sell perfume as part of its brand. Current costs per bottles of perfume are shown below.

Fragrant perfumes	
	\$
Bottle	3.00
Outer Packaging	2.00
Fragrance	10.50
Other materials	5.00
Direct labour	12.50
Production overheads	6.20

Fragrant would have to invest \$5,000 in a new packing machine to meet specifications of the clothing manufacturer. All other costs vary with volume except for the production overheads which are absorbed on direct labour hours. The clothing manufacturer has offered a contract for 1,000 bottles at a price of \$40 per bottle for the next three months but would consider increasing it to 5,000 bottles if the price reduced to \$36 per bottle. Delivery would be in bulk and cost \$1,500 for 1,000 bottles and \$2,500 for 5,000 bottles.

Required:

Should Fragrant accept the contract and, if so, how many bottles should Fragrant commit to produce?

A6. Lawncut

A garden equipment manufacturer, Lawncut, has several divisions, including one making motors and another manufacturing lawnmowers. The motor division supplies both the lawnmower division (its internal customer) and external customers. It has the capacity to produce 1,000 motors every year and currently supplies 500 motors internally and 200 motors externally.

Lawnmower and motor data		
Lawnmower division	Average sales price of a lawnmower	£600
	Variable costs incurred by lawnmower division (excluding motor)	£400
Motor division	Selling price of motor to external customers	£200
	Variable material/labour costs of each motor	£ 75
	Factory fixed overhead	£30

Required:

- At what price should the motor division be transferring motors to the lawnmower division?
- A new external customer has asked the lawnmower division to supply lawnmowers at a price of £500 per lawnmower. If there were spare capacity in both divisions, what is the minimum price that the group would accept?
- If the motor division supplied 500 motors to the other divisions, and external sales increased to 600 motors components, at what price should the component division be supplying the lawnmower division?

A7.

How does life cycle costing differ from target costing?

A7. Domingo

Domingo is an ice-cream manufacturer. During the winter, when there is low demand for ice cream in the UK, there is spare capacity in Domingo's factory. An Australian supermarket chain has approached the Managing Director, with the offer of buying a large quantity of ice-cream at a low cost. Current costs per 1,000 ice creams are shown below.

Domingo Ice Cream	
	£ per 1,000 ice-creams
Milk	120
Additional materials, including chocolate, cone	75
Packaging	20
Outer Box	50
Direct labour	40
Production overheads	125

A8. How does life cycle costing differ from target costing?

The supermarket has offered a contract for 1,000,000 ice creams at a price of £0.50 per ice cream for the next six months. Delivery would be in bulk and cost £60,000 for 1 million ice creams. There is a likelihood of future sales, but these are not guaranteed until the first contract has been completed. Domingo would have to invest £50,000 in a new packaging machine to meet the specific requirements of the supermarket. All costs vary with volume except for production overheads which are absorbed on labour hours and are fixed. Advise Domingo on what it should do.