

A1. IT design

1. What type of costs are the project management fees?

C: Correct

2. What relevant costs related to equipment should be taken into account?

D: Correct

3. What relevant costs related to equipment should be taken into account?

C: Correct

4. What relevant costs related to equipment should be taken into account?

C: Correct

5. What are the total net relevant costs and revenues?

C: Correct

A2. Office bags

1. What is the total unit variable cost of each product in £s?

C: Correct

2. What is the total variable cost of each product in £s?

C: Correct

3. What is the fully absorbed cost per unit in £s?

B: Correct

4. What is the total cost of buying in each of the bags?

B: Correct

5. What products should be made or bought in?

D: Correct

A3. Digdeep

1. What is the unit contribution per product?

D: Correct

2. How much of the limited resource is required of each product in kg?

A: Correct

3. What is the contribution per limited resource?

C: Correct

4. In which order of priority should the garden tools be made?

B: Correct

5. How many of each product should be made?

B: Correct

A4. Yoga

Yoga: gym profitability			
Sales revenue	50,275	43,285	31,440
Rent of shop	25,400	13,250	5,320
Shop staff	12,400	8,200	15,000
Gym contribution	12,475	21,835	11,120

The gym location contribution analysis suggests that all gyms should be kept open.

However, there is only a small profit across all three locations once the chain

managers salary is taken into account so cost savings will need to be found.

A5. Waymark

Revenue	Relevant revenue	£3,000
Paint	Relevant cost at current price	(650)
Metal	Relevant cost at resale value	(250)
Poles	Not relevant – sunk	-
Labour	Relevant cost £25 x 50 hours	(750)
Contract refused	Opportunity cost	(900)
Management charge	Not relevant as it is an allocated cost	
Net contribution		450

They should proceed with the contract as the relevant costs are greater than the relevant revenues.

A6. MyCup

Per item	Cup	Bowl	Plate
Selling price £	76	80	56
Materials £	16	15	10
Direct labour £	24	24	18
Variable overhead £	12	12	8
Contribution per item £	24	29	20
Limited resource per item (Direct labour hours)	4	4	3
Contribution per limited resource £	6 (£24/4 hours)	7.25	6.67
Priority	3	1	2
Demand in numbers of items	300	200	400
Total labour hours	400 (2,400-800-1,200)	800	1200
Number of products	400/4 =100	200	400

A7. Whitewells

Bookshops: revenue and cost data			
	Oxford	Cambridge	London
	£000	£000	£000
Sales revenue	440	400	700
Costs of goods sold	330	300	525
Rent of shop	10	20	15
Shop staff salaries	75	85	90
Total contribution	25	-5	70
They should consider closing the Cambridge shop.			

A8 How do relevant, marginal, and variable costs differ and in what circumstances is it appropriate to use them?

Relevant costs are those that are a result of a specific management decision. If costs change as a consequence of a decision, they should be taken into account when a decision is made. They will therefore be incurred in the future and result in a decrease in cash held by the organisation. They are also incremental or additional to those that would be incurred if that decision was not made. Marginal costs are also incremental or extra costs. An economist would describe a marginal cost as the cost of making one more unit. They are therefore similar to variable costs as the cost varies with the increase of volume. Indeed, the terms marginal and variable costing are often used interchangeably. In all these cases, fixed costs are not taken into account as they do not change as a result of a management decision or an increase in volume. However, it can be argued that in the long term, all costs are variable, including fixed costs. For example, factories can be built or closed so costs such as rent or depreciation can be variable over a longer period of time.