

Price analysis

Finance



Price Analysis Characteristics of government contracting that affect pricing and what is considered fair and reasonable pricing.

Government contracting refers to how the government spends public funds. This requires a lot of transparency and accountability by the officers doing it. The constitution gives the government permission to enter into such contracts.

Various characteristics of Government Contracting affect legal and competitive Pricing. Innovative techniques should be employed to ensure fairness in pricing to minimize risk to the government (Cibinic, Nash & Nagle, 2006). This is by using contract information that is currently available in the market or historical. A fair and reasonable price is the price point for a commodity ensuring fairness to all the involved parties. The basis of certain agreed conditions such as the quality and the time taken to perform the contract determines the price. Some government contracting characteristics affect fair and competitive pricing. The characteristics are usually statutory and regulatory limitations.

Some of these characteristics include:

Decision to contract: This entails determination of need. Fulfillment of the standard of competition must be achieved when the contractor can conclude that the submission of the proposal adhered to expectation of competition.

Definition of contract characteristics: The government must decide what to buy or sell. These are the technical requirements that might affect the pricing.

Contracting process: It opens following a certain specified process e. g. open bid, shortlists and direct contracting.

Contract award: It ends with selecting the winning bidder who gets the

contract.

Process to forecast the likely price of an acquisition, calculate semi-variable costs, and allocate direct and indirect costs.

In order to predict the expected price of an acquisition we consider two components, the Purchase consideration and other costs directly associated with the acquisition (Drury, 2008). Purchase consideration includes assets exchanged, liabilities assumed, and Shares issued. Other costs include accounting fees, consultancy fees and legal fees incurred.

Semi variable cost or mixed refers to a cost which is both a fixed and variable cost for instance electricity bills. We can calculate the semi variable costs using the formula:

$Y = a + bX$ Where;

Y = Total mixed cost

a = Total fixed cost

b = Variable cost per unit

X = Level of activity

Direct costs are production costs that can be directly identified and assigned to the final product. Indirect costs are general expenditures incurred for various or shared projects, activities and thus cannot be specifically identified with the final product.

Direct costs can be allocated on the usage basis, time basis, effort basis, square footage basis and clients served allocation basis (Drury, 2008).

Indirect costs maybe identified as fixed costs, and their allocation is usually easy. This includes salaries and wages allocation to managers and other personnel not directly engaged in the production process. Rent and office supplies are charged to each department. In this department, machines and

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other fixed assets undergo depreciation.

Cost and price analysis

Cost analysis is the examination of distinct elements e. g., labor that constitute a contractors total cost proposal or the price to determine if they are appropriate (Murphy, 2009). Whenever one is, comparing lump sum prices the use of the cost and price analysis becomes essential. This will not be conducted when the contractors current cost estimates in a competitive pricing scenario e. g. in the case of bidding.

Issues in Cost and Price analysis include areas of its inapplicability. Cost and Price analysis will be unnecessary in a situation where the price can be established (Murphy, 2009). The prevailing market prices lay the basis for the commodities sold in substantial quantities to the public in general. It will also not be applicable where the law sets the price.

References

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Murphy, J. E. (2009). Guide to contract pricing: Cost and price analysis for contractors, subcontractors, and government agencies. Vienna, VA: Management Concepts.