

# [Acc 202 mod 5 ca](https://assignbuster.com/acc-202-mod-5-ca/)

XXXXX Number: XXXX XXXX XXXX XXXXX XX – XX – Pecos Printers Thisreport aims at evaluating the decision rule set by Paul Peco regarding the minimum price for the sale of the new printer, PP 7500, to the distributors. Paul Peco has determined that the sales staff should accept all offers at or above $ 300 per unit and reject the other offers. He has fired one of his employees, Ms. Goodperson who had violated the decision rule and agreed to sell 700 units for $ 290 each.   
Demand for the Printer:   
It is evident that offers were made for a total of 1, 875 units in the first month along with an additional offer for 700 units. This translates to a demand for 2, 575 units in a month which approximately equals 30, 000 units in a year. As the company has the capacity to produce 20, 000 units in a year, Paul Peco should focus on utilizing the firm’s maximum production capacity, as there is a high level of demand for the product.   
Contribution Margin:   
From the cost sheet model, the variable cost per unit incurred can be computed.   
Variable Cost per unit= Direct Materials + Direct Labor + Variable Overhead   
= $ 245 per unit   
Pecos has the capacity to manufacture 20, 000 units per year without any increase in the fixed costs. The most profitable solution for Paul Peco would be to sell 20, 000 units in a year, so that the company’s maximum capacity is utilized. From this volume, the contribution required from a single unit to cover the fixed costs can be computed (Weston and Copeland).   
Required Minimum Contribution per unit= $ 450, 000 / 20, 000   
= $ 22. 50 per unit   
Based on this contribution margin, the total cost of a printer can be estimated.   
Total cost= Variable cost per unit + Fixed cost cover per unit   
= $ 267. 50 per unit   
(Samuels, Wilkes and Brayshaw)   
The profit margin originally set by Paul Peco was a minimum of $ 10 per unit. In the revised plan, a minimum profit of $ 12. 50 per unit is fixed. Hence the revised minimum selling price is at $ 280 per unit.   
Revised Income:   
Base on the revised decision rule, the sales staff statistics will be as follows:   
Sales Staff   
Offer (per unit)   
No. of Units   
Accepted?   
Pauls Decision Rule   
Revised   
Sam Smoothtalk   
  
  
  
  
Offer No. 1   
$310   
200   
Yes   
Yes   
Offer No. 2   
$305   
150   
Yes   
Yes   
Offer No. 3   
$295   
300   
No   
Yes   
Harry Hustler   
  
  
  
  
Offer No. 1   
$305   
50   
Yes   
Yes   
Offer No. 2   
$200   
250   
No   
No   
Offer No. 3   
$300   
100   
Yes   
Yes   
Offer No. 4   
$330   
75   
Yes   
Yes   
Gary Giftofgab   
  
  
  
  
Offer No. 1   
$305   
250   
Yes   
Yes   
Offer No. 2   
$245   
400   
No   
No   
Offer No. 3   
$325   
100   
Yes   
Yes   
Ms. Goodperson   
  
  
  
  
Offer   
$290   
700   
No   
Yes   
Total units sold   
925   
1, 925   
It is evident that Paul Peco would have sold 1, 925 units in the last month. Assuming a constant demand every month, Paul Peco will easily be able to sell 20, 000 units in the first year. The last month’s contribution margin income statements for the two rules are presented below.   
Details   
Actual Results   
Revised Income   
No. of Units   
925   
1925   
Revenue   
$286, 500   
$578, 000   
Variable Cost per unit   
245   
245   
Total Variable Costs   
$226, 625   
$471, 625   
Total Contribution   
$59, 875   
$106, 375   
Fixed Costs per month   
$37, 500   
$37, 500   
Net Income   
$22, 375   
$68, 875   
Recommendations:   
From the revised plan, it is evident that Ms. Goodperson’s decision to accept the contract at $290 per unit was profitable. Ms. Goodperson should be hired again. Also, based on the revised decision rule, Paul Peco should instruct his sales staff to accept orders at any price above $ 280 per unit.   
Works Cited   
Samuels, J. M., F. M. Wilkes and R. E. Brayshaw. Management of Company Finance. 6. London: Thomson Learning, 2000.   
Weston, J. F. and T. E. Copeland. Managerial Finance. London: Cassell Educational Ltd, 1988.