

# [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.