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ASSIGN BUSTER

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.