

Free case study on cost system and profit percentage

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Answer 1

The profit will be calculated by deducting total costs from price. To obtain the profit percentage for each of these products, profit will be divided by total costs and the answer will be multiplied by 100. For the full costing method, fixed and variable costs will be included (Hughes, 2012). These costs will include material costs and direct labor hours. For phones, the cost will be $\text{£ } 90 + 2 * \text{£ } 8 = \text{£ } 106$. For tablets, the cost will be $\text{£ } 140 + 2.5 * \text{£ } 8 = \text{£ } 160$. For computers, the costs will be $\text{£ } 315 + 4 * \text{£ } 8 = \text{£ } 347$. The profit margin for phones will be $(\text{£ } 170.69 - \text{£ } 106) / \text{£ } 106 * 100 = 61.03\%$. The profit margin for tablets will be $(\text{£ } 233.87 - \text{£ } 160) / \text{£ } 160 * 100 = 46.17\%$. For computers, the profit margin will be $(\text{£ } 435.67 - \text{£ } 347) / \text{£ } 347 * 100 = 25.55\%$.

Answer 2

Answer 3

The cost system that I would recommend is the full absorption costing method. This is because this method has several benefits. To begin with, it includes all the costs of production. All the fixed and variable costs are incorporated. Therefore, the costs for each unit produced reflect the actual costs that have been incurred (Drury, 2008). In addition, this method is recognized by GAAP hence it is applied in preparing financial statements. This is because it matches with accrual and matching concepts of accounting. In this case, costs for a particular accounting period are matched with their associated revenues.

The other benefit is that this method is stable in reflecting net profit of an

organization. The full absorption costing method fluctuates minimally when production is constant, but sales show change (Drury, 2008). Therefore, it provides financially sound trends in the income statement. The other rationale for choosing absorption costing is that it shows correct calculation of profits when production is done currently, but sales are meant for the future. It can be applied in seasonal production and also seasonal sales for accuracy in profit calculations.

There are several changes that I would recommend for the pricing strategy of this computer company. The observation is that this company uses cost based pricing. I recommend that this company should change its pricing strategy since the current one ignores the forces of demand. Therefore, the company may lose sales due to a high price or fail to take advantage of high demand by setting high prices (Wood & Cole, 2012). Therefore, a change of the pricing strategy to competition based pricing is necessary. It should apply market prices data to adjust its prices. With this strategy, the company will use the price as a tool of shaping its sales.

References

- Drury, C. (2008). *Management and Cost Accounting*. Connecticut: Cengage Learning.
- Hughes, S. (2012). Full Absorption Costing. *Journal of Finance*, 48.
- Wood, A., & Cole, S. (2012). Is It Time to Rethink Your Pricing Strategy? *Businessweek*, 37.