

Explain how an organisation can cost a product and determine its price at any act...



Explain how an organisation can cost a product and determine its price at any activity level The main costs and elements that a business needs to consider, taking into account the nature of these costs as well are: * Expense of buying vehicles or maintaining it

* Mortgage * Business Rates * Wages Extra / Wages * Drawings * Advertising

* Insurance * Loan repayment interest * Loan repayment capital *

Purchases / VAT on purchases * VAT paid to C & E

Variable costs are those costs that vary depending on a company's production volume; they rise as production increases and fall as production decreases The variable costs in a business is rent advertising, insurance and office supplies, Purchases, VAT on purchases, VAT paid to C & E, Energy Usage, Distribution Costs and another would be Mortgage which is an exception if it on a tracker mortgage and you pay according to the current interest rate.

Fixed Cost is a cost that does not change with an increase or decrease in the amount of goods or services produced. Fixed costs are expenses that have to be paid by a company an example of a fixed cost would be a company's lease on a building. If a company has to pay £10, 000 each month to cover the cost of the lease but does not manufacture anything during the month, the lease payment is still due in full. Other fixed costs are depreciation, insurance, interest, salaries, and wages. Semi- variable cost is costs that have both fixed and variable components.

An example of the semi-variable cost is Cost of energy, such as electricity, is a good example as it is integral to production of goods and services. Another <https://assignbuster.com/explain-how-an-organisation-can-cost-a-product-and-determine-its-price-at-any-activity-level/>

example is salaried employees who are also compensated by commissions. This group is paid on a fixed salary plus they are also rewarded based on the volume of sales they can generate, or, other forms of quantitative measures based on revenues to the firm. Semi-fixed cost are costs that are constant within a defined level of activity but that can increase or decrease when activity reaches upper and lower levels. An example of this would be Examples are the rental of a delivery truck, where a fixed rental fee plus a variable charge based on mileage is made; and power costs, where the expense consists of a fixed amount plus a variable charge based on consumption.

A further example is a total factory overhead, which is a mixture of fixed overhead and variable overhead. Absorption of overhead refers to the process of absorbing all overhead costs allocated to apportion over particular cost centre or production department by the unit produced. Accordingly, the distribution of the overhead cost to the cost centres or cost units is known as Overhead Absorption. The apportionment of overhead expenses is done by adopting suitable basis such as output, materials, prime cost, labour hours, machine hours etc. In order to determine the absorption of overhead in costs of jobs, products or process, a rate is calculated and it is called as “ Overhead Absorption Rate” or “ Overhead Rate.”

Marginal cost is the increase or decrease in costs as a result of one more or one less unit of output. Marginal cost is the change in total cost that arises when the quantity produced changes by one unit. An example is, building a new factory; the marginal cost of those extra vehicles includes the cost of the new factory. There are several pricing strategies that a business could <https://assignbuster.com/explain-how-an-organisation-can-cost-a-product-and-determine-its-price-at-any-activity-level/>

use to set the price of the products or services that it offers. One of the methods is the cost of producing the product + the sales will the business on a pricing they should put for the product. Another method is competitor pricing. Setting the price of a product or service based on what the competition is charging.