

10. Although the cost-plus approach to product pricing may be used by management as a general guideline, what are some examples of other factors that managers should also consider in setting product prices?
11. What method of determining product cost may be appropriate in settings where the manufacturing process is complex?
12. How does the target cost concept differ from cost-plus approaches?
13. Under what circumstances is it appropriate to use the target cost concept?
14. What is a production bottleneck?
15. What is the appropriate measure of a product's value when a firm is operating under production bottlenecks?

Practice Exercises

- PE 25-1A**
Lease or sell decision
obj. 1
- Monroe Company owns equipment with a cost of \$235,000 and accumulated depreciation of \$185,000 that can be sold for \$120,000, less a 4% sales commission. Alternatively, the equipment can be leased by Monroe Company for five years for a total of \$135,000 at the end of which there is no salvage value. In addition, repair, insurance, and property tax that would be incurred by Monroe Company on the equipment would total \$16,000 over the five years. Determine the differential income or loss from the lease alternative for Monroe Company.
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- PE 25-1B**
Lease or sell decision
obj. 1
- Stein Company owns a truck with a cost of \$80,000 and accumulated depreciation of \$50,000 that can be sold for \$25,000, less a 5% sales commission. Alternatively, the truck can be leased by Stein Company for three years for a total of \$30,000 at the end of which there is no salvage value. In addition, repair, insurance, and property tax that would be incurred by Stein Company on the truck would total \$9,000 over the three years. Determine the differential income or loss from the lease alternative for Stein Company.
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- PE 25-2A**
Discontinue a segment decision
obj. 1
- Product J has revenue of \$340,000, variable cost of goods sold of \$290,000, variable selling expenses of \$64,000, and fixed costs of \$100,000, creating a loss from operations of \$114,000.
- a. Determine the differential income or loss from sales of Product J.
 - b. Should Product J be discontinued?
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- PE 25-2B**
Discontinue a segment decision
obj. 1
- Product T has revenue of \$56,000, variable cost of goods sold of \$40,000, variable selling expenses of \$6,000, and fixed costs of \$15,000, creating a loss from operations of \$5,000.
- a. Determine the differential income or loss from sales of Product T.
 - b. Should Product T be discontinued?
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- PE 25-3A**
Make-or-buy decision
obj. 1
- A company manufactures various sized plastic bottles for its medicinal product. The manufacturing cost for small bottles is \$45 per unit (1,000 bottles), including fixed costs of \$12 per unit. A proposal is offered to purchase small bottles from an outside source for \$36 per unit, plus \$4 per unit for freight. Provide a differential analysis of the outside purchase proposal.
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- PE 25-3B**
Make-or-buy decision
obj. 1
- A restaurant bakes its own bread for \$150 per unit (100 loaves), including fixed costs of \$25 per unit. A proposal is offered to purchase bread from an outside source for \$110 per unit, plus \$10 per unit for delivery. Provide a differential analysis of the outside purchase proposal.
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- PE 25-4A**
Replace equipment decision
obj. 1
- A machine with a book value of \$186,000 has an estimated six-year life. A proposal is offered to sell the old machine for \$165,000 and replace it with a new machine at a cost of \$320,000. The new machine has a six-year life with no salvage value. The new machine would reduce annual direct labor costs by \$24,000. Provide a differential analysis on the proposal to replace the machine.

- PE 25-4B**
Replace equipment decision
obj. 1
- A machine with a book value of \$49,000 has an estimated five-year life. A proposal is offered to sell the old machine for \$30,000 and replace it with a new machine at a cost of \$64,000. The new machine has a five-year life with no salvage value. The new machine would reduce annual direct labor costs by \$8,000. Provide a differential analysis on the proposal to replace the machine.
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- PE 25-5A**
Process or sell decision
obj. 1
- Product L is produced for \$1.85 per gallon including a \$0.90 per gallon fixed cost. Product L can be sold without additional processing for \$2.20 per gallon, or processed further into Product P at an additional cost of \$0.80 per gallon, including a \$0.30 per gallon fixed cost. Product P can be sold for \$2.80 per gallon. Provide a differential analysis for further processing into Product P.
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- PE 25-5B**
Process or sell decision
obj. 1
- Product X is produced for \$24 per pound including a \$9 per pound fixed cost. Product X can be sold without additional processing for \$30 per pound, or processed further into Product Y at an additional cost of \$5 per pound, including a \$1.50 per pound fixed cost. Product Y can be sold for \$33 per pound. Provide a differential analysis for further processing into Product Y.
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- PE 25-6A**
Accept business at a special price
obj. 1
- Product N is normally sold for \$58 per unit. A special price of \$45 is offered for the export market. The variable production cost is \$31 per unit. An additional export tariff of 20% of revenue must be paid for all export products. Determine the differential income or loss per unit from selling Product N for export.
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- PE 25-6B**
Accept business at a special price
obj. 1
- Product S is normally sold for \$13 per unit. A special price of \$9 is offered for the export market. The variable production cost is \$7 per unit. An additional export tariff of 30% of revenue must be paid for all export products. Determine the differential income or loss per unit from selling Product S for export.
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- X PE 25-7A**
Markup percentage on total cost
obj. 2
- Green Thumb Inc. produces and sells home and garden tools and equipment. A lawnmower has a total cost of \$140 per units of which \$110 is product cost and \$30 is selling and administrative expenses. In addition, the total cost of \$140 is made up of \$125 variable cost and \$15 fixed cost. The desired profit is \$14 per unit. Determine the markup percentage on total cost.
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- PE 25-7B**
Markup percentage on total cost
obj. 2
- Nova Corp. produces and sells lighting fixtures. An entry light has a total cost of \$50 per unit of which \$36 is product cost and \$14 is selling and administrative expenses. In addition, the total cost of \$50 is made up of \$30 variable cost and \$20 fixed cost. The desired profit is \$10 per unit. Determine the markup percentage on total cost.
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- PE 25-8A**
Markup percentage on product cost
obj. 2
- Green Thumb Inc. produces and sells home and garden tools and equipment. A lawnmower has a total cost of \$140 per units of which \$110 is product cost and \$30 is selling and administrative expenses. In addition, the total cost of \$140 is made up of \$125 variable cost and \$15 fixed cost. The desired profit is \$14 per unit. Determine the markup percentage on product cost.
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- PE 25-8B**
Markup percentage on product cost
obj. 2
- Nova Corp. produces and sells lighting fixtures. An entry light has a total cost of \$50 per unit of which \$36 is product cost and \$14 is selling and administrative expenses. In addition, the total cost of \$50 is made up of \$30 variable cost and \$20 fixed cost. The desired profit is \$10 per unit. Determine the markup percentage on product cost. Round to one decimal place.
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- PE 25-9A**
Markup percentage on variable cost
obj. 2
- Green Thumb Inc. produces and sells home and garden tools and equipment. A lawnmower has a total cost of \$140 per units of which \$110 is product cost and \$30 is selling and administrative expenses. In addition, the total cost of \$140 is made up of \$125 variable cost and \$15 fixed cost. The desired profit is \$14 per unit. Determine the markup percentage on variable cost.