Maritime serives corporation will soon enter a very competitive marketplace in which it will have limited influence over the price that are charged. Management and consultant are currently working to find-tune the company´s sole services which they hope will generate a 12 percent first-year return (profit) on the firms $27,000,000 assest investment. Although the normal return in MSC industry is 14 percent, executives are willing to accept the lower figure because of various start-up inefficiencies. The following information is available for the first-year operation:

Hours of service to be provided: 25,000  
 Anticipated variable cost per service hour: $33  
 Anticipated fixed cost: $2,850,000 per year

REQUIRED

1. Assume that management is contemplating what price to charge in the first year of operation. The company can take its cost and add a markup to acheive 12 percent return; alternatively, it can use target costing. Given MSC marketplace, which approach is probably more appropriate? Why?
2. How much profit must MSC generate in the first year to acheive a 12 percent return?
3. Calculate the revenue per hour that MSC must generate in the first year to acheive a 12 percent return.
4. Assume that prior to the start of business in year 1, management conducted a planning exercise to if (a) competitive pressures dictate a maximum selling price of $265 per hour and (b) service hours and the variable cost per service hour are the same as the amount anticipated in year 1?
5. If your answer to requirement (4) is no, suggest and briefly describes a procedure that MSC might use to acheive the desire result.