Target Costing

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| 3. |  |  |

**Question 3**

Great Games, a manufacturer of computer games, is in the process of introducing a new game to the market and has undertaken market research to find out about customers’ views on the value of the product and also to obtain a comparison with competitors’ products. The results of this research have been used to establish a target selling price of $60. This is the price that the company thinks it will have to sell the product to achieve the required sales volume.

Cost estimates have been prepared based on the proposed product specification.

Manufacturing cost $

Direct material 3.21

Direct labour 24.03

Direct machinery costs 1.12

Ordering and receiving 0.23

Quality assurance 4.60

Non-manufacturing costs

Marketing 8.15

Distribution 3.25

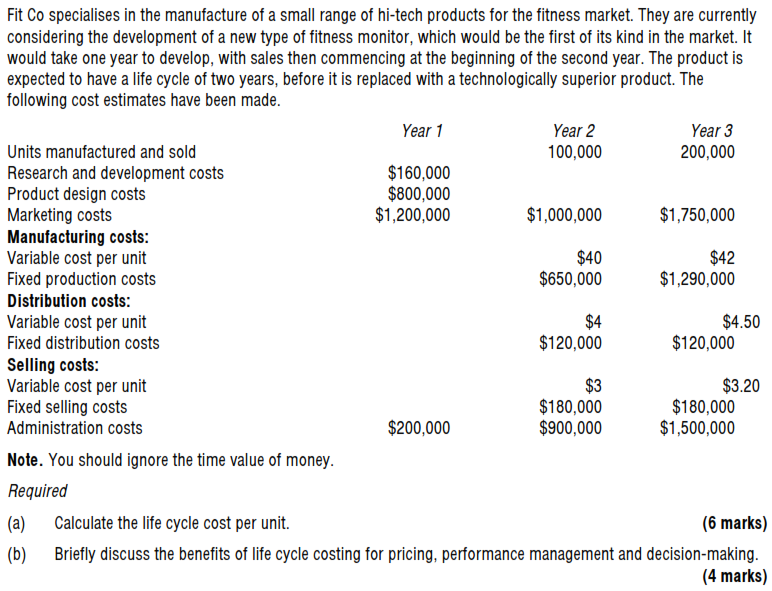
After-sales service 1.30

The target profit margin for the game is 30% of the target selling price.

**Required**

Calculate the target cost of the new game and target cost gap.

**Question 4 – Life Cycle Costing**



Multi-Product Breakeven & P/V Charts

1. Advan Ltd produces three products, namely X, Y, Z. The details of X, Y and Z are given as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **X** | **Y** | **Z** |
| Demand | 200 units | 200 units | 400 units |
| Selling price/unit | $20 | $25 | $18 |
| Variable cost/unit | $10 | $13 | $12 |
| Annual fixed cost | $5000 |  |  |

***Required***

Calculate breakeven point and draw breakeven & P/V chart assuming:

1. Products X, Y and Z are sold in constant mix of 2:2:4, and
2. Products X, Y and Z are sold in highest c/s ratio first.

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| **9.** |  |  |