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3.2 COSTS AND REVENUES: EXAM PRACTICE QUESTION

Read the case study information below and answer the questions that follow.

MIDTOWN IMPERIAL HOTEL



“We would be mad to accept this special request at \$1,850 below our normal price and \$500 below the cost of providing the conference facilities and equipment hire.”

The hotel manager, Courtney Yule, was annoyed that Divya Patel, the conference manager of the Imperial hotel, had even bothered to consult her about the enquiry from the Friends of General Hospital for the use of a conference suite for their annual general meeting involving 100 people. Divya had been asked for a price to organise

the Friend's AGM and had used the normal hotel practice of adding a 50% mark-up to the total costs of the facility. This had been too much for the charity, so they had requested a reduction and had suggested a lower figure of \$2,200. As the AGM was planned for the end of February, a very slack time for all hotels, Divya had been tempted to take up the offer and had put it to Courtney for her approval. She knew that many of the friends were quite

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influential people with business interests and she believed that this could be to the hotel's long-term advantage.

The costing statement for the conference suite was as follows:

- Variable cost per delegate including food, three drinks each and waiting staff \$15
- Hotel overhead allocation per conference \$1,000
- In addition, the Friend's had requested some special audiovisual equipment, which the hotel would have to hire in for the day at a cost of \$200

### 25 MARKS, 45 MINUTES

1. Define the following terms:

- i. Mark-up
- ii. Variable cost.

**[4 marks]**

2. Using the cost information from the case study, calculate:

- i. The full cost of the conference for the Friends of the General Hospital (including the equipment hire) **[4 marks]**
- ii. The price the hotel would normally charge for a conference of this size with the equipment requested **[3 marks]**
- iii. The profit the hotel would make at the normal price **[2 marks]**
- iv. The contribution to the hotel's overheads and profit if the conference suite were let out for \$2200. **[3 marks]**

3. Evaluate the Divya Patel's decision to offer the hospital the conference facilities at the reduced price (you should consider qualitative as well as quantitative factors).

**[9 marks]**