

3.2E: Costs and Revenues: Activity



IB Business Management: www.BusinessManagementIB.com

3.2 COSTS AND REVENUES: ACTIVITY E

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

COSMIC CASES



Cosmic Cases manufacture a range of suitcases. There are four sizes of case, ranging from a small vanity case to a large luggage case with wheels for mobility. The cases are sold mainly through department stores, either as a complete set or, more frequently, as individual items. The latest six-monthly costing statement (see below) had just been prepared, together with sales figures for the same period. Ashleigh Yi, the managing director, was concerned about the performance of the medium-sized case and wanted to discuss the data with the finance director.

Costing statement for six months ending 31/12/2014				
	Vanity case	Small suitcase	Medium suitcase	Large suitcase
Total direct costs	\$30 000	\$35 000	\$12 000	\$20 000
Allocated overheads	\$15 000	\$12 500	\$10 000	\$10 000
Total costs	\$45 000	\$47 500	\$22 000	\$30 000
Total output	\$5 000	\$4 000	\$1 000	\$1 500

3.2E: Costs and Revenues: Activity

The selling prices to department stores were: vanity case \$15, small case \$18, medium case \$20, and large case \$25.

Source: www.BusinessManagementIB.com

QUESTIONS: 20 MARKS, 35 MINUTES

1. Calculate the total revenue for each size of case. **[4 marks]**
2. Calculate the total profit/loss made by each size of case. **[2 marks]**
3. Calculate the total contribution made by each size of case. **[4 marks]**
4. Ashleigh Yi wanted to stop production of the medium-sized case. She said to the finance director, "If we stop making this case, then our total profits will rise." The finance director was convinced that this would be the wrong decision to make. Recommend a course of action to be taken with the medium sized case based on both qualitative and quantitative factors. **[10 marks]**