

Chapter 6 : Q.37 - Page 198 (Volume I)

Query :

How can we calculate the Minimum Selling Price using Total Cost Approach?

OR

We are getting a different answer, if we follow another approach.

Solution :

First of all, you need to understand that the Minimum Price is asked for the additional order of 20% of operated capacity i.e. for 2,000 units only. You don't have to change the existing sales price of 10,000 units.

The alternative calculation using **Total Cost Approach** is given below :

Particulars	Amount (₹)
Prime cost of all 12,000 units @ ₹ 5 per unit	60,000
Variable OH of all 12,000 units @ ₹ 5 per unit	60,000
Variable portion of Semi Variable OH of all 12,000 units @ ₹ 0.5 per unit	6,000
Fixed OH as given in the question irrespective of no. of units	40,000
Fixed portion of Semi Variable OH	15,000
∴ Total cost of producing 12,000 units	1,81,000
Add : Profit @ 20% of sales i.e. 25% of cost	45,250
∴ Total Sale Value of all 12,000 units	2,26,250
Less : Sale Value of 10,000 units (Given in the question itself)	(2,00,000)
∴ Balance Sale Value of additional 2,000 units	26,250
∴ Minimum Sale Price of additional 2,000 units [26,250 / 2,000]	13.125