

# COST ACCOUNTING

## Direct and indirect costs

	costs that can be directly related to the production or particular units of a product – are quite easy to calculate
	costs that cannot be identified with units of production

## Fixed and variable costs

	costs that change in proportion to the volume of production
	costs that do not change in the short time

Exercise:

Sort the followings into direct, indirect, fixed and variable costs.

Cost	Direct	Indirect (or overheads)	Fixed	Variable
Advertising expenses				
Manufacturing wages				
Components				
Electricity to run machines				
Electricity for heating				
Equipment repairs				
Overtime pay				
Raw materials				
Property tax				
Rent				



# COST ACCOUNTING

## Direct and indirect costs

Direct	costs that can be directly related to the production or particular units of a product – are quite easy to calculate
Indirect	costs that cannot be identified with units of production

## Fixed and variable costs

Variable	costs that change in proportion to the volume of production
Fixed	costs that do not change in the short time

Exercise:

Sort the followings into direct, indirect, fixed and variable costs.

Cost	Direct	Indirect (or overheads)	Fixed	Variable
Advertising expenses		x	x	
Manufacturing wages	x			x
Components	x			x
Electricity to run machines	x			x
Electricity for heating		x	x	
Equipment repairs		x	x	
Overtime pay	x			x
Raw materials	x			x
Property tax		x	x	
Rent		x	x	



# PROFITABILITY AND UNPROFITABILITY

A manager talks about the costs and prices for some of its products.

Product	Costs per unit (€)	Sale price per unit (€)	Result
A	10	12	We <b>make a profit</b> : the product is <b>profitable</b> or profit-making
B	15	15	We <b>break even</b> . We reach break-even points.
C	8	7	We <b>make a loss</b> . The product is <b>loss-making</b> , but use Product C as a <b>loss-leader</b> to attract people to the store, knowing they will then also buy profitable products.
D	12	22	Product D is very profitable and we sell a lot of it. It's one of our <b>money spinners</b> or <b>cash cows</b> , product that have very good profitability.

Look at the information and answer the questions

Products	Unit production cost (€)	Overheads per unit (€)	Selling price (€)	Number of units sold per year
Chairs	18	2	19	70 000
Armchairs	36	4	50	50 000
Coffee tables	55	5	60	30 000
Sofas	70	7	80	20 000
Dining tables	250	3	300	15 000

1. Which products make a profit?
2. Which product has the highest level of profitability as a percentage of its selling price?
3. Which lose money?
4. Which just breaks even?
5. Which is the biggest money spinner or cash cow, in terms of overall profit?



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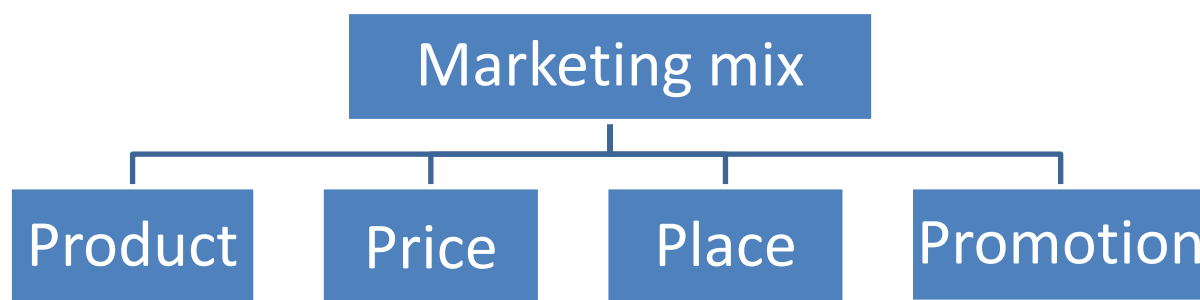
- Which products make a profit? **Armchairs, sofas, dining tables**
- Which product has the highest level of profitability as a percentage of its selling price?  
**Armchairs**
- Which lose money? **Chairs**
- Which just breaks even? **Coffee tables**
- Which is the biggest money spinner or cash cow, in terms of overall profit? **Armchairs**



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# MARKETING MIX



Match each paragraph with one of the 4Ps:

1. This is more commonly known as the distribution channel. It means using intermediaries such as wholesaler, retailers and agents or selling directly to customers.
2. This refers to what goods or services consist of and includes: features, packaging and brand name.
3. This refers to how much the goods or services cost the customers. It is decided by the cost of production, demand for the product, competitive environment and sometimes the government (VAT, excise duty).
4. This involves a range of activities through which the firms try to influence the target market to purchase their products. It includes advertising, public relations, sales and sales promotions.

Complete the words

		Explain or use example
1.	brand	
2.	distribution	
3.	market	
4.	marketing	
5.	product	
6.	public	
7.	sales	
8	target	

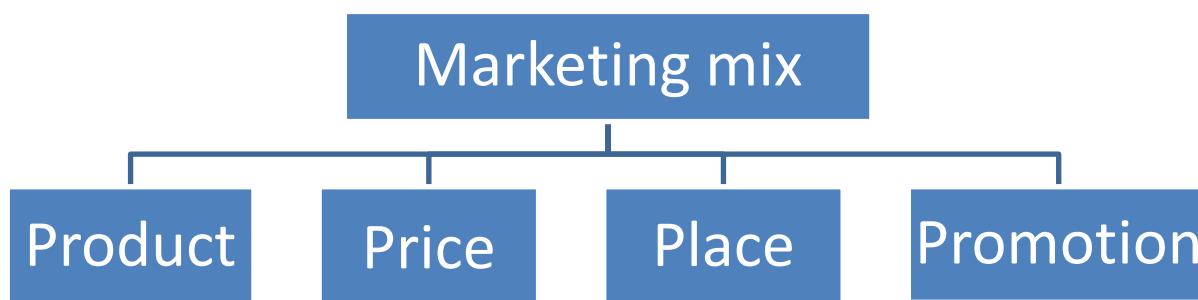
Channel, market, mix, name, positioning, promotion, relations, segment



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## MARKETING MIX (key)



Match each paragraph with one of the 4Ps:

1. This is more commonly known as the distribution channel. It means using intermediaries such as wholesaler, retailers and agents or selling directly to customers. **Place**
2. This refers to what goods or services consist of and includes: features, packaging and brand name. **Product**
3. This refers to how much the goods or services cost the customers. It is decided by the cost of production, demand for the product, competitive environment and sometimes the government (VAT, excise duty). **Price**
4. This involves a range of activities through which the firms try to influence the target market to purchase their products. It includes advertising, public relations, sales and sales promotions. **Promotion**

Complete the words

		Explain or use example
1.	brand <b>name</b>	<b>name used to identify a particular product or service</b>
2.	distribution <b>channel</b>	<b>ways in which product and services get to their customers</b>
3.	market <b>segment</b>	<b>is a group of people who share one or more similar characteristics</b>
4.	marketing <b>mix</b>	<b>includes 4P</b>
5.	product <b>positioning</b>	<b>is the process of determining new products' position in the minds of consumers</b>
6.	public <b>relations</b>	<b>how to keep the high opinion of the people that company comes in contact with</b>
7.	sales <b>promotion</b>	<b>the activities to support the sale: a special offer, a free sample, a free gift, ...</b>
8	target <b>market</b>	<b>is a group of people with some shared characteristics that a company has identified as potential customers for its products</b>

Channel, market, mix, name, positioning, promotion, relations, segment



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# SELLING OVERSEAS

What do you need to think if you want to sell a product abroad?

Create a dictionary:

airfreight	
customs	
distributor	
embassy	
IP protection	
insurance	
label	
lorry/truck	
packing	
patent	
price	
sales agent	
ship	

Complete the diagram by putting the words or phrases



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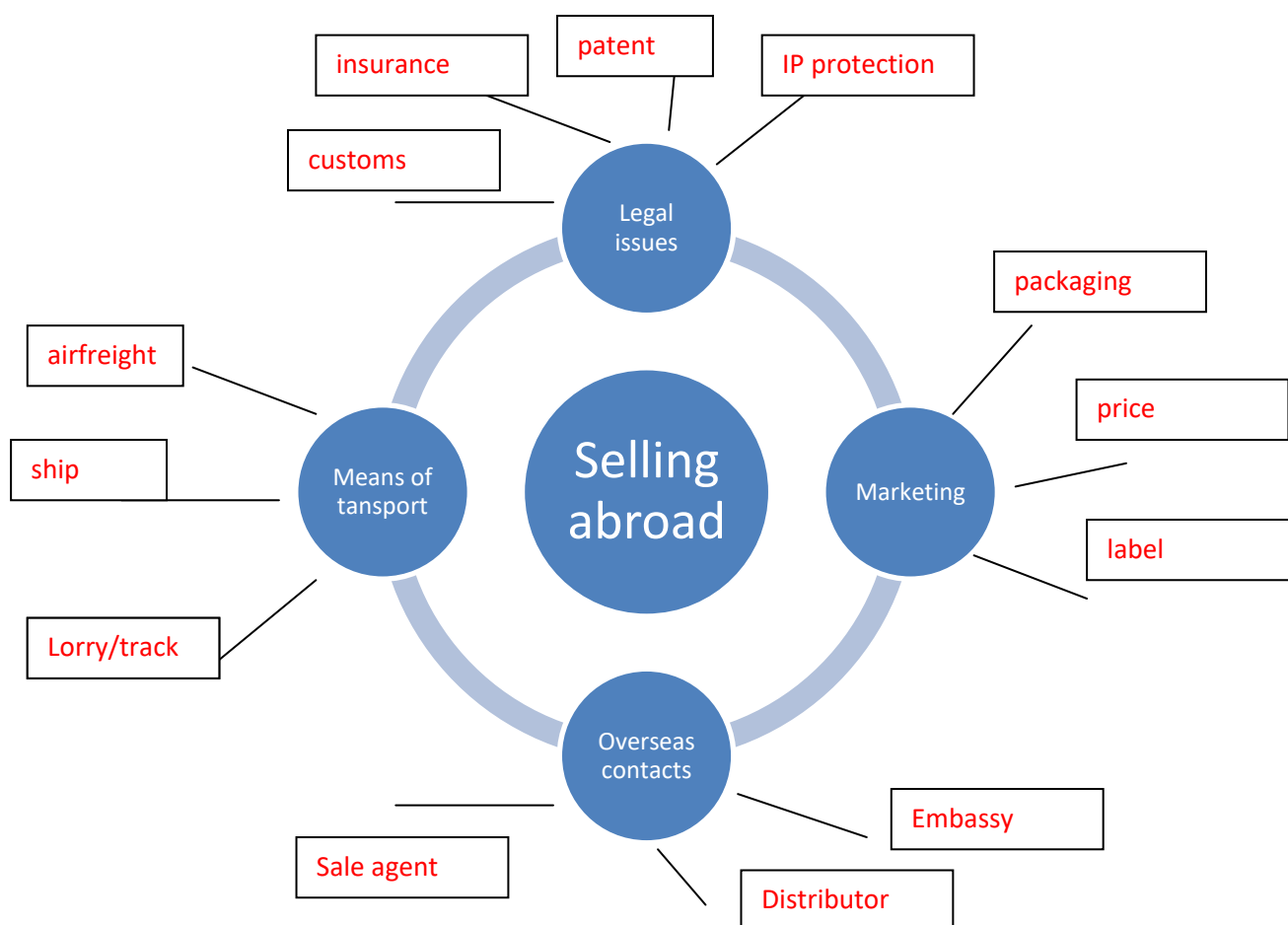
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Create a dictionary:

airfreight	letecká doprava
customs	clo
distributor	distributor
embassy	ambasador
IP protection	IP ochrana
insurance	pojištění
label	označení
lorry/truck	nákladní automobil
packing	balení
patent	patent
price	cena
sales agent	obchodní zástupce
ship	loď

Complete the diagram by putting the words or phrases



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# BUSINESSPEOPLE AND BUSINESS LEADERS

Who are these famous businesspeople?

		
Pierre Omidyar	Masayoshi Son	Oprah Winfrey
		
Anita Roddick	Michael Dell	Stelios Haji –Ioannou

Use: Airline founder, cosmetics entrepreneur, software tycoon, computer mogul, internet entrepreneur, TV entrepreneur

## Read the story a complete.

Michael Dell started out in the PC business in the 1980s when he tried to buy a PC. There was a complicated d..... c..... between the manufacture and customers: w....., r....., r..... all added to the costs, but at the time they didn't add much value from the point of the c ..... So until recently, Dell manufactured every PC to order and delivered straight to the buyer. This allowed them to reduce costs and thanks to this they have become the baggiest manufacturer of PCs. Now they are in the strong position, they have started to sell their computers through r..... as well.

Use: customers, distribution channel, resellers, retailers (2x), wholesalers









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cosmetics entrepreneur	computer mogul	Airline founder

Use: Airline founder, cosmetics entrepreneur, software tycoon, computer mogul, internet entrepreneur, TV entrepreneur

## Read the story a complete.

Michael Dell started in the PC business in the 1980s when he tried to buy a PC. There was a complicated **distribution channel** between the manufacture and customers: **wholesalers**, **retailers**, **resellers**, all added to the costs, but at the time they didn't add much value from the point of the **customers**. So until recently, Dell manufactured every PC to order and delivered straight to the buyer. This allowed them to reduce costs and thanks to this they have become the baggiest manufacturer of PCs. Now they are in the strong position, they have started to sell their computers through **retailers** as well.

Use: customers, distribution channel, resellers, retailers (2x), wholesalers



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