Chapter 10

Level I

E10.8 *Time allowed – 30 minutes*

Happycabs Ltd is a taxi business that specialises in contracts to provide cars dedicated to specific corporate customers. One of the Happycabs vehicles, which originally cost £26,400, has an estimated life of three years and is depreciated at the rate of £8,800 a year.

A contract has now been proposed, which would require the use of the vehicle for five months.

The current net realisable value of the vehicle is £18,000. If the vehicle is used for this contract its value is expected to fall to £16,800. The net book value of the vehicle is £18,480.

Routine maintenance of the vehicle currently costs £70 a month. For this contract, these costs including fuel and driver costs would increase to £1,800 a month.

(i) What are the relevant costs of using the vehicle for this contract?

(ii) How much should the customer be charged per month on the basis of making a profit of 15% on the contract price?

Level II

E10.9 *Time allowed – 60 minutes*

Yves-Andre Ltd manufactures fashion garments for which costs in the forthcoming year are expected to be as follows:

	D1	D2	D3	D4
Production (units)	100	200	400	300
	£	**£**	**£**	**£**
Unit marginal costs				
Direct materials	51	65	26	53
Direct labour	103	116	51	80
Variable production overheads	26	39	13	27
	180	220	90	160

Fixed costs incurred specifically as a result of making each garment are:

	D1	D2	D3	D4	Total
£	3,000	6,000	8,000	9,000	68,000

An overseas garment manufacturer has offered to supply Yves-Andre the same garments for the following prices:

	D1	D2	D3	D4
£	160	270	130	180

(i) Should Yves-Andre Ltd manufacture the garments itself, or purchase from the overseas supplier?

(ii) What other factors should Yves-Andre Ltd consider in addition to cost comparisons?