

# **Business and Personal Finance © 2012**

## **Chapter 9: Pricing, Costing, and Growth**

### **Check Your Answers: Section Assessment**

#### **Section 1**

##### **Review Key Concepts**

- 1.** To obtain a given share of the market and to generate sales that produce a specific profit.
- 2.** Many use the product cost-plus pricing method, which is the process of determining an item's selling price by adding the invoice cost of the item to a certain percentage of that cost. This added amount is the markup, which should cover all expenses.
- 3.** Product costing is the process of analyzing all costs involved in creating products; it is used to establish a selling price that is both competitive and profitable.
- 4.** Variable costs change in direct proportion to the activity level of production. Fixed costs remain constant (rent, insurances, taxes, salaries, utilities).
- 5.** The break-even point is the point at which total sales equal total costs (variable and fixed costs). It represents the sales that a business must achieve to break even.

##### **Higher Order Thinking**

- 6.** Profits will not increase if the costs and expenses also increase (or increase at a higher rate), or if sales volume goes down because of the higher prices.

##### **21st Century Skills**

- 7. Access and Evaluate Information** Answers should include ways the new company will differentiate itself from the competition. To increase market share, you may have to provide assurances to potential customers that you guarantee your work.

##### **Mathematics**

- 8. Variable Costs** Total variable cost =  $\$12.50 + \$5.75 + \$1.10 = \$19.35$ ; Total variable cost if make 75 units =  $\$19.35 \times 75 \text{ units} = \$1,451.25$ ; Total variable cost if make 125 units =  $\$19.35 \times 125 \text{ units} = \$2,418.75$ .