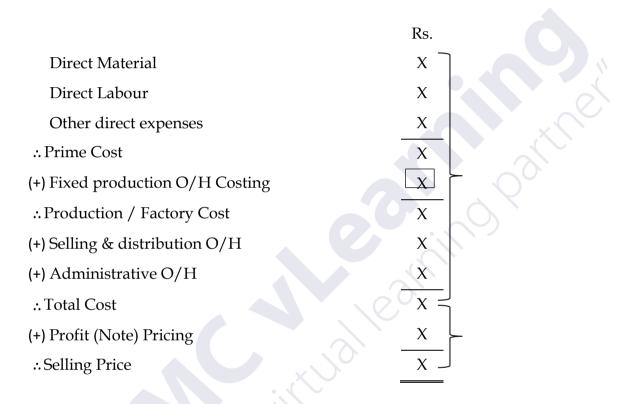


CHAPTER 05

Pricing

Following figure sets out how the total cost of a product (ie. cost unit) is built up and how the selling price of the same product is arrived at.



Note: Profit may be either a mark-up or a margin.

As shown in the above figure, the process of ascertaining the cost of a product is known as "Costing", while "Pricing" is the technique to fix/set a price for the product.

1.1 Mark-up and Margin

When the profit of a product is calculated as a percentage (%) of it's cost, (cost of sales) it is referred to as a "Mark-up".

Eg:

ABC PLC is a manufacturing company and its pricing policy is to add a 25% of the product's cost. Total cost of product "P" is Rs. 80/-. Calculate the selling price of product 'P'.

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In contrast, if the profit of a product is calculated as a percentage (%) of selling price, it is called a "Margin".

Eg:

In above ABC PLC, if the pricing policy was to add a margin of 20%.



If the profit is expressed as a percentage of the cost of the product (ie. mark-up), you can assume the cost is as 100. If the profit is 25% of the cost, the selling price could be assumed as 125. Then the profit, as a percentage of selling price, would be 20%. $\begin{bmatrix} 25_{125} & x & 100 \end{bmatrix}$

Exercise (1) - MCQ

A shirt which costs to the retailer Rs. 1,500 is sold at a profit margin of 25% on the selling price.

You are required to calculate the profit and the selling price.

- (A) 500 ; 2050
- (B) 375; 1875
- (C) 500 ; 2000
- (D) 300;1800

Calculations:

Since the profit is a percentage of selling price, selling price should be assumed as 100. So, the cost would be assumed as 75.



 \therefore Answer is (C)