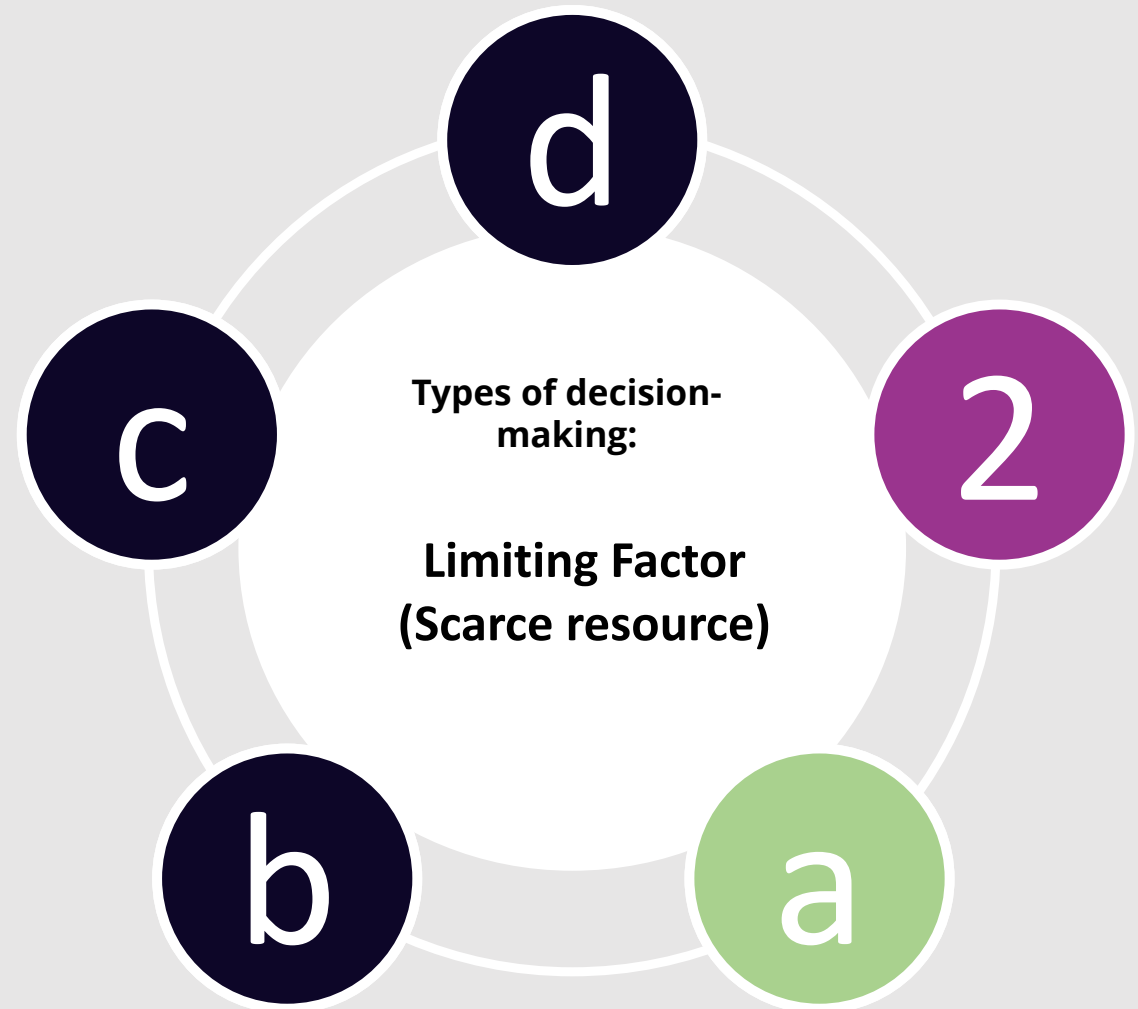


# RELEVANT COSTS AND SHORT-TERM DECISION-MAKING

**Limiting factor** is the resource item which is required in the making of a product but is limited in supply.

Therefore, the contribution per limiting factor must be ascertained in order to rank which products to be manufactured.



# RELEVANT COSTS AND SHORT-TERM DECISION-MAKING

Cik Dayang PJJ produces 3 types of pudding cakes, Pavlova, Snowy and Latte. These products consume the same type of special vanilla flan.

Cik Dayang was told that for the next three months, the vanilla flan will be in limited supply due to COVID-19.

The following information is given:-

	Pavlova RM	Snowy RM	Latte RM
Selling Price	65.00	75.00	60.00
Variable Cost	23.00	32.00	26.00
Consumption of Vanilla Flan	0.8kg	1.5kg	1.8kg

Required:

Advised Cik Dayang which pudding cake should be ranked first, second, and third in terms of contributing to profits.

# RELEVANT COSTS AND SHORT-TERM DECISION-MAKING

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Required:

Advised Cik Dayang which pudding cake should be ranked first, second, and third in terms of contributing to profits.

Solution:-

	Pavlova RM	Snowy RM	Latte RM
Selling Price	65.00	75.00	60.00
Variable Cost	23.00	32.00	26.00
Contribution	42.00	43.00	34.00
Consumption of Vanilla Flan	0.8kg	1.5kg	1.8kg
Contribution per limiting factor	$42/0.8 = 52.50$	$43/1.5 = 28.67$	$34/1.8 = 18.89$
RANKING	1	2	3

It is advisable for Cik Dayang to concentrate on Pavlova before Snowy and then Latte Pudding Cake. Again, it is depends on the demand and production capability of the Cik Dayang. If, these are limited, Cik Dayang would have to work out which will be the most feasible combination of number as well as choices of pudding cake to be made. It may turned out that the last ranked pudding cake may not be produced according to demand.