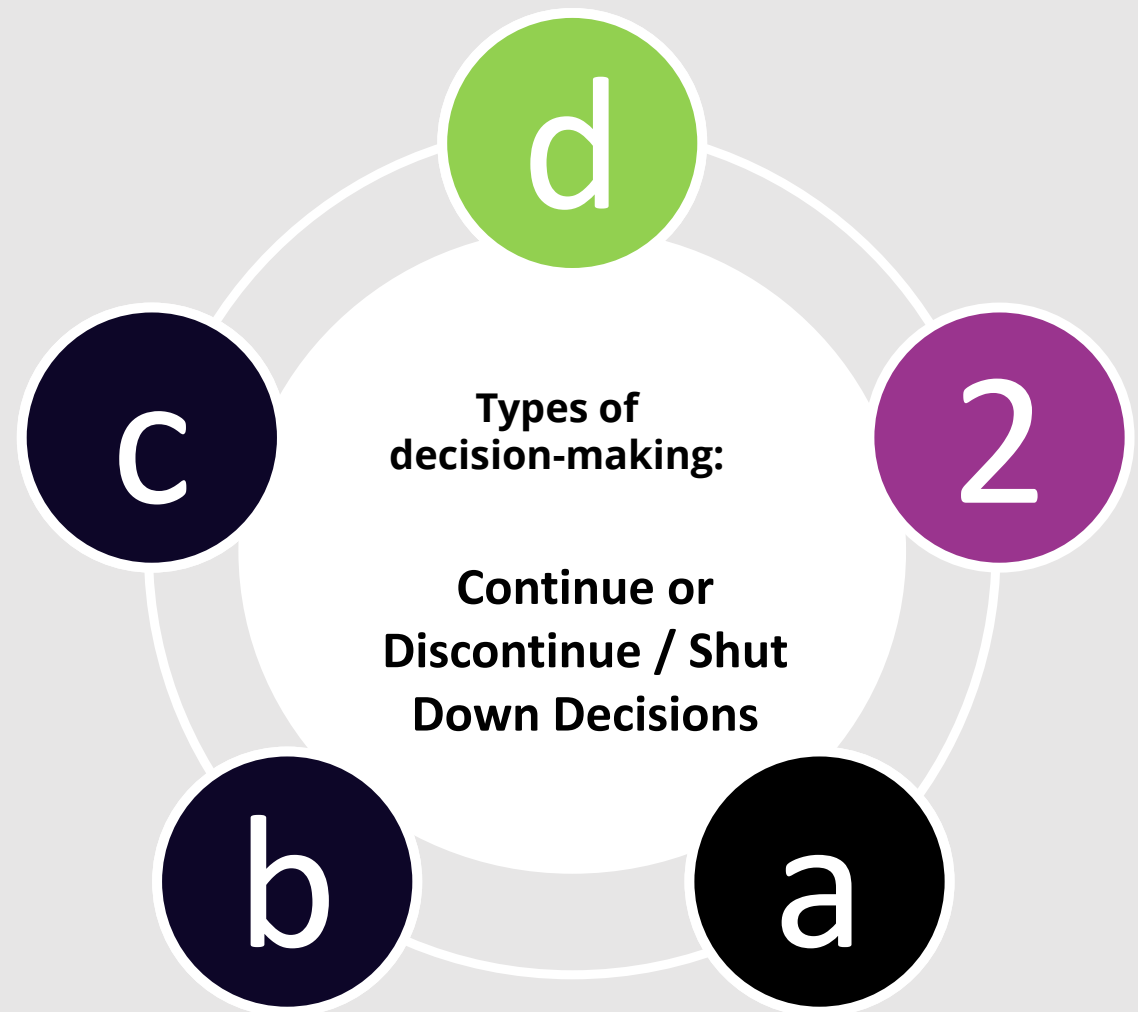


RELEVANT COSTS AND SHORT-TERM DECISION-MAKING

Continue or Discontinue / Shut Down Decisions is the situation in which a particular product in a variety of similar product group is seen to be making a loss.

Careful consideration must be made whether it should be dropped off as it might be making a contribution towards the recovery of overheads.



RELEVANT COSTS AND SHORT-TERM DECISION-MAKING

The following information is regarding Rozy Supermarket for 12 months. She has four department, namely clothing, toiletries, wet market and dry foodstuffs. The financial statements showed that the dry foodstuffs department has incurred a loss of RM8000. Rozy is now considering shutting the dry foodstuffs department due to the losses incurred.

The following data information relates to the first 12 months of operations.

	Clothings	Toiletries	Wet Market	Dry Foodstuffs
	RM	RM	RM	RM
Sales	20000	65000	52000	60000
Total costs	18000	42000	25000	68000
Net profit/loss	2000	23000	27000	(8000)

Total fixed cost amount to RM34000, which is apportioned equally to the departments.

Required:

Advise Rozy if the dry foodstuffs department should be dropped from the line of departments.

RELEVANT COSTS AND SHORT-TERM DECISION-MAKING

	Clothings	Toiletries	Wet Market	Dry Foodstuffs
	RM	RM	RM	RM
Sales	20000	65000	52000	60000
Total costs	18000	42000	25000	68000
Net profit/loss	2000	23000	27000	(8000)

Total fixed cost amount to RM34000, which is apportioned equally to the departments.

Required:
Advise Rozy if the dry foodstuffs department should be dropped from the line of departments.

Solution: to arrive at a solution, the marginal costing approach is applied, where the costs are divided into fixed and variable costs, and contribution is calculated.

	Clothings	Toiletries	Wet Market	Dry Foodstuffs	Total
	RM	RM	RM	RM	RM
Sales	20000	65000	52000	60000	197000
- Variable Cost	9500	33500	16500	59500	119000
contribution	10500	31500	35500	500	78000
- Fixed Cost	8500	8500	8500	8500	34000
Net profit/loss	2000	23000	27000	(8000)	44000

Dry foodstuffs Department is making a positive contribution. If the department is dropped and ceases to operate, the whole supermarket will suffer a burden Of having to recover and share the fixed cost allocated to Dry Foodstuffs Department.

Therefore, based on the justification, Ruzy can be advised not to drop the Dry Foodstuffs because it does contributet o recovery of overheads.