Case Study 02: GOT SPA Company – Cost Classification

GOT SPA Company acquired an industrial building about 10 years ago. For several years, the company has been leasing a small shop attached to the back of the building to another institution, where the company has been receiving rental income of 300,000 DZD annually for this shop. The lease contract is expiring within months, and instead of renewing the lease, the company decided to use the same space to manufacture a new product.

The direct material cost for the new product is 800 DZD per unit. To store the finished product units, the company will rent a nearby small warehouse. The rental cost will be 50,000 DZD per month. Additionally, the company needs to rent equipment for use in producing the new product; the rental cost will be 40,000 DZD per month. Workers will be hired to manufacture the new product, with a direct labor cost of 600 DZD per unit. The depreciation of the space in the shop will continue a straight–line basis, with an annual installment value of 80,000 DZD. The total advertising costs for the new product will be 500,000 DZD annually. Additionally, an engineer will be hired to supervise production; his salary will be 85,000 DZD per month. The cost of electricity used in the operating machines is 10.20 DZD per unit. The cost of shipping the new product to customers will be 90 DZD per unit.

To provide funds for purchasing materials, paying wages, etc., the company will need to liquidate some temporary investments (stocks and bonds). These investments are currently yielding approximately 30,000 DZD annually.

You are required to:

1– Classify the mentioned expenses above to highlight the following:

Item	Variable	Fixed	Production Costs			Selling and Administrative Costs	Opportunity Cost	Sunk Cost
			Materials	Direct Labor	Overheads			

2– If the quantities produced and sold of the new product are 1000 units per month, what is the minimum price the company would accept?

3– If the selling price is 2100 DZD and the quantities 1000 units, prepare a **direct costing income statement**, then calculate the break even point in value and quantity.

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