Case Study 04: SALAMA Company – Cost Analysis

The SALAMA Company produces and distributes three products, A, B, and C, and you have the following information for the month of November.

Products	*A*	*B*	C
Quantities sold	10 000	5 000	7 000
Unit variable cost	22	30	26

Fixed costs for the same period were estimated at: 616,000 DZ.

1- **Part I**: The management aims to determine the appropriate selling prices for each product. To do so, they calculate the final cost for each product. The management has proposed two assumptions for calculating the final cost for each product:

- Assumption 01: Allocate fixed costs in proportion to the quantity sold for each product.
- Assumption 02: Allocate fixed costs equally among the three products.

- **Questions**:

a) Calculate the final cost per unit produced for products A, B, and C for each assumption.

b) Calculate the selling price for each product, knowing that the margin percentage on cost is 10% for both assumptions.

c) Provide your criticism for each assumption.

2- **Part II:** Let's assume that SALAMA Company allocates fixed costs according to Assumption 01. Due to intense competition, products A, B, and C can only be sold at the following prices: A: 54 DZD per unit, B: 65 DZD per unit, C: 56 DZD per unit. However, the quantities produced and sold remain the same.

- **Questions:**

a) Calculate the results obtained for each product and in total.

b) Comment on the results obtained for each product.

3- **Part III:** SALAMA Company decides to discontinue producing product C. if the quantities produced and sold of products A and B will not be affected by this decision. The company's management wants to study the impact of this decision on its profitability.

- **Questions**:

a) Calculate the results obtained for products A and B and the total result.

b) Comment on this scenario.

4- **Part IV:** The management of the company has studied the nature of fixed costs to improve the process of allocating fixed costs. After this study, it appeared that a portion of the fixed costs are direct fixed costs for the products as follows:

Products	*A*	*B*	**C**
Direct Fixed Costs	136 000	230 000	150 000

And the remaining fixed costs are common costs for all products A, B, C, which can be considered as indirect overhead costs.

The company wants to know the profitability of all products according to assumption 01.

- **Questions:**
  a) Calculate contribution margin and the result obtained for each product.
  b) What do you think of the new analysis method?
  c) What are the conclusions drawn from this analysis for this company?

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