

Exercise A-2 (15 minutes)

1.

$$\begin{aligned}\text{Markup percentage on absorption cost} &= \frac{\left(\begin{array}{c} \text{Required ROI} \\ \times \text{Investment} \end{array} \right) + \begin{array}{c} \text{Selling and administrative} \\ \text{expenses} \end{array}}{\text{Unit sales} \times \text{Unit product cost}} \\ &= \frac{(12\% \times \$750,000) + \$50,000}{14,000 \text{ units} \times \$25 \text{ per unit}} \\ &= \frac{\$140,000}{\$350,000} = 40\%\end{aligned}$$

2. Unit product cost.....	\$25
Markup (40% × \$25).....	<u>10</u>
Selling price per unit.....	<u>\$35</u>