

Question 2

Eventus, a corporate incentive company, which organises corporate team-building special events and «weekend-away» packages, has prepared a cost estimate for one of its clients, Carlson Group. The aim of the weekend team-building event would be to incentivise the performance of Carlson Group's line managers. The estimate was prepared by the marketing manager of Eventus and has been submitted to you, the management accountant, for approval. The estimate is as shown below :-

Marketing Manager's Cost Estimate for Carlson Group Client		
Note	Type of Cost	€
(i)	Trainer fees	2,500
(ii)	Hotel accommodation costs	3,500
(iii)	Coach running costs	800
(iv)	Driver costs	600
(v)	Training brochures	1,500
(vi)	General overheads	<u>1,300</u>
	Total costs	10,200
	10% Profit mark-up	<u>1,020</u>
	Selling price quote	<u>11,220</u>

To your mild irritation, the cost estimate has not been based on a relevant costing analysis, but the marketing manager insists it will give a fair price, to bring in the business from Carlson Group. You have requested more information about each of the costs {as shown below in notes (i) to (vi)} and are determined to come up with a correct costing and price, before the next management meeting.

- (i) The company employs a specialist management trainer, who will have to be diverted from other work for a charitable organisation, to which she had been assigned for the same weekend. This charity client which would have earned the company a contribution of €4,000 overall. The trainer's fee is a flat fee of €2,500 for three days of weekend work. Because of her specialist skills, it was felt that it was better to cancel the charity client rather than attempt to source another Eventus trainer or hire in a trainer from another competitor training company.
- (ii) The hotel costs are the expected outlay costs of hiring the hotel rooms for the corporate team-building weekend.
- (iii) The coach is owned by Eventus and the variable costs of fuel are €500 for the weekend, plus an amount of €300, which is an apportionment of the annual fixed costs of operating the coach. It is estimated that the only specific fixed costs that would be incurred

for the Carlson Group weekend would be special insurance, costing €120.

- (iv) The driver costs (of €600) represent the salary and related employment costs of hiring the driver for the 3 days of the weekend. The driver is thinking of retiring and has offered to do the work, only if the company pays a bonus of €500. This bonus is not included in the estimate above. Should the company not pay the bonus, the replacement cost to the company of getting another driver would be €1300.
- (v) The general training brochures are already in stock and did cost €1,500 to produce and if not used for this client, because of a need to upgrade the content, have no other use and so would have to be scrapped, at a cost of €500 due to recycling requirements.
- (vi) The general overheads are computed using an overhead absorption rate set annually at the beginning of the year. The only general overhead cost that will be specifically incurred for this client's weekend package is the administrative and marketing staff's time spent in preparing the quote and organising the accommodation, trainer and events. This amounted to €600.

Requirements :

As the management accountant of Eventus, derive the cost estimate and selling price quote for the Carlson Group client, by using relevant cost principles. Show all workings and state all your assumptions clearly.