

Chapter 31: Exam practice question**Midtown Imperial Hotel**

1 Define the following terms:

a mark-up (2)

This is the extra amount (usually a percentage) added to costs when the sales price is being set, e.g. 10% mark-up would be cost plus 10% ($\text{cost} \times 1.10$).

b variable cost. (2)

This is a cost that varies as output changes, such as the materials used in making a product or extra wages paid for extra time worked.

Apply **Resources table 3a** mark band descriptors.

2 Using the cost information from the text, calculate:

a the full cost of the conference for the Friends of the General Hospital (including equipment hire) (4)

Cost of conference:

= (variable cost \times number of people) + overhead allocation + equipment hire

= $(\$15 \times 100) + \$1000 + \$200$

= \$2700

Alternative calculation of conference cost:

= offered price + \$500

= $\$2200 + \500

= \$2700

4 marks:

All correct with working fully evident and including a work equation or equivalent reasoning.

3 marks:

All correct but working not evident because there is no word equation/reasoning.

2 marks:

One mistake in calculation.

1 mark:

Attempted calculation with some logic evident. No more than two errors.

- b** the price that the hotel would normally charge for a conference of this size with the equipment requested

(3)

$$\begin{aligned}\text{Normal price} &= \text{offered price} + \$1850 \\ &= \$2200 + \$1850 \\ &= \$4050\end{aligned}$$

Alternative calculation:

$$\begin{aligned}\text{Normal price} &= \text{cost} \times 1.50 \\ &= \$2700 \times 1.5 \\ &= \$4050\end{aligned}$$

3 marks:

All correct with working fully evident and including a work equation or equivalent reasoning.

2 marks:

Correct answer with logic not indicated by work equation or reasoning.

1 mark:

One error.

- c** the profit the hotel would make at the normal price.

(2)

$$\begin{aligned}\text{Profit at normal price} &= \text{normal price} - \text{cost} \\ &= b - a \\ &= \$4050 - \$2700 \\ &= \$1350\end{aligned}$$

Do **not** penalise students for past incorrect calculations for answers a and b.

2 marks:

Correct calculation with word logic shown.

1 mark:

Correct calculation with no logic for where the numbers came from.

- d** the contribution to the hotel's overheads and profit if the conference suite were let out for \$2200.

(3)

Contribution towards paying the hotel's overheads:

$$\begin{aligned}&= \text{price charged} - (\text{variable cost} \times \text{number of people}) - \text{equipment hire} \\ &= \$2200 - (15 \times \$100) - \$200 \\ &= \$500\end{aligned}$$

3 marks:

All correct with working fully evident and including a work equation or equivalent reasoning.

2 marks:

Correct answer with logic not indicated by work equation or reasoning.

1 mark:

One error.

- 3** **(HL)** Using monetary and non-monetary information evaluate Sheila Burns's decision to offer the hospital the conference facilities at the reduced price. **(9)**

Monetary arguments

Positive	Negative
There will still be a contribution towards the hotel's overheads, which may not otherwise have been made.	The 'influential people' may expect the same deal for themselves or for their businesses if they ever want to hold a function there in the future.
At the end of February, alternative income may be unlikely.	Word may reach other customers about the price and they might expect the same deal for themselves in the future.
Could be a possible source of future bookings and income in low season.	By accepting the booking, the hotel loses the possibility of making more contribution and profit if an alternative booking comes along.
A loss may be possible to write off as a charitable contribution and so reduce the tax bill.	

Non-monetary arguments

Positive	Negative
Helping a worthy cause could enhance the hotel's image.	Existing customers may be angry that their loyalty is 'rewarded' by higher prices.
Possible future business from contacts with 'influential people'.	
Newspapers may report on the AGM and the hotel's name may be mentioned, giving them free publicity.	

HL: apply **Resources table 2** mark band descriptors.

A justified conclusion is required.