

Chapter 6 Outline

Cost Behavior
 Direct and Indirect Costs
 Overhead Costs
 Relevant Costs
 Opportunity Costs
 Sunk Costs
 Controllable and Uncontrollable Costs

Cost-Volume-Profit Analysis
 CVP Assumptions
 CVP Equations
 Contribution Margin
 Target Profit
 The Effect of Income Taxes

Cost Approaches to Pricing
 Price Elasticity of Demand
 Informal Pricing Approaches
 Cost Approaches: Four Modifying Factors

Food Sales Mix and Gross Profit
Menu Engineering
Integrated Pricing

Competencies

1. Identify and distinguish between different types of costs and give an example of each. (pp. 139–143)
2. Describe how managers use cost-volume-profit analysis, identifying major assumptions and equations on which CVP analysis is based. (pp. 143–148)
3. Explain and apply the concept of cost approaches to pricing, including price elasticity of demand, informal pricing approaches, modifying factors, and mark-up approaches. (pp. 148–153)
4. Explain food sales mix and the menu engineering approach to pricing food and beverage items, including the value of the integrated pricing approach. (pp. 153–157)