Chapter 08

Markups and Markdowns: Perishables and Breakeven Analysis
Markups and Markdowns; Perishables and Breakeven Analysis

Learning Unit Objectives

LU8.1 Markup Based on Cost (100%)

1. Calculate dollar markup and percent markup on cost
2. Calculate selling price when you know cost and percent markup on cost
3. Calculate cost when dollar markup at percent markup on cost are known
4. Calculate cost when you know the selling price and percent markup on cost
Markups and Markdowns; Perishables and Breakeven Analysis

Learning Unit Objectives

LU8.3 Markdowns and Perishables

1. Calculate markdowns; compare markdowns and markups
2. Price perishable items to cover spoilage loss
**Terminology**

- **Cost** - The price retailers pay to a manufacturer or supplier.
- **Selling Price** - The price retailers charge customers.
- **Markup, margin, or gross profit** - The difference between the cost of bringing the goods into the store and the selling price.
- **Operating expenses or overhead** - The regular expenses of doing business such as rent, wages, utilities, etc.
- **Net profit or net income** - The profit remaining after subtracting the cost of bringing the goods into the store and the operating expenses.
Basic Selling Price Formula

Selling price ($S$) = Cost ($C$) + Markup ($M$)

- $23 Jean
- $18 - Price paid to bring Jeans into store
- $5 - Dollars to cover operating expenses and make a profit
Markups Based on Cost (100%)

Cost + Markup = Selling Price

100%  27.78%  127.78%

Dollar markup is the portion

Cost is 100% - the Base

Percent markup on cost is the rate
Calculating Dollar Markup and Percent Markup on Cost

- Gap buys fleece jackets for $18. They plan to sell them for $23. What is Gap’s markup? What is the percent markup on cost?

Dollar Markup = Selling Price - Cost

\[
\begin{align*}
5 &= 23 - 18 \\
\end{align*}
\]

Percent Markup on Cost = \(\frac{\text{Dollar Markup}}{\text{Cost}}\)

\[
\begin{align*}
5 &= \frac{27.78\%}{18} \\
\end{align*}
\]

Check: Selling Price = Cost + Markup

\[
\begin{align*}
23 &= 18 + 0.2778(18) \\
23 &= 18 + 5 \\
\end{align*}
\]
Calculating Selling Price When You Know Cost and Percent Markup on Cost

• Mel’s Furniture bought a lamp for $100. To make Mel’s desired profit, he needs a 65% markup on cost. What is Mel’s dollar markup? What is his selling price?

\[ S = C + M \]
\[ S = 100 + 0.65(100) \]
\[ S = 100 + 65 \]
\[ S = 165 \]
Calculating Cost When You Know Selling Price and Percent Markup on Cost

- Jill Sport, owner of Sports, Inc., sells tennis rackets for $50. To make her desired profit, Jill needs a 40% markup on cost. What do the tennis rackets cost Jill? What is the dollar markup?

\[
S = C + M
\]
\[
50 = C + 0.40C
\]
\[
1.40C = 50
\]
\[
M = S - C
\]
\[
M = 50 - 35.71
\]
\[
M = 14.29
\]
Sears marked down a $18 tool set to $10.80. What are the dollar markdown and the markdown percent?

Markdown percent = \( \frac{\text{Dollar markdown}}{\text{Selling price (original)}} \)