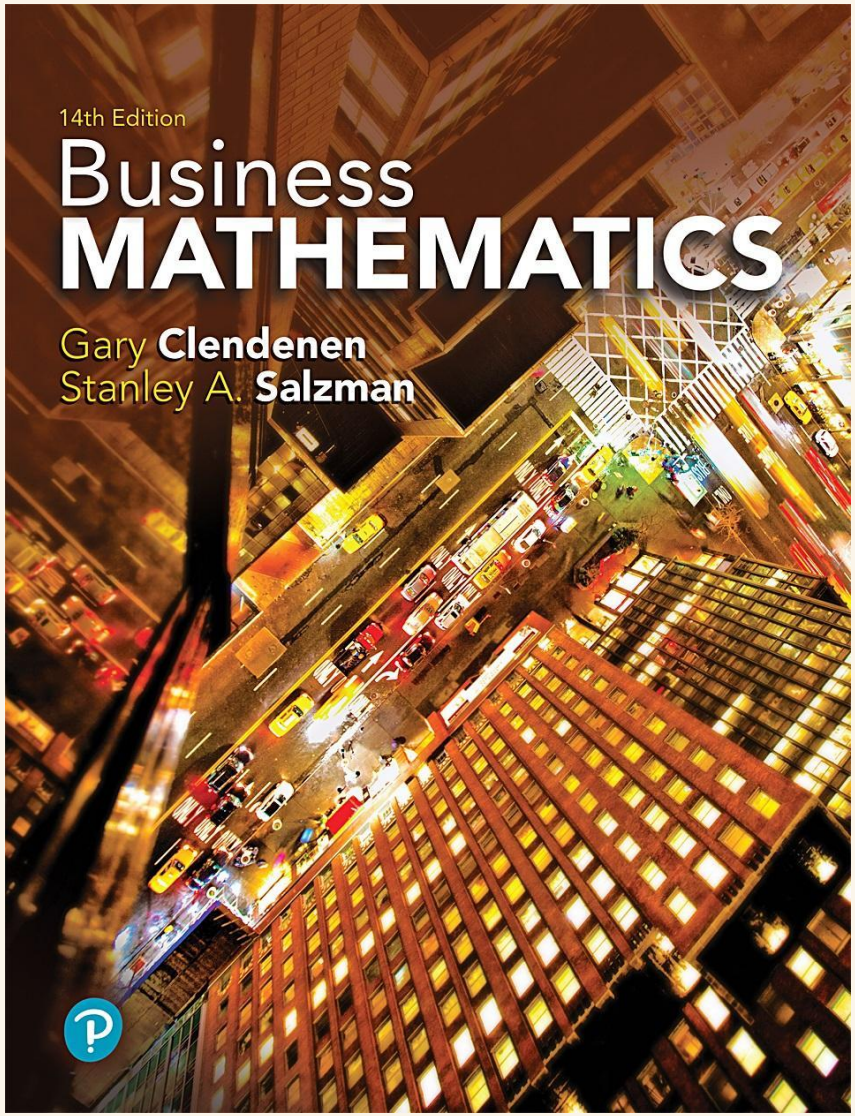
Section 3

Markdown

Chapter 8



Objectives

1. Define the term *markdown* when applied to selling.
2. Calculate markdown, reduced price, and percent of markdown.
3. Define the terms associated with loss.
4. Determine the break-even point and operating loss.
5. Determine the amount of a gross or absolute loss.

Define the term *Markdown* when Applied to Selling

When merchandise does not sell, the price is often **reduced**

Difference between the original selling price and the reduced selling price is called the **markdown**

Selling price after markdown is called the **reduced price, sale price,** or **actual selling price**

Finding *Reduced Price*

Reduced price = Original price – Markdown

Example 1 (1 of 2)

Dick's Sporting Goods has reduced, or marked down, the price of a home gym. Find the reduced price if the original price was $2879 and the markdown is 30%.

Example 1 (2 of 2)

The markdown is 30% of \$2879,

or $.3 \times \$2879 = \$863.70$.

Find the reduced price as follows.

$$\begin{array}{r} \$2879.00 \\ -\ 863.70 \\ \hline \$2015.30 \end{array}$$

The reduced price is \$2015.30.

Example 2 (1 of 2)

The total inventory of coffee mugs at a gift shop has a retail value of $785. If the mugs were sold at reduced prices that totaled $530, what is the percent of markdown on the original price?

Example 2 (2 of 2)

First find the amount of the markdown.

$$\begin{array}{r} \$785 \\ -\$530 \\ \hline \$255 \end{array}$$

Use the rate formula.

$$\text{Rate} = \frac{\text{Part}}{\text{Base}} = \frac{255}{785} = .3248 = 32.5\%$$

The mugs were sold at a markdown of 32.5%.

Example 3 (1 of 2)

Target offers a child's car seat at a reduced price of $63 after a 25% markdown from the original price. Find the original price.

Example 3 (2 of 2)

After the 25% markdown, the reduced price of $63 represents 75% of the original price. The original price, or base, must be found.

$$\text{Base} = \frac{\text{Part}}{\text{Rate}} = \frac{63}{.75} = \$84$$

The original price of the car seat was $84.

Define Terms Associated with Loss

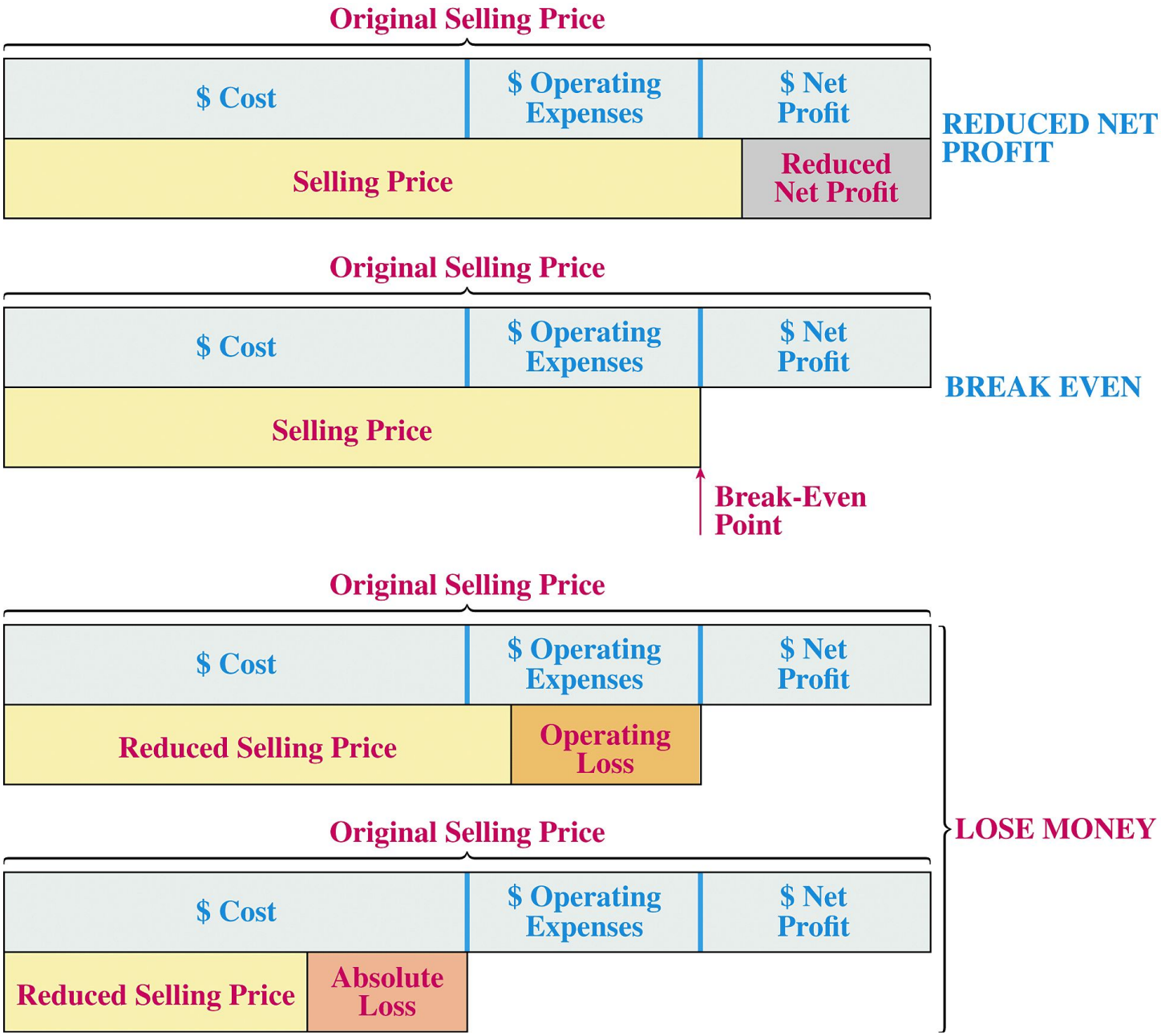
The **break-even point** is the selling price that just covers the cost of the item plus overhead, which includes rent, utilities, marketing, accounting, etc. A company does not make or lose money on items sold at the break-even point.

A **reduced net profit** occurs when an item is marked down from the original price but is still sold above the break-even point.

Define Terms Associated with Loss

An **operating loss** occurs when the selling price of an item is below the break-even point but above the cost of the item.

An **absolute loss, or gross loss,** occurs if the selling price is less than the actual cost paid for the item. For example, a firm that buys a pair of slacks for $38 and then sells the slacks for $25 has an absolute loss, which is the difference between the two, or $13.



Helpful Formulas

Break-even point

= Cost + Operating expenses

Operating loss

= Break-even point – Reduced selling price

Absolute loss

= Cost – Reduced selling price

Example 4 (1 of 3)

Appliance Giant paid $1600 for a 75-inch LCD flat-panel HDTV. If operating expenses are 30% of cost and the television is sold for $2000, find the amount of profit or loss.

Example 4 (2 of 3)

Operating expenses are 30% of cost.

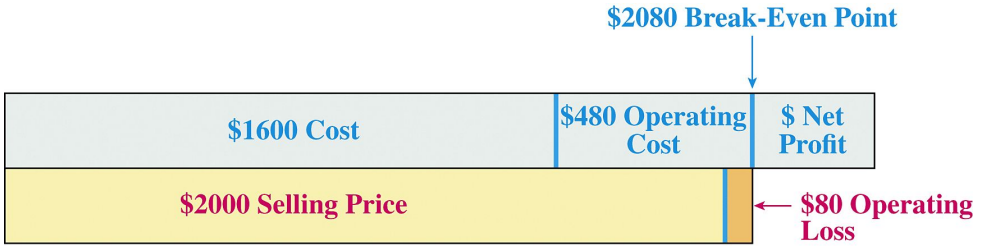
Operating expenses = .30 × $1600 = $480

The break-even point for the LCD HDTV is

Cost + Operating expenses = Break-even point

$1600 + (.3 × $1600) = $1600 + $480

= $2080 break-even point



Example 4 (3 of 3)

So, the company makes a profit if the television is sold for more than the $2080 break-even point or incurs a loss if sold for less. Since the selling price is $2000, there is a loss, found as follows.

$$\$2080 - \$2000 = \$80$$

The $80 loss is an operating loss, since the selling price is less than the break-even point but greater than the cost.

Example 5 (1 of 3)

A ping pong table that normally selling for $360 at Dick's Sporting Goods is marked down 30%. If the cost of the game table is $260 and the operating expenses are 20% of cost, find

(a) the operating loss and

(b) the absolute loss.

Example 5 (2 of 3)

(a) Break-even point

$$= \text{Cost} + \text{Operating expenses}$$

$$= \$260 + 20\% \text{ of } \$260$$

$$= \$312$$

$$\text{Reduced price} = \$360 - (.3 \times \$360)$$

$$= \$360 - \$108 = \$252$$

$$\text{Operating loss} = \$312 - \$252$$

$$= \$60$$

Example 5 (3 of 3)

(b) The absolute or gross loss is the difference between the cost and the reduced price.

$260 cost – $252 reduced price

= $8 absolute loss