

# ACCOUNTING

## in the headlines

### What is the gross margin on the Apple iPhone 5S and 5C?

According to the GottaBe Mobile website in September 2013, the Apple iPhone 5S with 16 GB memory sells off-contract for \$649, while the iPhone 5C with 16 GB memory sells off-contract for \$549. The same phones with 32 GB memory sell off-contract for \$749 and \$649.

According to Bloomberg Businessweek and IHS iSuppli, the iPhone 5S model with 16 GB memory costs \$199 to produce. IHS iSuppli also reports that the 5C model of the iPhone (also with 16 GB of memory) costs \$166 to produce. An extra 16 GB of memory for each phone (to bring it to a total of 32 GB memory) costs Apple about \$0.71 per GB.

### Questions

1. Calculate the gross margin in dollars for each of the following phone models/configurations:
  - iPhone 5S with 16 GB memory
  - iPhone 5S with 32 GB memory
  - iPhone 5C with 16 GB memory
  - iPhone 5C with 32 GB memory
2. Calculate the gross margin in percentage for each of the following phone models/configurations:
  - iPhone 5S with 16 GB memory
  - iPhone 5S with 32 GB memory
  - iPhone 5C with 16 GB memory
  - iPhone 5C with 32 GB memory
3. Which phone model is most profitable for Apple?
4. Apple has made a conscious decision to not make its phones' memory cards swappable (i.e., the phone owner cannot purchase a larger memory card at a later date to give the phone more memory). The consumer must upgrade to an entire new phone if additional memory is needed at a later date. Why do you think Apple has made this choice? Do you think Apple's decision is