

# Assignment 2

## Discussion—CVP Analysis

Review Decision Case 1 (Steve and Linda Hom) starting on page 984 of your text. In your initial post, answer the two case questions:

1. Compute the annual breakeven number of meals and sales revenue for the restaurant.
2. Compute the number of meals and the amount of sales revenue needed to earn operating income of \$75,600 for the year.

In addition, address the following in one to two paragraphs:

1. Identify and discuss several qualitative factors that should be considered in the decision process in addition to the quantitative data already computed in the case assignment.
2. What are the potential benefits of applying CVP analysis to business decision making?
3. Provide an example of another business scenario that could benefit from CVP analysis and explain how you would apply CVP analysis in the decision-making process.

### Decision Cases

**Case 1.** Steve and Linda Hom live in Bartlesville, Oklahoma. Two years ago, they visited Thailand. Linda, a professional chef, was impressed with the cooking methods and the spices used in the Thai food. Bartlesville does not have a Thai restaurant, and the Homs are contemplating opening one. Linda would supervise the cooking, and Steve would leave his current job to be the maitre d'. The restaurant would serve dinner Tuesday—Saturday.

Steve has noticed a restaurant for lease. The restaurant has seven tables, each of which can seat four. Tables can be moved together for a large party. Linda is planning two seatings per evening, and the restaurant will be open 50 weeks per year.

The Homs have drawn up the following estimates:

Average revenue, including beverages and dessert .....	\$ 45 per meal
Average cost of food .....	\$ 15 per meal
Chef's and dishwasher's salaries.....	\$61,200 per year
Rent (premises, equipment).....	\$ 4,000 per month
Cleaning (linen and premises).....	\$ 800 per month
Replacement of dishes, cutlery, glasses .....	\$ 300 per month
Utilities, advertising, telephone.....	\$ 2,300 per month

#### Requirements

1. Compute the *annual* breakeven number of meals and sales revenue for the restaurant.
2. Also compute the number of meals and the amount of sales revenue needed to earn operating income of \$75,600 for the year.

# Assignment 3

## Discussion—ABC Analysis

Review the Decision Case 1 (Harris Systems) located on page 942-943 in your textbook. Answer the four case questions in the Requirements section of the case. In addition, address the following in one to two paragraphs:

- Compare and contrast ABC costing and traditional costing methods, giving examples.
- In the assigned case, which system provides a more accurate picture of the cost incurred to produce the jobs?
- Provide examples of manufacturers in your geographic area and explain which system would be best for them.

Respond to each directive or question in 1–2 paragraphs. Apply current APA standards for writing style to your work.

### Decision Cases

**Case 1.** Harris Systems specializes in servers for workgroup, e-commerce, and ERP applications. The company's original job costing system has two direct cost categories: direct materials and direct labor. Overhead is allocated to jobs at the single rate of \$22 per direct labor hour.

A task force headed by Harris's CFO recently designed an ABC system with four activities. The ABC system retains the current system's two direct cost categories. Thus, it budgets only overhead costs for each activity. Pertinent data follow:

Activity	Allocation Base	Cost Allocation Rate
Materials handling	Number of parts	\$ 0.85
Machine setup	Number of setups	500.00
Assembling	Assembling hours	80.00
Shipping	Number of shipments	1,500.00

Harris Systems has been awarded two new contracts, which will be produced as Job A and Job B. Budget data relating to the contracts follow:

	Job A	Job B
Number of parts.....	15,000	2,000
Number of setups.....	6	4
Number of assembling hours.....	1,500	200
Number of shipments.....	1	1
Total direct labor hours.....	8,000	600
Number of output units.....	100	10
Direct materials cost.....	\$220,000	\$30,000
Direct labor cost.....	\$160,000	\$12,000

### Requirements

1. Compute the product cost per unit for each job, using the original costing system (with two direct cost categories and a single overhead allocation rate).
2. Suppose Harris Systems adopts the ABC system. Compute the product cost per unit for each job using ABC.
3. Which costing system more accurately assigns to jobs the costs of the resources consumed to produce them? Explain.
4. A dependable company has offered to produce both jobs for Harris for \$5,400 per output unit. Harris may outsource (buy from the outside company) either Job A only, Job B only, or both jobs. Which course of action will Harris's managers take if they base their decision on (a) the original system? (b) ABC system costs? Which course of action will yield more income? Explain.

## Assignment 4

### Discussion— Performance Reports and Budgeting

Review Decision Case 1 (Donna Tse) located on page 1127 in your textbook. Answer the case question in the Requirements section of the case. Your memo should be at least two paragraphs in length.

## Apply Your Knowledge

### Decision Cases

**Case 1.** Donna Tse has recently accepted the position of assistant manager at Cycle World, a bicycle store in St. Louis. She has just finished her accounting courses. Cycle World's manager and owner, Jeff Towry, asks Tse to prepare a budgeted income statement for 2011 based on the information he has collected. Tse's budget follows:

CYCLE WORLD Budgeted Income Statement For the Year Ending July 31, 2011		
Sales revenue		\$244,000
Cost of goods sold		177,000
Gross profit		67,000
Operating expenses:		
Salary and commission expense	\$ 46,000	
Rent expense	8,000	
Depreciation expense	2,000	
Insurance expense	800	
Miscellaneous expenses	12,000	68,800
Operating loss		(1,800)
Interest expense		(225)
Net loss		\$ (2,025)

#### Requirement

1. Tse does not want to give Towry this budget without making constructive suggestions for steps Towry could take to improve expected performance. Write a memo to Towry outlining your suggestions.

# Assignment 5

## Responsibility Centers

As we conclude our study of managerial accounting this week, reflect on the knowledge you have gained through the various assignments in this course and how these concepts can be applied to your current and future work situations. What do you think were the three most interesting managerial accounting concepts we covered over the past 5 weeks? What were the three most challenging concepts presented? Explain your choices in a 2-3 paragraph reflective essay and submit to the week 5 discussion area.