

ACT 5140 Accounting for Decision Makers - Homework 6

Question 1

Consider the following per unit amounts based upon the monthly capacity of 500,000 units

Category	\$/Unit	Total
Variable Manufacturing Costs	\$ 35.00	
Fixed Manufacturing Costs	\$ 16.00	\$8,000,000
Variable Selling Costs	\$ 20.00	
Fixed Selling Costs	\$ 16.00	\$8,000,000

Capacity cannot be added in the short run and the firm currently sells the product for \$ 100.00 per unit

The company is currently producing 475,000 units per month.

A potential customer has contacted the firm and offered to purchase 50,000 units this month only

The customer is willing to pay \$ 78.00 per unit

Since the potential customer approached the firm, there will be no variable selling costs incurred.

Should the company accept the special order? Why or why not? Be specific in your answer showing your work in a financial format.

How much money can the company expect to earn (lose) with the additional transaction? Show your work

Part 2 of this question: Which variables are relevant and explain why you find them to be relevant.

Question 2

Consider the following per unit amounts based upon the monthly capacity of 500,000 units

Category	\$/Unit	Total
Variable Manufacturing Costs	\$ 21.00	
Fixed Manufacturing Costs	\$ 4.00	\$2,000,000
Variable Selling Costs	\$ 5.00	
Fixed Selling Costs	\$ 3.00	\$1,500,000

Capacity cannot be added in the short run and the firm currently sells the product for \$ 43.00 per unit

The company is currently producing 480,000 units per month.

A potential customer has contacted the firm and offered to purchase 50,000 units this month only

The customer is willing to pay \$ 30.00 per unit

Additional selling costs by the company will not be incurred because the buyer will pick up the order themselves

Should the company accept the special order? Why or why not? Be specific in your answer showing your work in a financial format.

How much money can the company expect to earn (lose) with the additional transaction? Show your work

Question 3

A consulting company performs a "basic" market analysis for a client

The company incurs cost of \$350,000 in performing the analysis and plans to sell the report to the client for \$500,000

After reviewing the initial report, the client asks the firm if it is willing to do a more extensive report

The client offers to pay the consulting company a much higher amount of, \$750,000 to include the additional work

If the more extensive report the consulting company estimates that incremental costs of \$200,000 would be required to do the additional work

Should the consulting company agree to do the more extensive report?

How much money can the company expect to earn (lose) with the additional transaction? Show your work

Question 4

Assume an engineering company provides services for three types of clients.

Each service requires a different amount of a specific form of specialized labor that is in limited supply.

If the company is limited to 16,500 hours of the specialized labor, how many clients of each type

Questions

Should the engineering company accept in order to maximize operating income?

Also show your calculations for the following:

1. List the type of client that should be served first, second and third
2. Number of hours used for the special labor by each client type
3. Number of customers serviced by each client type
4. Contribution margin dollars to be expected by each client type and total
5. Contribution margin dollars to be expected in total

Client Type	Job	Wholesale	Retail
Revenue per client	\$3,000	\$3,500	\$5,300
Variable Cost per client	\$1,000	\$1,200	\$2,700
Specialized Labor hours required per client	8	12	13
Maximum clients available	300	500	700