

SxS DUNE ADVENTURES

Experience the Dunes and Sea, Side by Side



Accounting 294
Comprehensive Assignment Part 2
Summer 2016

Background

Welcome to the Summer 2016 version of the comprehensive assignment prepared specifically for Accounting 294.

This is Part 2 of the assignment that is meant to fulfill a number of objectives for you. These include:

- 1) Test and apply your knowledge of the concepts of managerial accounting.
- 2) Increase your experience and abilities with respect to report writing.
- 3) Illustrate scenarios and issues you will face in the “real world”
- 4) Provide for an additional method of evaluation of your knowledge and skills rather than the traditional quizzes and tests.

Please take all parts of this assignment seriously. This is an opportunity to actually apply your knowledge rather than just memorize a textbook.

Please prepare the assignment using either Word or Excel rather than by hand. The finished product will look more professional as well as create some consistency between submissions.

In order to make this assignment easier and your result more successful I suggest that you do not leave this assignment to the last day or even week. The assignment parts are constructed to coincide with the topics that have been or will be covered in class. If you begin working on the assignment immediately then as your lectures/seminars progress you will be immediately reinforcing the course content that you are being exposed to and it will make application of that content easier as well.

The 2 parts of the assignment are worth a total of 16 % of your final grade and therefore each part will have a significant effect on your final letter grade. Making a submission on time even if incomplete, will be more to your benefit than giving up and not making any submission at all.

Important Notes Regarding Student Conduct

Each part of this assignment is an individual assignment. All submissions are required to be your own words and calculations. While it is recognized that students may discuss concepts and ideas each student is required to construct their own response. In the event that the responses prepared by individual students appear to be the same or highly similar the instructor will consider referring the students to the Faculty of Management Academic Integrity Committee for consideration.

Plagiarism

- ***Plagiarism*** refers to the practice of presenting the words of another author (it may be a text writer or another student) as your own. This is not permitted. At times you will be asked to learn about and discuss the views or theories of others. This should be done with appropriate acknowledgement of source materials. In other words, you **must** reference your work. Acknowledge your sources – both direct and indirect quotes – with in-text citations. Refer to the **Referencing** section contained below for further information.

Academic Conduct Violations

- Any violation of the rules of Academic Conduct as described above will result in the immediate confiscation of all related materials of all parties involved. In addition, all parties will be immediately reported to the Faculty of Management Academic Misconduct Committee for consideration of further actions including (but not limited to) receiving a zero for the submission, a failure in the course and the possibility of suspension or expulsion.

Referencing

Faculty of Management (Business) requires the APA style of referencing for academic papers. Resources for using APA are available from the VIU Writing Centre (Library, Room 474). You can find their hours of operation and access to online student resources (including tutorials and a printable Quick Guide) at: <http://sites.viu.ca/writingcentre/>."

For further information please discuss with your instructor and/or refer to the following Student Academic Code of Conduct

<https://www2.viu.ca/policies/documents/Policy99.01.pdf>

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Remembering Your Role

While you believe you are a student currently taking Accounting 294, for the purposes of this assignment you are in fact an employee of SxS Dune Adventures. SxS is a company located in Florence Oregon. The business has 2 focuses, rentals of Polaris RZR's and tours of the Oregon dunes located between Florence, Oregon and North Bend, Oregon.

While this employment will provide you with varied experience, you are about to be assigned work specifically related to the business. You have just been hired by the owner, Sam Lownie(SL) of SxS because of your recently acquired knowledge related to managerial accounting. He expects you to write memos, perform quantitative and qualitative analysis as well as providing conclusions or recommendations for the management and owners of SxS Dune Adventures.

At all times, work submitted must be professional both in terms of content as well as presentation. This is not high school or university but rather the real world. Do the work as if your job depends on it, because it does!!

Transcript of Second Meeting with Sam Lownie, Brian Beech, Adam Farmer and Student

SL: Thank you very much for the work you have done to date. All three of us have reviewed your reports and I believe that you have a bright future. Brian? Adam? Do you have any comments for Student?

AF: Frankly I thought your report on the contribution margin income statement and the others over-complicated our situation here. Some expenses appear to be calculated based on customer numbers, some on revenue amounts, some on machine hours, some on the hours open. Additionally some amounts did not appear to be tied to any sort of measure or activity.

It appears to me that the costs are what they are. Regardless of how you allocate them or what you use to measure them, the cost amounts themselves do not change.

Rather than complicating our world why don't we just take the costs and relate it to just one activity? For example, why don't we just calculate all costs based on machine hours? Running machines is what we do and running machines is what we charge for?

Student: I understand what you are getting at Adam. There are benefits and costs related to that level of detail being utilized. If you want I can do a memo for you discussing this costing approach compared to the simple approach that you are suggesting?

AF: That would be great. I would appreciate that so that I can understand why we are taking that approach.

SL: I think we can all learn from more information. Anything else?

BB: As you know according to Oregon law all machines venturing out on the Dunes are required to fly a flag 9 feet high at all times in order to reduce the risk of collisions as people go up, over and around the dunes. These flags are bolted onto the machines and have a 9 foot fibreglass whip pole and a colourful flag on the top.

Tracy Sharp, one of the local manufacturers of the flags, has approached us with the idea of selling her business to us. This could expand our clientele in that we would produce flags not only for our machines but also for the UTV'ers who bring their own machines to the dunes. Then in the future we can consider providing tours of the dunes to those who have their own machines.

Ms. Sharp has provided me with comparative income statements for the past 3 years of operation. (Exhibit 1) It is not a large business however it does appear to be improving. Over the past 3 years it has gone from a loss of \$1,000 to an income of \$1,500 which I think is impressive considering that the revenue has dropped by 12.5% over the same period. Additionally the inventory has increased from 450 flags to 600 flags over the same time period.

While it all appears good to me I was wondering if you could review Ms. Sharp's numbers and consider if they are truly showing the actual results for the year. If not could you please recalculate or reformat the report to give a more accurate picture of the results?

Student: I would be happy to. It does seem strange that profits are increasing when the sales are decreasing.

SL: Seems like everyone has work for you student. Why should I be any different? Lol

It is time to get ready for next year and I would like you to prepare both a budgeted income statement for the next year as well as a cash budget for the first 2 months of the new season.

Here is the information to prepare the budget for the 2017 operating season (Exhibit 2). I would like you to do it on a contribution margin format.

Additionally I have included information on when various expenses need to be paid as well as other amounts expected to be paid out in the new fiscal year. I would like you to do a quarterly cash budget for the fiscal year as well.

Student: Well with all that to do I should get to work. When do you need this by?

SL: I am intending to head to Hawaii for the month of July so if you could have it done by June 9 so that I can take it with me that would be fantastic.

Required

- 1) Prepare a memo for Adam detailing the advantages and disadvantages of activity based costing compared to traditional costing.

- 2) Prepare a memo for Brian including a quantitative analysis of Tracy Sharp's business to determine if it truly reflects the results of the operations for the past 3 years. Ensure that you address his concerns regarding the decrease in sales combined with an increase in profit as well as the increasing inventory amounts for the years.

- 3) Based on Sam's request:
 - a. Prepare a budgeted income statement for the year ended Sept 30, 2017
 - b. Prepare a quarterly cash budget for the year ended Sept 30, 2017.

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Exhibit 1

Sharp Look Flags

Comparative Statements of Income

	For the year ended	2013	2014	2015
Sales		\$20,000	\$18,750	\$17,500
COGS				
Opening Inventory		7,200	4,000	4,800
Variable Prod (\$9/unit)		5,400	7,200	9,000
Fixed Prod (\$7/unit)		4,200	5,600	7,000
Cost of Goods Available		16,800	16,800	20,800
Ending Inventory		4,000	4,800	9,600
Cost of Goods Sold		12,800	12,000	11,200
Under(over) applied fixed overhead		1,400	0	-1,400
Adjusted Cost of Goods sold		14,200	12,000	9,800
Gross Margin		5,800	6,750	7,700
Selling/Admin		6,800	6,500	6,200
Net Income		-\$1,000	\$250	\$1,500

Unit Selling Price \$25

All amounts in Units

Opening Inventory	450	250	300
Production	600	800	1000
Sales	800	750	700
Closing Inventory	250	300	600

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Exhibit 2

1) Revenues

The business has 2 revenue streams

a) SxS Rentals

The company will increase rates by 5% compared to 2015 charges \$150/hour for each rental. The vehicles are limited to 2 riders. Each rental averages 2 hours in duration and typically there are 2 people on each unit.

b) Tours

Tour rates will remain the same for 2016

c) In 2015 SxS rentals totalled 3,240 hours and tours totalled 1,875 hours. With the rate changes it is estimated that rentals will decrease by 2% and tours will remain unchanged.

d) The average customer reserves their rentals 3 months before the actual date it is required. They are required to put down a deposit of 50% at that time with the balance due on the rental date.

e) Tour customers pay for their tour at the time it is taken.

f) It is expected that the rentals and tours will occur evenly through the season.

2) Labour

a. Management

Sam's salary of \$155,000 annually is expected to remain the same. This salary is paid monthly in 12 equal instalments.

The operations manager, Brian was paid a fixed annual salary of \$85,500 in 2016 but this will increase by 1% for 2017. It is paid monthly.

The maintenance supervisor, Adam proposed a new salary structure in Part 1 of the assignment. Sam accepted his proposal so he is paid \$8,000 in total for the last half of May and the first half of October and \$8,000 per month for the operating period of the year.

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Exhibit 2(cont)

b. Support Staffing

Guides will be paid a rate of \$11.50 per person guided per hour

Guest Reception/Rental Desk

These employees receive an increase of 2% compared to their 2016 rates. The reception/rental desk will be open the same hours in 2017 as they were in 2016.

Vehicle Repairs and Maintenance staff

R & M staffing cost expected to increase to \$15.50 per equipment operating hour.

All support staff costs are paid in the month incurred.

3) Other expenses

- a) The following expenses are dependant on the number of customers.
Tour Food and Beverages- customers on tours only and the per person cost is expected to increase by 5% compared to 2016.
This amount is paid at the time of the tour.

Oregon State Dune Access Fees- The state will continue to charge the business a business access charge of \$8,000 per year plus a dune access fee of \$8.00 per customer.

The business access charge is charged in the first month of the season and the dune access fee is paid when the rental or tour is completed.

- b) The marketing agent is paid a commission of 5% of all revenues.
This is paid 3 months after the receipt of revenues.

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Exhibit 2 (cont)

c) Equipment depreciation is based on a rate of \$18.00 per equipment operating hour.

d) In 2016 insurance was comprised of a base rate for equipment and general insurance of \$25,000 plus a charge of \$9.00 per equipment operating hour. In 2017 insurance base rates are expected to increase by 10% due to world risk factors however the operating hour charge will remain the same. Insurance is paid at the beginning of the season.

e) Vehicle parts and maintenance supplies is approximately \$16.50 per equipment operating hour for both 2016 and 2017. Vehicle parts and supplies are paid for in the month incurred.

f) The following expenses do not change with the number of customers or operating hours. There is not expected to be any change in these expenses for 2017 compared to 2017.

Supplies	Advertising
Building depreciation	Office and telephone costs

Advertising is required to be paid fully in February.

Office and telephone costs are paid in the month incurred.

Supplies are paid for in the month following the month it is incurred.

4. Miscellaneous Notes

a) Unless told otherwise, assume expenses are paid for in the month incurred.

b) For the purposes of the cash budget assume that the business has \$40,000 in cash as of September 30, 2016.