

"Rod," Percy called after the young man as he walked past his office.

"Yes, sir," Rod said in a slow southern drawl as he came back to his office door. "What can I do for you?"

Percy shook his head. "For one thing, you can stop calling me sir, as we've discussed this before."

Now Rod shook his head. "Sorry, Mr. Roberts," he said. "My mama worked hard to instill respect into her kids," grinning he added, "and she's scarier than you are, sir."

Percy started to laugh. "Rod," he said after a minute, "you're a treasure. Just do the best you can. I actually didn't stop you to talk about your language."

"Really? Well, that's something anyway. What can I do for you, sir?" Rod emphasized the last word and grinned impishly.

"You can do a basic CVP analysis on the new line of sweet potato chips. I have to present to the Board tomorrow about how the line is doing. I could go through budgets and our most recent Income Statement, but I'm sure they'll be much happier with the visual effect of a CVP analysis."

Rod nodded. "That makes sense to me. It's always easier to see something drawn out than to just look at a bunch of numbers, especially for non-accountants."

"Exactly. I had planned to do it myself today, but I have to get this report finalized for the bank, and I'm the only one who can do that. I'll email you the information I gathered, and you should be able to do the analysis without any trouble. You will need to know that 40% of Manufacturing Overhead is variable, and 90% of S&A costs are fixed, while the rest are commissions."

"Thanks, sir... I mean Mr. Roberts. I'll get right on it."

Percy put down his laser pointer and motioned for Jennifer to turn the lights back up, then he turned to the Board. "As you can see, the line appears to be doing well, making a solid profit and easily covering both its own costs and some of our general overhead. That's the end of my formal presentation. Does anyone have any questions?"

Mary Roberts, the Chairman of Wedgewood's Board, turned to her older siblings, "Any of you still awake enough to ask questions?" she quipped.

Clint shook his head. "Mary, do you always have to treat us like we've all got one foot in the grave? I mean, you aren't really that much younger than we are."

"Humbug, Clint. I'm almost ten years younger than you are. That keeps me down in the double digits, and that's a lot."

Clint frowned. "Double digits, huh?" I'll have you know that I'm nowhere near 100, thank you, and I'm still sharp enough to help make decisions around here." He looked around the room. "I think the paint is still just fine, so let's stop arguing about it and get out of here."

Mary just stared at him for a moment. "Paint?" she asked incredulously. Clint glanced at Percy and winked.

"Well, don't you think the paint is still fine?" he asked, turning back to Mary. "I'm not sure why you insisted we decide about something like paint, but I think we can just leave it for now." Mary continued to stare at him in shock, her mouth open. Clint finally started to laugh, as did the other four siblings that made up Roberts' Board.

"He got you that time, Mary," Janet Roberts, another sister, said with a chuckle. Janet had white hair that stuck out at odd angles. She looked to Percy like a grandmother right out of a storybook rather than a Board member of a large private corporation. Percy nodded to himself as his great-aunts and uncles bantered with each other. This was a very good sign. If they had been worried about the new line, there wouldn't have been any joking.

After a few minutes, Scott Roberts, the Marketing Director jumped in, stopping the playful argument. "Now that everyone has a good idea about how the new line is going, I'd like to ask a couple questions." The room grew quiet and Mary motioned for Scott to continue. "Percy, can you tell us what the effect would be if we were to make some changes to our sales plan?"

"I can try, Scott. What would you like to know?"

"Well, I'd like to encourage our sales force to push them a little bit. If we increased the sales commissions on these chips by 20%, I think we could increase sales by 5%. Alternatively, we could spend an additional \$150,000 in fixed advertising, which would raise our sales by about 4%. Would either of those increases in cost be worthwhile? Which would be better for us?"

"Give me a minute, and I'll run the numbers right now." Percy turned to his laptop while the Board discussed some other ideas.

Use the information from the most recent quarter to answer questions 1-9.

1. What is the contribution Margin for the new line of sweet potato chips?

2. What is the breakeven amount for the sweet potato chips in dollars and units?

3. What is the margin of safety for the sweet potato chips in both dollars and units?

4. What is the degree of operating leverage for the sweet potato chips?

5. How much would operating income increase if sales increased by 15%?

6. Create a clearly labeled CVP graph for the new line, including each of the following:
 - a. Fixed Costs
 - b. Total Costs

- c. Total Revenue
- d. Breakeven point
- e. Loss and gain areas.

7. What would be the effect on the sweet potato line's net income if the company increased sales commissions as in Scott's first alternative?

8. What would be the effect on the sweet potato line's net income if the company increased advertising expense as in Scott's second alternative?

9. Using the information provided about the 2nd quarter of next year.

- a. Calculate the division's new breakeven point (sales dollars only).
- b. Calculate the division's margin of safety percentage.
- c. Calculate the division's operating leverage and determine the dollar effect of a 15% increase in sales on operating income.