

Flex Electronics manufactures and sells two types of custom USB flash drives with organization logo: USB drive #1 and USB drive #2. The company forecasts the following data for year 2017:

	USB Drive #1	USB Drive #2
Direct Materials	\$3/unit	\$2/unit
Direct Labor	\$4/unit	\$3/unit
Setups	240	80
Pounds of materials	36,000	12,000
Machine hours	2,400	800
Selling & administrative expense	\$1.5/unit	\$1/unit
Number of units completed	120,000	40,000
Selling price	\$14/unit	\$10/unit

Flex has determined the following activity cost pools and cost driver levels for 2017:

Activity Cost Pool	Activity Cost	Activity Cost Driver
Machine setup	\$96,000	320 setups
Material handling	\$88,000	48,000 pounds
Machine operation	\$12,800	3,200 machine hours
Total	\$196,800	

Assume income tax rate is 30%.

Required (1): prepare a budgeted income statement for year 2017 based on the above information.

Flex Electronics also considers three alternative plans to improve its companywide profit:

Plan A: Terminate production of USB drive #2. Given the current plant conditions, Flex can use the excess capacity to produce and sell additional 40,000 units of USB drive #1. This proposed plan does not change activity cost. Termination of USB drive #2 will impose order cancellation penalty of \$38,000.

Plan B: Lower the selling price of USB drive #1 to \$13.5, which will increase the sales volume of USB drive #1 by 20,000 units. Assume Plan B does not affect the production and sale of USB drive #2. Further, activity cost pools and cost driver levels are presented below under this proposed plan:

Activity Cost Pool	Activity Cost	Activity Cost Driver
Machine setup	\$108,000	360 setups
Material handling	\$99,000	54,000 pounds
Machine operation	\$14,400	3,600 machine hours
Total	\$221,400	

Plan C: Shifting the focus of advertising from USB drive #2 to USB drive #1, which will increase advertising costs by \$5000. Further, plan C will increase the sales volume of USB drive #1 by 10,000

units, and decrease the sales volume of USB drive #2 by 10,000 units. Assume this proposed plan does not change activity cost pools and cost driver levels.

Required (2): prepare a budgeted income statement for each of the above three alternative plans and identify the plan that has the most beneficial effect on Flex's companywide profit.