



EXPLORING THE WEB

BYP5-6 No financial decision maker should ever rely solely on the financial information reported in the annual report to make decisions. It is important to keep abreast of financial news. This activity demonstrates how to search for financial news on the Web.

Address: biz.yahoo.com/fi (or go to www.wiley.com/college/waygandt)

Steps

1. Type in either Lands' End or Abercrombie & Fitch.
2. Choose News.
3. Select an article that sounds interesting to you.

Instructions

- (a) What was the source of the article? (For example, Reuters, Businesswire, PR Newswire.)
- (b) Pretend that you are a personal financial planner and that one of your clients owns stock in the company. Write a brief memo to your client, summarizing the article and explaining the implications of the article for their investment.

CRITICAL THINKING

GROUP DECISION CASE

BYP5-7 Three years ago, Kathy Webb and her brother-in-law John Utley opened FedCo Department Store. For the first two years, business was good, but the following condensed income results for 2001 were disappointing.

**FEDCO DEPARTMENT STORE
Income Statement
For the Year Ended December 31, 2001**

Net sales	\$700,000	
Cost of goods sold	546,000	
Gross profit	154,000	
Operating expenses		
Selling expenses	\$100,000	
Administrative expenses	25,000	
Net income	125,000	\$ 29,000

Kathy believes the problem lies in the relatively low gross profit rate (gross profit divided by net sales) of 22%. John believes the problem is that operating expenses are too high. Kathy thinks the gross profit rate can be improved by making both of the following changes:

1. Increase average selling prices by 17%. This increase is expected to lower sales volume so that total sales will increase only 6%.
2. Buy merchandise in larger quantities and take all purchase discounts. These changes are expected to increase the gross profit rate by 3%.

Kathy does not anticipate that these changes will have any effect on operating expenses. John thinks expenses can be cut by making both of the following changes.

1. Cut 2001 sales salaries of \$60,000 in half for 2002 and give sales personnel a commission of 2% of net sales.
2. Reduce store deliveries in 2002 to one day per week rather than twice a week; this change will reduce 2001 delivery expenses of \$30,000 by 40% in 2002.

John feels that these changes will not have any effect on net sales. Kathy and John come to you for help in deciding the best way to improve net income.

Instructions
With the class divided into groups, answer the following.

- (a) Prepare a condensed income statement for 2002 assuming (1) Kathy's changes are implemented and (2) John's ideas are adopted.

(b) What is your recommendation to Kathy and John?
 (c) Prepare a condensed income statement for 2002 assuming both sets of proposed changes

are made.

COMMUNICATION ACTIVITY

BYP5-8 The following situation is in chronological order.

1. Dexter decides to buy a surfboard.
2. He calls Surfing USA Co. to inquire about their surfboards.
3. Two days later he requests Surfing USA Co. to make him a surfboard.
4. Three days later, Surfing USA Co. sends him a purchase order to fill out.
5. He sends back the purchase order.
6. Surfing USA Co. receives the completed purchase order.
7. Surfing USA Co. completes the surfboard.
8. Dexter picks up the surfboard.
9. Surfing USA Co. bills Dexter.
10. Surfing USA Co. receives payment from Dexter.

Instructions

- In a memo to the president of Surfing USA Co., explain the following.
- (a) When should Surfing USA Co. record the sale?
 - (b) Suppose that with his purchase order, Dexter is required to make a down payment. Would that change your answer?

ETHICS CASE

BYP5-9 Rita Pelzer was just hired as the assistant treasurer of Yorkshire Store. The company is a specialty chain store with nine retail stores concentrated in one metropolitan area. Another other things, the payment of all invoices is centralized in one of the departments. Rita will manage. Her primary responsibility is to maintain the company's high credit rating by paying bills when due and to take advantage of all cash discounts.

Jamie Caterino, the former assistant treasurer who has been promoted to treasurer, is training Rita in her new duties. He instructs Rita that she is to continue the practice of preparing all checks "net of discount" and dating the checks the last day of the discount period. "But Jamie continues, "we always hold the checks at least 4 days beyond the discount period before mailing them. That way we get another 4 days of interest on our money. Most of our credit need our business and don't complain. And, if they scream about our missing the discount period, we blame it on the mail room or the post office. We've only lost one discount out of a hundred we take that way. I think everybody does it. By the way, welcome to our team!"

Instructions

- (a) What are the ethical considerations in this case?
- (b) Who are the stakeholders that are harmed or benefited in this situation?
- (c) Should Rita continue the practice started by Jamie? Does she have any choice?

Answers to Self-Study Questions

1. c 2. a 3. c 4. b 5. c 6. d 7. b 8. c 9. d 10. a

Answer to Lands' End Review It Question 1, p. 207

For Lands' End, the 2001 gross profit rate is 42.5% ($\$622 \div \$1,462$). The 2000 gross profit rate was 41.6% ($\$590 \div \$1,417$). The rate therefore increased by 0.9% from 2000 to 2001. All this information was provided in Lands' End's management discussion and analysis section. It also could be computed from the income statement presented.



Remember to go back to the Navigator box on the chapter-opening page and check off your completed work.