The general manager at the Overall Manufacturing Company has submitted the following information for a specific line of heat exchangers with the recommendation to discontinue the round style heat exchanger because of its continued net operating income losses.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Overall Manufacturing Company | | | | | | |
|  | Heat Exchangers | | | | | |
|  | Total | Round | | Rectangular | | Octagonal |
| Sales | $1,000,000 | $140,000 | | $500,000 | | $360,000 |
| Less variable expenses | $410,000 | $60,000 | | $200,000 | | $150,000 |
| Contribution margin | $590,000 | $80,000 | | $300,000 | | $210,000 |
|  | | | | | | |
| Less fixed expenses: | | | | | | |
| Advertising | $216,000 | $41,000 | | $110,000 | | $65,000 |
| Depreciation | $95,000 | $20,000 | | $40,000 | | $35,000 |
| Line supervisors' salaries | $19,000 | $6,000 | | $7,000 | | $6,000 |
| General factory overhead\* | $200,000 | $28,000 | | $100,000 | | $72,000 |
| Total fixed expenses | $530,000 | $95,000 | | $257,000 | | $178,000 |
| Net operating income (loss) | $60,000 | $(15,000) | $43,000 | | $32,000 | |
| \*A common fixed cost that is allocated on the basis of sales dollars | | | | | | |
|  |  |  |  |  |  |  |

Analyze the above information to determine if the round heat exchanger should be discontinued. The special equipment that is used to produce the round heat exchanger has no resale value. If the round heat exchanger is discontinued, the two line supervisors who are assigned to the model would be discharged. Overall Manufacturing Company has no other use for the capacity that is now being used to produce the round heat exchanger.

Include the following in your analysis:

* Should the production and sale of the round heat exchanger be discontinued? Show your analysis to support your answer.
* How might this same information be presented to make it more useful to management in assessing the long-run profitability of its various product lines?
* What policy change would you recommend to management?