Unique Fixtures, Inc. (UFI) is a publicly owned corporation that designs, manufactures, and installs display fixtures for retail stores. UFI has been in business for two years and has grown to $1.5 million in sales for 2005. $1.2 million of its sales were for fixtures and installation. The other $300,000 in sales were for the design of display fixtures that UFI provides but does not manufacture or install. These display fixtures are mainly counter top displays. UFI sees its business growing rapidly over the next three years.

The following is the list of activity over the first two years of operation:

Unique Fixtures, Inc. 2004 and 2005 Activity				
No.	Activity	2004	2005	Total
1	Received cash from the issue of common stock	500,000	0	500,000
2	Paid startup costs	50,000	0	50,000
3	Paid for research and development costs	10,000	0	10,000
4	Bought raw materials to manufacture fixtures	125,000	365,000	490,000
5	Paid salaries to selling and office employees	90,000	93,000	183,000
6	Paid wages to production workers	115,000	330,000	445,000
7	Bought office furniture and equipment	15,000	0	15,000
8	Bought manufacturing equipment	100,000	0	100,000
9	Posted depreciation on office furniture	2,200	2,200	4,400
10	Posted depreciation on manufacturing equipment	10,000	10,000	20,000
11	Paid rent on manufacturing facility	24,000	24,000	48,000
12	Paid utility cost on manufacturing facility	7,200	18,000	25,200
13	Realized sales for manufacture & installation of retail store fixtures	410,000	1,200,000	1,610,000
14	Realized sales for the design of fixtures and retail stores	100,000	300,000	400,000
15	Paid rent on office building	6,000	6,000	12,000
16	Paid utility cost on office building	1,200	1,200	2,400
17	Paid advertising costs	5,000	12,000	17,000
18	Cost of goods sold	208243	741866	950109

Assume that all transactions were cash transactions except for adjusting entries for depreciation.

In 2004, UFI manufactured 950 display fixtures and sold and installed 800 fixtures. It completed and sold 50 designs.

In 2005, UFI manufactured 3000 display fixtures and sold and installed 2850 display fixtures. It completed and sold 160 designs.

The management of UFI feels it can increase fixture production by 25% without increasing fixed costs. UFI, however, would like to double its revenue over the next three years. This will require an $185,000 increase in fixed costs for the addition of manufacturing space, equipment, and salaries.

Some of the issues that will confront management during this growth period is maintaining the level of expertise in the design and manufacturing areas and developing the level of competence to control a business of this size.

Management is also concerned about growing its profitability (to increase its share price in the financial market), pay a reasonable bonus to key management, and maintain its ability to pay a

competitive wage and salary when compared to the industry standards. These concerns focus UFI's responsibility to its current customers and its share holders and will influence how UFI classifies these costs by recording them as assets or expenses. Additional concerns include the following:

- Should UFI purchase/build a manufacturing facility or continue to pay rent?
- Should UFI consider outsourcing some of its manufactured products, and if so, will UFI maintain a competitive cost structure to price its fixtures at a competitive level?
- How should UFI determine its pricing strategy?

You report to the vice president of manufacturing operations as the corporate controller. You have been asked to evaluate the first two years' performance and research the possible problems UFI may encounter during this growth period.