**Exercise 6-15 Operating Leverage**

Superior Door Company sells prehung doors to home builders. The doors are sold for $60 each. Variable costs are $42 per door, and fixed costs total $450,000 per year. The company is currently selling 30,000 doors per year.

**Required:**

Prepare a contribution format income statement for the company oat the present level of sales and compute the degree of operation leverage.

1. Management is confident that the company can sell 37,500 doors next year (an increase of 7,500 doors, or 25%, over current sales). Compute the following:
2. Prepare a contribution format income statement for the company at the present level of sales and compute the degree of operating leverage.

Management is confident that the company can sell 37,500 doors next year (an increase of 7,500 doors, of 25%, over current sales). **Compute the following:**

1. The expected percentage increase in net operating income for next year.
2. The expected net operating income for next year. (Do not prepare an income statement; use the degree of operating leverage to compute your answer.)

**Exercise 12-18 Return on Investment (ROI) Relations**

Provide the missing data in the following table:

**Division**

**Fab Consulting IT**

Sales $800,000 $ ? $ ?

Net operating income $72,000 $ ? $40,000

Average operating assets $ ? $130,000 $ ?

Margin ? 4% 8%

Turnover ? 5 ?

Return on investment (ROI) 18% ? 20%

**Exercise 12-20 Effects of Changes in Profits and Assets on Return on Investment (ROI)**

The Abs Shoppe is a regional chain of health clubs. The managers of the clubs, who have authority to make investments as needed, are evaluated based largely on return on investment (ROI). The Abs Shoppe reported the following results for the past year:

Sales $800,000

Net operation income $16,000

Average operating assets $100,000

**Required: (carry out all computations to two decimal places)**

1. Compute the club’s return on investment (ROI)
2. Assume that the manager of the club is able to increase sales by $80,000 and that as a result net operating income increases by $6,000. Further assume that this is possible without any increase in operating assets. What would be the club’s return on investment (ROI)?
3. Assume that the manager of the club is able to reduce expenses by $3,200 without any change in sales or operating assets. What would be the club’s return on investment (ROI)?
4. Assume that the manager of the club is able to reduce operating assets by $20,000 without any change in sales or net operating income. What would be the club’s return on investment (ROI)?