1. Computer Boutique sells computer equipment and home office furniture. Currently, the furniture product line takes up approximately 50% of the company's retail floor space. The president of Computer Boutique is trying to decide whether the company should continue offering furniture or just concentrate on computer equipment. If furniture is dropped, salaries and other direct fixed costs can be avoided. In addition, sales of computer equipment can increase by 13%. Allocated fixed costs are assigned based on relative sales.

|  |  |  |  |
| --- | --- | --- | --- |
|   | **Computer** | **Home Office** |   |
|   | **Equipment** | **Furniture** | **Total** |
| Sales | $1,200,000 | $800,000 | $2,000,000 |
| Less cost of goods sold |   700,000 |   500,000 | 1,200,000 |
| Contribution margin |   500,000 |   300,000 |    800,000 |
| Less direct fixed costs: |   |   |   |
|           Salaries | 175,000 | 175,000 | 350,000 |
|           Other | 60,000 | 60,000 | 120,000 |
| Less allocated fixed costs: |   |   |   |
|           Rent | 14,118 | 9,882 | 24,000 |
|           Insurance | 3,529 | 2,471 | 6,000 |
|           Cleaning | 4,117 | 2,883 | 7,000 |
|           President's salary | 76,470 | 53,350 | 130,000 |
|           Other |      7,058 |      4,942 |    12,000 |
| Total costs |  340,292 |  380,708 |  649,000 |
| Net Income | $159,708 | ($ 8,708) | $151,000 |
|  |  |  |  |  |

Prepare an incremental analysis to determine the incremental effect on profit of discontinuing the furniture line

1. Beach Rentals has estimated that fixed costs per month are $79,200 and variable cost per dollar of sales is $0.52.

(a) What is the break-even point per month in sales?
(b) What level of sales is needed for a monthly profit of $24,000?
(c) For the month of July, the company anticipates sales of $240,000. What is the expected level of profit?
2. Peak Manufacturing produces snow blowers. The selling price per snow blower is $100. Costs involved in production are:

|  |  |
| --- | --- |
| Direct Material per unit | $20 |
| Direct Labor per unit | 12 |
| Variable manufacturing overhead per unit | 10 |
| Fixed manufacturing overhead per year | $148,500 |

 In addition, the company has fixed selling and administrative costs of $150,000 per year. During the year, Peak produces 45,000 snow blowers and sells 30,000 snow blowers. How much is net income using full costing?
       $1,641,000
       $1,590,000
       $1,441,500
       $1,491,000