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| Bovine Company, a wholesale distributor of DVDs, has been experiencing losses for some time, as shown by its most recent monthly contribution format income statement below: |

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| Sales | $ | 1,596,000 |
| Variable expenses |  | 578,500 |
|  |  |  |
| Contribution margin |  | 1,017,500 |
| Fixed expenses |  | 1,119,000 |
|  |  |  |
| Net operating loss | $ | (101,500) |
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| In an effort to isolate the problem, the president has asked for an income statement segmented by geographic market. Accordingly, the Accounting Department has developed the following data: |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Geographic Market | | | | | | | | |
|  | South | | | Central | | | North | | |
| Sales | $ | 436,000 |  | $ | 630,000 |  | $ | 530,000 |  |
| Variable expenses as a percentage of sales |  | 55 | % |  | 26 | % |  | 33 | % |
| Traceable fixed expenses | $ | 267,000 |  | $ | 321,000 |  | $ | 193,000 |  |
|  | | | | | | | | | |

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| **Required:** |

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| **1.** | Prepare a contribution format income statement segmented by geographic market, as desired by the president. **(Input all amounts as positive values except losses which should be indicated by a minus sign. Omit the "$" sign in your response.)** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Geographic Market | | |
|  | Total        Company | South | Central | North |
|  | $ | $ | $ | $ |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  | $ | $ | $ |
|  |  |  |  |  |
|  |  |  |  |  |
|  | $ |  |  |  |
|  |  |  |  |  |
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| **2-a.** | The company’s sales manager believes that sales in the Central geographic market could be increased by 15% if monthly advertising were increased by $27,000. Calculate the incremental net operating income. **(Omit the "$" sign in your response.)** |

|  |  |
| --- | --- |
| Incremental net operating income | $ |

|  |  |
| --- | --- |
| **2-b.** | Would you recommend the increased advertising? |
|  |  |
|  | |  |  | | --- | --- | |  | No | |  | Yes | |