ACTG 2305
Project 1 – CVP Analysis
25 Points

Assignment Due Date: January 25, 2012 – <u>at the beginning of class</u>

1. You may work in groups or complete the project individually. A group has a maximum of 3 people. ***All work must be done only by members of the group.*** You may consult with others for clarification purposes, but only group members may build the spreadsheet or write the memo. All Excel and Word files must be built from scratch. Any violations will result in a zero on the project.

2. You must turn in a ***nicely formatted*** printout of the Excel spreadsheet as the appendix for the assignment and answer the questions in Memo Format to the CEO of the company using Word. Points will be deducted for sloppy output (i.e., typos, grammatical errors, poorly formatted excel output). <u>Be sure to explain the different scenarios and make a recommendation on which option should be selected in reference to the change in selling expenditures cost structure (see part 3 and part 4).</u>

Assignment:

You have been hired as a consultant for *Wrigley* a well-known and loved worldwide manufacturer of chewing gum. Three of these brands - *Juicy Fruit®*, *Wrigley's Spearmint®* and *Altoids®* - have heritages stretching back more than a century. Wrigley sells its products in more than 180 countries around the world.

The CEO of Wrigley, William Perez is in charge of a recent acquisition of a manufacturer of organic chewing gum, *Natural Mint, Inc*. which is located in Portland, Oregon. The company has one main product which is made in five flavors. He has asked you to prepare a preliminary cost-volume-profit analysis to determine whether changes should be made to the cost structure of selling expenditures.

The following information was presented for use in the analysis:

Fixed costs:		**Variable Costs (per unit):**	
Administrative Costs:	$245,000	Direct Materials:	$0.075
Selling Costs:	$260,000	Direct Labor:	$0.055
Fixed Overhead Costs:	$230,000	Variable Overhead:	$0.035
		Variable Selling:	$0.010

Selling price per unit: $2.00

Questions (each question is independent of the others):

1. What is the current break-even point ***<u>in units</u>*** and in ***<u>dollars</u>***? Also compute the margin of safety.

2. Assume the company sold 500,000 packs of gum last year. What is *Natural Mint's* operating leverage? If sales decreased 10%, by what % will Net Income decrease? Create a contribution margin income statement to prove that your calculations are correct.

3. What is the break-even point ***<u>in units</u>*** if variable selling costs are increased to 0.05 per unit? Would you recommend this change to the CEO if the expected sales level is 520,000 packages? Explain – consider the breakeven point and profit.

4. Independent of Question 3, what is the break-even point ***<u>in dollars</u>*** if the variable selling is eliminated and replaced with an increase to Fixed Selling costs of $200,000? Would you recommend this change to the CEO if the expected sales level is 550,000 units? Explain – consider the breakeven point margin of safety and profit.