*P16-24 Continue or discontinue a segment? [LO 2, 3]*



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| The segmented income statement for XYZ Company for the year ended December 31, 2010, follows: |

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| XYZ COMPANYSegmented Income StatementFor the Year Ended December 31, 2010 |
|   | TotalCompany | Product A | Product B | Product C |
|   Sales | $ | 1,200,000 |   | $ | 600,000 |   | $ | 240,000 |   | $ | 360,000 |   |
|   Variable expenses |   | 552,000 |   |   | 300,000 |   |   | 108,000 |   |   | 144,000 |   |
|   |  |  |  |  |  |  |  |  |  |  |  |  |
|   Contribution margin | $ | 648,000 |   | $ | 300,000 |   | $ | 132,000 |   | $ | 216,000 |   |
|   Fixed expenses | $ | 564,000 |   |   | 328,000 |   |   | 92,000 |   |   | 144,000 |   |
|   |  |  |  |  |  |  |  |  |  |  |  |  |
|   Operating income | $ | 84,000 |   | $ | (28,000 | ) | $ | 40,000 |   | $ | 72,000 |   |
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| The company is concerned about the performance of product A, and you have been asked to analyze the situation and recommend to the president whether to continue or discontinue the product. During your investigation, you discover that certain fixed expenses are traceable directly to each product line as indicated here: |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | TotalCompany | Product A | Product B | Product C |
|   Direct fixed expenses | $204,000 | $148,000 | $20,000 | $36,000 |
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| The remaining fixed expenses are considered to be corporatewide expenses that have been allocated to each product line based on sales revenue. |

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| **Required:** |

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| **(a)** | What will be the effect of the decision to discontinue product A on operating income? **(Input the amount as positive value. Omit the "$" sign in your response.)** |

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|   Operating income will by $ for the XYZ Company if it discontinues  Product A. |

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| **(b)** | Assume that product A is discontinued. Prepare a segmented income statement for the remaining products. Allocate corporatewide fixed expenses as described. **(Input all amounts as positive values except operating losses which should be indicated by a minus sign. Omit the "$" sign in your response.)** |

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| XYZ COMPANYSegmented Income StatementFor the Year Ended December 31, 2010 |
|   | TotalCompany | Product B | Product C |
|   Sales | $   | $   | $   |
|   Variable expenses |   |   |   |
|   |  |  |  |
|   Contribution margin | $   | $   | $   |
|   Direct fixed expenses |   |   |   |
|   Common fixed expenses |   |   |   |
|   |  |  |  |
|   Operating income/loss | $   | $   | $   |
|   |  |  |  |
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| **(c)** | Starting with the segmented income statement, use the information you discovered during your investigation to present a more appropriately designed segmented income statement. **(Input the amount as positive value. Omit the "$" sign in your response.)** |

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| XYZ COMPANYSegmented Income StatementFor the Year Ended December 31, 2010 |
|   | TotalCompany | Product A | Product B | Product C |
|   Sales | $      | $      | $      | $      |
|   Variable expenses |      |      |        |      |
|   |  |  |  |  |
|   Contribution margin | $      | $      | $      | $      |
|   Direct fixed expenses |      |      |      |      |
|   |  |  |  |  |
|   Segment margin | $      | $      | $      | $      |
|   |   |  |  |  |
|   Common fixed expenses |      |   |   |   |
|   |  |   |   |   |
|    | $      |   |   |   |
|   |  |   |   |   |
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check my workeBook Links (2)references

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