9A-2

Dave skold owns and operates a small chain of convenience stores in Waterloo and Cedar Rapids. The company has five stores including downtown store and Big Rock store in the Waterloo division: and a downtown store, a solon store and an airport store in the Cedar Rapids Division. There is also a separate administrative staff that provides market research, personnel and accounting and finance services.

The company had the following results for 20X1 (in thousands):

|  |  |
| --- | --- |
| Sales revenue | $8,000 |
| Cost of merchandise sold |  3,500 |
| Gross Margin | 4,500 |
| Operating Income | 2,200 |
| Income before income taxes | 2,300 |

The following Data about 20X1 OPERATIONS WERE ALSO AVAILABLE:

1. All five stores used the same pricing formula: therefore, all had the same gross margin percentage
2. Sales were largest in the down town stores, with 30% of the total sales volume in each. The Solon and airport stores each provided 15% of total sales volume and the Big rock store provided 10%.
3. Variable operating costs at the stores were 10% of revenue for the downtown stores. The other stores had lower variable and higher fixed costs. Their variable operating costs were only 5% of sales revenue
4. The fixed costs over which the store managers had control were $ 125,000 in each of the down town stores, $160,000 at Solon and airport, and $80,000 at Big Rock
5. The remaining $910,000 of operating cost consisted of
6. $210,000 controllable by Cedar Rapids division manager but not by individual stores
7. $100,000 controllable by Waterloo division manager but not by individual stores, and
8. $600,000 controllable by administrative staff
9. Of the $600,000 spent by the administrative staff, $350,000 directly supported the Cedar Rapids division, with 20% of the down town store, 30% for each of the Solon and airport stores, and 20% for the Cedar Rapids in general. Another $ 140,000 supported the Waterloo division, 50% for the downtown store, 25% for the Big Rock store and 25% supporting Waterloo operations in general. The other $110,000 was for general corporate expenses.

Prepare an income statement by segments using the contribution approach to responsibility accounting.

Column headings should be as follows:

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| --- |
| Breakdown into two Divisions Breakdown of Waterloo Division Breakdown of cedar rapids Division |
| Waterloo Cedar Rapids Not Allocated Down Town Big Rock Not Allocated Down Town Solon Airport |