**QUESTION:**

You have been asked to attend the corporate meeting next week to discuss the performance of your division.  To help you prepare for the meeting, you requested the following information from the Chief Financial Officer.

**Balance Sheet**

|  |  |
| --- | --- |
| ***Assets*** | **2008** |
| Cash | $14,000 |
| Short-term investments. | 71,632 |
| Accounts receivable | 878,000 |
| Inventories | 1,716,480 |
| Total current assets | $2,680,112 |
| Gross fixed assets | 1,220,000 |
| Less: accumulated depreciation | 383,160 |
| Net fixed assets | $836,840 |
| Total assets | $3,516,952 |
|  |  |
| ***Liabilities and equity*** | **2008** |
| Accounts payable | $359,800 |
| Notes payable | 300,000 |
| Accruals | 380,000 |
| Total current liabilities | $1,039,800 |
| Long-term debt | 500,000 |
| Common stock (100,000 shares) | 1,680,936 |
| Retained earnings | 296,216 |
| Total equity | $1,977,152 |
| Total liabilities and equity | $3,516,592 |

**Income Statement**

|  |  |
| --- | --- |
|  | **2008** |
| Sales (355,000 unit A and 364,000 unit B) | $7,145,000 |
| Cost Of Goods Sold | 5,800,000 |
| Selling and Administrative Expenses | 200,000 |
| Depreciation | 120,000 |
| Total Operating Costs | $6,120,000 |
| EBIT | $1,025,000 |
| Interest Expense | 80,000 |
| EBT | $945,000 |
| Taxes (40%) | 378,000 |
| Net Income | $567,000 |

**Other Relevant Data**

|  |  |  |
| --- | --- | --- |
|  | **2008** | |
| Stock Price | $6.00 | |
| Shares Outstanding | 100,000 | |
| EPS | ($0.95) | |
| DPS | $0.11 | |
| Tax Rate | 40% | |
| Book Value Per Share | $7.91 | |
| Lease Payments | $40,000 | |
|  | |  |
| **Statement of retained earnings, 2008** | |  |
| Balance of retained earnings, 12/31/2007 | $203,768 |  |
| add:  net income, 2008 | 567,000 |  |
| less: dividend paid, 2008 | ($11,000) |  |
| Balance of retained earnings, 12/31/2008 | $759,768 |  |

**Master Budget for 2008**

|  |  |
| --- | --- |
| Sales (350,000 units of A @ $15 and 350,000 units of B @ $5) | $7,000,000 |
| Cost of goods sold | 5,810,000 |
| Contribution margin | $1,190,000 |
| Selling and Administrative expenses | 155,000 |
| Operating income | $1,035,000 |

**Standard variable manufacturing cost per unit:**

**Product A                                                 Product B**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Direct Materials | 10 pieces @ $.50 | $5.00 per unit | 5 pounds @ $.30 | $1.50 per unit |
| Direct Labor | 1 hour  @ $3.00 | $3.00 per unit | .3 hours @ $2.50 | .75 per unit |
| Variable overhead | 1 hour @ $2.00 | $2.00 per unit | .3 hours @ $2.50 | .75 per unit |
| Total |  | $10.00 per unit |  | $3.00 per unit |

**Actual variable manufacturing cost:**

|  |  |  |  |
| --- | --- | --- | --- |
| Product A | Materials | $1,259,500 | (5,038,000 pieces) |
|  | Labor | 1,509,000 | (   503,000 hours) |
|  | Overhead | 1,006,000 | (   503,000 hours) |
| Product B | Materials | 966,400 | (3,020,000 pounds) |
|  | Labor | 150,000 | (   200,000 hours) |
|  | Overhead | 150,000 | (   200,000 hours) |
| Total |  | $5,040,900 |  |

**Required:**

You are to write a 5 to 7 page report on the financial performance of your division and at a minimum address the following items.

1.       Calculate the 2008 projected ratios (using the following ratio chart).    Discuss the ratios and what they mean for your division.

|  |  |  |
| --- | --- | --- |
|  | **2009** | **Industry Average** |
| Current |  | 2.7 |
| Quick |  | 1 |
| Inventory Turnover |  | 6.1 |
| Debt Ratio |  | 50.00% |
| Profit Margin |  | 3.60% |
| ROA |  | 9.00% |
| ROE |  | 17.90% |

2.       Determine the company’s budgeted break-even point in dollars, contribution margin ratio and contribution margins by product.

3.       Determine the sales activity variance for each product for the fiscal year end.

4.        Determine and identify all variances in variable manufacturing costs by product for the fiscal year end.

5.       What are some qualitative factors that should be considered when evaluating the company’s likely future financial performance?

6.       Identify and strengths and/or weakness you identified in your analysis.

7.       Any recommendations you feel are warranted at this time.

|  |
| --- |
| \*\*Note:  The difference between cost of goods sold and total standard variable manufacturing cost is the fixed manufacturing costs amount. |
| 5,810,000 - 4,550,000 = 1,260,000 |
| The selling and administrative expenses of 155,000 will need to be added to the 1,260,000 to arrive at the total fixed costs. |