경영학과 20230523 김난영

HW4 : Exercise 14-38, Exercise 14-39, Problem 12-44

Exercise 14–38
Closing a Department
(LO14–4, 14–5)

Fusion Metals Company is considering the elimination of its Packaging Department. Management has received an offer from an outside firm to supply all Fusion's packaging needs. To help in making the decision, Fusion's president has asked the controller for an analysis of the cost of running Fusion's Packaging Department. Included in that analysis is $9,100 of rent, which represents the Packaging Department's allocation of the rent on Fusion's factory building. If the Packaging Department is eliminated, the space it used will be converted to storage space. Currently Fusion rents storage space in a nearby warehouse for $11,000 per year. The warehouse rental would no longer be necessary if the Packaging Department were eliminated.

relevant irrelevant

Required:

1. Discuss each of the figures given in the exercise with regard to its relevance in the department-closing decision. $9,100 → irrelevant, $11,000 → relevant
2. What type of cost is the $11,000 warehouse rental, from the viewpoint of the costs of the Packaging Department? Sunk Costs

9,100 is the money that will go out even if the department is eliminated, and 11,000 is affected by the presence or absence of the department

Exercise 14–39
Continuation of Preceding Exercise
(LO14–4, 14–5)

Fusion Metals Company needs a new manager for its Cutting Department. It is considering closing its Packaging Department, and if it does, the Packaging Department manager will be appointed manager of the Cutting Department. The Packaging Department manager makes $45,000 per year. To hire a new Cutting Department manager from outside the company will cost Fusion $60,000 per year.

Required: Discuss the relevance of each of these salary figures to the department-closing decision.

$45,000 → relevant , $60,000 → relevant

If the Packaging Department closes, the Packaging Department manager will be appointed as the Cutting Department manager, but there is a difference between the wages of the Packaging Department manager and the wages of hiring a new Cutting Department manager outside the company. Therefore, both wage figures are relevant by because closing the Packaging Department has the potential to affect the wages of the Cutting Department manager.

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Problem 12–44 Segmented Income Statement; Responsibility Accounting **(LO12–3, 12–5)**

Show-Off, Inc., sells merchandise through three retail outlets—in Las Vegas, Reno, and Sacramento—and operates a general corporate headquarters in Reno. A review of the company's income statement indicates a record year in terms of sales and profits. Management, though, desires additional insights about the individual stores and has asked that Judson Wyatt, a newly hired intern, prepare a segmented income statement. The following information has been extracted from Show-Off's accounting records:

- The sales volume, sales price, and purchase price data follow:

37,000 x $12.00 =$444,000 | 41,000 x $11.00 =$451,000 | 46,000 x $9.50 =$437,000

	Las Vegas	Reno	Sacramento
Sales volume	37,000 units	41,000 units	46,000 units
Unit selling price	$12.00	$11.00	$9.50
Variable ← Unit purchase price	5.50	5.50	6.00

37,000 x $5.50=$203,500 | 41,000 x $5.50=$225,500 | 46,000 x $6.00= $276,000

- The following expenses were incurred for sales commissions, local advertising, property taxes, management salaries, and other noncontrollable (but traceable) costs:

$444,000×6% = $26,640 | $451,000×6% =$27,060 | $437,000×6% =$26,220

	Las Vegas	Reno	Sacramento
Variable ← Sales commissions	6%	6%	6%
Fixed ← Local advertising	$11,000	$22,000	$48,000
Local property taxes	4,500	2,000	6,000
Sales manager salary	—	—	32,000
Store manager salaries	31,000	39,000	38,000
Other noncontrollable costs	5,800	4,600	17,800

Local advertising decisions are made at the store manager level. The sales manager's salary in Sacramento is determined by the Sacramento store manager; in contrast, store manager salaries are set by Show-Off's vice president.

- Nontraceable fixed corporate expenses total $192,300.
- The company uses a responsibility accounting system.

Required:

1. Assume the role of Judson Wyatt and prepare a segmented income statement for Show-Off.
2. Determine the weakest-performing store and present an analysis of the probable causes of poor performance. Sacramento – The purchase price is high, but the sale price is low.
3. Assume that an opening has arisen at the Reno corporate headquarters and the company's chief executive officer (CEO) desires to promote one of the three existing store managers. In evaluating the store managers' performance, should the CEO use a store's segment contribution margin, the profit margin controllable by the store manager, or a store's segment profit margin? Justify your answer. store's Segment profit margin – Except for common fixed costs, the rest of the profits and expenses are applied, so you can check the ability of the store manager.

	Show-Off	Las Vegas	Reno	Sacramento
Sales revenue	1,332,000	444,000	451,000	437,000
Variable expense:				
(Purchase price)	705,000	203,500	225,500	276,000
(Sales commissions)	79,920	26,640	27,060	26,220
Segment contribution margin	547,080	213,860	198,440	134,780
Fixed expenses controllable:				
(Local advertising)	81,000	11,000	22,000	48,000
(Sales manager salary)	32,000	—	—	32,000
(Store manager salaries)	108,000	31,000	39,000	38,000
Profit margin controllable	326,080	171,860	137,440	16,780
(Other noncontrollable costs)	28,200	5,800	4,600	17,800
Income before taxes	297,880	166,060	132,840	- 1,020
(Local property taxes)	12,500	4,500	2,000	6,000
Net income	285,380	161,560	130,840	- 7,020