

BUSI2120 – WINTER 2017

ASSIGNMENT #2

DUE: Thursday November 22, 2018

Process for submissions:

- Include the names, student ID numbers and BlackBoard Group# of the students who completed the assignment (remember these are GROUP submissions) Please include this information on the attached assignment cover sheet which should be stapled to the front of your assignment when submitted.
- Assignments must be submitted both electronically (via Blackboard) and in hard copy.
- Electronic submissions must be submitted via Blackboard prior to your class time (i.e. prior to 6:30pm on Thursday)
- Hard copies must be submitted within 15 minutes of the start of class (in person)
- Only one student should submit the electronic version via Blackboard
- Only one student needs to submit the hard copy version prior to the start of the class (in person).
- **The hard copy submission will be the one marked so if you do not hand in the hard copy on time you will receive a grade of zero on the assignment.**
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Question 1: (16 marks)

Bob Switch has developed a new handheld gaming device that is so exciting he is considering quitting his job in order to produce and market it on a large-scale basis. Bob will rent a garage for \$3000 per month for production purposes. Utilities will cost \$400 per month. Bob has already taken an industrial design course at the local community college to help prepare for this venture. The course cost \$3000. Bob will rent production equipment at a monthly cost of \$8000. He estimates the material cost will be \$50 per unit, and the labour cost will be \$30 per unit. He will hire workers and spend his time promoting the product. To do this, he will quit his job, which pays \$3,000 per month. Advertising and promotion will cost \$900 per month.

Required:

Complete the chart below by placing an "X" under each heading that helps to identify the cost involved. You can place an "X" under more than one heading for a single cost: for example, a cost may be a sunk cost, an overhead cost, and a product cost; you would place an "X" under each of these headings opposite the cost.

	Opportunity Costs	Sunk Cost	Variable Cost	Fixed Cost	Mfg. Overhead	Product Cost	SG&A
Garage Rent							
Utilities							
Cost of design course							
Material cost							
Labour Cost							
Present Salary							
Advertising							

QUESTION #2: (16 marks)

Little Small Planet Inc. produces stuffed animals and sells them in bulk to Zony Corp. The results of the company's operations for a typical month are summarized in contribution format as follows:

Sales	\$540,000
Less: Variable Expenses	<u>\$360,000</u>
Contribution Margin	\$180,000
Less: Fixed Expenses	<u>\$120,000</u>
Operating Income	<u><u>\$60,000</u></u>

The company produced and sold 120,000 stuffed animals during the month. There were no beginning or ending inventories.

Required: (Show all work for full marks)

a) Given the present situation, compute

- 1) The break-even sales in units.
- 2) The break-even sales in dollars.
- 3) The sales in units that would be required to produce operating income of \$90,000.
- 4) The margin of safety in dollars.

b) An important part of production is performed by a machine that is currently being leased (rented) for \$20,000 per month. Little Small Planet has been offered an arrangement whereby it would pay \$0.10 royalty per unit made by the machine rather than the monthly lease.

- 1) Should the company choose the lease or the royalty plan based on current production levels?
- 2) Under the royalty plan, compute the break-even point in units.
- 3) Under the royalty plan, compute the break-even point in dollars.
- 4) Under the royalty plan, determine the sales in units that would be required to produce operating income of \$90,000.

Question #3 (21 marks)

Python Inc a company specializing in microchips, needs a cash budget for March. The following information is available:

- a. The cash balance at the beginning of March is \$9,000.
- b. Actual sales for January and February and expected sales for March are as shown below. Sales on account are collected over a three-month period as follows: 10% collected in the month of sale, 70% collected in the month following sale, and 18% collected in the second month following sale. The remaining 2% is uncollectable.

	January	February	March
Cash Sales	\$ 6,500	\$ 5,250	\$ 7,400
Credit Sales	<u>20,000</u>	<u>30,000</u>	<u>40,000</u>
Total sales	\$26,500	\$35,250	\$47,400

- c. Purchases of inventory will total \$25,000 for March. Twenty percent of a month's inventory purchases are paid for during the month of purchase. The accounts payable remaining from August's inventory purchases total \$16,000, all of which will be paid in March.
- d. Selling and administrative expenses are budgeted at \$12,000 for March. Of this amount, \$4,000 is for depreciation.
- e. Equipment costing \$18,000 will be purchased for cash during March, and dividends totalling \$3,000 will be paid during the month.
- f. The company maintains a minimum cash balance of \$5,000. An open line of credit is available from the company's bank to bolster the cash position as needed.

Required:

1. Prepare a schedule of expected cash collections for March. (5 marks) (*remember to include prior months cash collections*)
2. Prepare a schedule of expected cash payments/disbursements during March for inventory purchases only. (4 marks)
3. Prepare a cash budget for March. Indicate in the financing section any borrowing that will be needed during March. (12 marks)

Question 4: (17 marks)

Financial data for Beaker Company for last year appear below:

Beaker Company
Statements of Financial Position

	Beginning <u>Balance</u>	Ending <u>Balance</u>
Assets:		
Cash	\$ 50,000	\$ 70,000
Accounts receivable	20,000	25,000
Inventory	30,000	35,000
Plant and equipment (net)	120,000	110,000
Investment in Cedar Company	80,000	100,000
Land (undeveloped)	<u>170,000</u>	<u>170,000</u>
Total assets	<u>\$470,000</u>	<u>\$510,000</u>
Liabilities and owners' equity:		
Accounts payable	\$ 70,000	\$ 90,000
Long-term debt	250,000	250,000
Owners' equity	<u>150,000</u>	<u>170,000</u>
Total liabilities and owners' equity	<u>\$470,000</u>	<u>\$510,000</u>

Beaker Company
Income Statement

Sales	\$414,000
Less operating expenses	<u>351,900</u>
Net operating income	62,100
Less interest and taxes:	
Interest expense	\$30,000
Tax expense	<u>10,000</u>
Operating Income	<u>\$22,100</u>

The "Investment in Cedar Company" on the statement of financial position represents an investment in the stock of another company that is not part of Beaker's operations. "Land (undeveloped)" has remained vacant to date.

Required:

- Compute the company's margin, turnover, and return on investment for last year.
- The Board of Directors of Beaker Company have set a minimum required return of 20%. What was the company's residual income last year?

UNIVERSITY OF ONTARIO INSTITUTE OF TECHNOLOGY

BUSI 2120 – ACCOUNTING FOR IT

ASSIGNMENT COVER SHEET

ASSIGNMENT #: _____

BlackBoard Group #: _____

DATE OF SUBMISSION: _____

**PLEASE LIST ALL GROUP MEMBERS HERE. GROUPS SHOULD NOT BE LARGER THAN
THREE (5) INDIVIDUALS**

NAME OF STUDENT (PLEASE PRINT)

STUDENT ID #

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