Question 1 [Bright P/L]

Consider the following beginning and ending balances in relation to the Balance Sheet items for Bright P/L, for the financial year 2014:

	Beginning $000	Ending $000
Assets		
Bank	184	245
Debtors	316	260
Stock	500	580
Equipment	1,600	2,200
Accumulated depreciation	(800)	(965)
Total assets	*1,800*	*2,320*
Liabilities		
Trade creditors	360	520
Loan	500	780
Equity		
Proprietorship	940	1,020
Total liabilities and equity	*1,800*	*2,320*

In addition, consider the following Income Statement for Bright P/L, for the same financial year:

	$000
Sales revenue	2,940
Cost of goods sold	(1,960)
Gross profit	*980*
Selling expense	(340)
Administrative expense	(455)
Depreciation expense	(165)
Net profit	**20**

Required:

1. Prepare a Cash Flow Statement for Bright P/L, for the financial year 2014.
2. Provide an analysis of the Cash Flow Statement that you have prepared.

Question 2 [Matthew Manufacturing]

Matthew Manufacturing is a company that produces clothing for the supporters of football teams. The company currently produces clothing for the supporters of two teams, the Tigers and the Saints. The company has been producing Tigers clothing for many years and has only recently started making the Saints clothing. Due to the designs of the clothing the Tigers clothing is much easier to produce than the Saints clothing. The company has been concerned for some time that its competitors appear to be selling supporters clothing for a much lower price. You have been hired to assess the company's performance. After a three-month assessment, you have gained the following information on the factory's production activities and costs associated with the two products:

	Tigers	**Saints**
Production (units)	100,000	20,000
Overhead per unit*	$63.75	$28.69
Cost of direct materials and labour per unit	$16.14	$20.00
Total cost	**$79.89**	**$48.69**
Selling price	**$111.84**	**$68.16**

*Calculated using a plant-wide rate based on direct labour hours, which is the current way the company allocates factory overhead to products.

Number of production runs	100	200
Receiving orders	400	1,000
Machine hours	125,000	60,000
Direct labour hours	250,000	22,500
Clothing design hours	5,000	5,000
Materials handling	500	400

You believe that the company would benefit from switching the overhead assignment to an activity-based approach, since activity-based cost assignment is more accurate and will provide better information for decision-making. To assist the company in accepting this recommendation, you have assigned the factory's activities into pools.

Cost Pool	**Cost**
Set-ups	$240,000
Machining	$1,748,250
Receiving	$2,100,000
Product Design	$1,960,000
Material handling	$900,000

Required:

1. Recompute the unit cost of each product using activity-based costing.
2. Describe what actions you would take based on the information provided by the activity-based unit costs.

Question 3 [X Ltd]

X Ltd. produces three different products: A, B and C. The results for the company for the past year are presented as follows.

	A $	B $	C $	Total $
Sales	2,500,000	1,500,000	3,200,000	7,200,000
Cost of goods sold	(2,100,000)	(1,550,000)	(2,500,000)	(6,150,000)
Gross profit	*400,000*	*(50,000)*	*700,000*	*1,050,000*
Operating expense	(550,000)	(200,000)	(350,000)	(1,100,000)
Net profit	(150,000)	(250,000)	350,000	(50,000)

The CEO believes that the company should stop making products A & B. However, before making a final decision, the CEO asks the accountant to provide more details about the cost items and these are presented below.

	A $	B $	C $
Cost of goods sold			
Variable manufacturing costs	1,250,000	1,000,000	1,700,000
Fixed manufacturing costs	850,000	550,000	800,000
Operating costs			
Variable	350,000	130,000	200,000
Fixed	200,000	70,000	150,000

The fixed operating costs include an allocation of the CEO's salary of $150,000 and rent of the display room of $50,000. The fixed manufacturing costs include an allocation of factory rent of $300,000 and central lighting of $100,000. The above fixed costs have been allocated on the basis of sales: 35% to A, 20% to B, and 45% to C. All other costs are directly traceable to each product line.

Required:

1. Prepare a reformatted report to assist the CEO with the decision as to whether or not to discontinue one or more products.
2. Based on your revised report, would you recommend the discontinuance of any of the products? What additional information would you seek, if any?

Question 4 [Comtech]

Comtech P/L manufactures and sells a specialised graphics interface card for laptop computers. Price and cost data are as follows:

Selling price per unit	$50.00
Variable costs per unit	
Direct material	$21.00
Direct labour	$10.00
Overhead	$6.00
Selling	$2.60
Total variable costs	$39.60
Annual fixed costs	
Manufacturing overhead	$384,000
Selling and administration	$552,000
Total fixed costs	$936,000

Forecast annual sales: 120,000 units or $6,000,000.

Required:

1. What is Comtech's break-even point in units?
2. What is Comtech's break-even point in sales dollars?
3. What is Comtech's margin of safety?
4. How many units would Comtech have to sell to earn a profit of:
   a. $130,000 before tax?
   b. $140,000 after tax, assuming a tax rate of 30%?
5. Management estimates that direct labour costs will increase by 10% next year. All other costs are expected to be unchanged. How many units will Comtech have to sell next year to reach its break-even point?
6. If Comtech's direct labour costs do increase by 10%, what selling price per unit must it charge to maintain the same dollar contribution margin that it is currently achieving?

Question 5 [Part 380]

A company can manufacture 10,000 units of part 380 for the following costs:

	Sub-total	Per Unit
Direct material	$80,000	$8
Direct labour	$10,000	$1
Variable overhead	$40,000	$4
Fixed overhead allocated	$50,000	$5
Total	**$180,000**	**$18**

The same component part can be purchased for $16 per unit from a supplier.

Required:

1. Should this company make part 380, or should it buy part 380 from a supplier? Provide numerical analysis and your reasons.
2. What is your recommendation, given the additional information below as to making or buying part 380 and the utilization of the capacity? Provide your financial analysis.
   Any free capacity can be utilized to produce 10,000 units of another product, which would involve the following costs and revenues per unit:

Selling price	$10
Variable costs	$2
Allocated fixed costs	$5
Profit	$3