

# MANAGERIAL ACCOUNTING

## Assignment 4

Sem 2 2011/2012  
MBA

### Question 1

Home-App. Berhad operates two divisions, the Bedroom Division and the Consumer Division. The Bedroom Division manufactures and sells bedroom fixture and fittings. The Consumer Division operates retail lumber mills which sell a variety of products in the do-it-yourself homeowner market. The company is considering disposing of the Consumer Division since it has been consistently unprofitable for a number of years. The income statements for the two divisions for the year ended December 31, 2011 are presented below:

	<u>Bedroom Division</u>	<u>Consumer Division</u>	<u>Total</u>
Sales	\$1,500,000	\$500,000	\$2,000,000
Cost of goods sold	<u>900,000</u>	<u>350,000</u>	<u>1,250,000</u>
Gross profit	600,000	150,000	750,000
Selling & administrative expenses	<u>250,000</u>	<u>180,000</u>	<u>430,000</u>
Net income	<u>\$ 350,000</u>	<u>\$(30,000)</u>	<u>\$ 320,000</u>

In the Consumer Division, 70% of the costs of goods sold are variable costs and 30% of selling and administrative expenses are variable costs. The management of the company feels it can save \$60,000 of fixed cost of goods sold and \$50,000 of fixed selling expenses if it discontinues operation of the Consumer Division.

### Instructions

- Determine whether the company should discontinue operating the Consumer Division.
- Identify the advantages to Home-App.Berhad if it decided to continue operating Consumer Division.

## Question 2

Land-Lego Berhad has decided to introduce a new product. The product can be manufactured using either a machine-intensive or labor-intensive method. The manufacturing method will not affect the quality or sales of the product. The estimated manufacturing costs of the two methods are as follows:

	<i>Machine -intensive</i>	<i>Labor -intensive</i>
Variable manufacturing cost per unit.....	\$14.00	\$17.60
Fixed manufacturing cost per year.....	\$2,440,000	\$1,320,000

The company's market research department has recommended an introductory selling price of \$30 per unit for the new product. The annual fixed selling and administrative expenses of the new product are \$500,000. The variable selling and administrative expenses are \$2 per unit regardless of how the new product is manufactured.

### Required:

- a) Calculate the break-even point in units if Land-Lego Berhad uses the:
  - i. machine-intensive manufacturing method.
  - ii. labor-intensive manufacturing method.
- b) Determine the unit sales volume at which the net operating income is the same for the two manufacturing methods.
- c) What is your recommendation to management concerning which manufacturing method should be used?

## QUESTION 3

Food Industries manufactures and sells a highly successful line of baby food in Asia. It plans to expand the business to Europe and the company is considering to produce biscuits, cereal, and fruit juice to prevent dry and chapped skin. Budgeted sales by product for the coming month are shown below:

<i>Product</i>	Biscuit	Cereal	Fruit juice	<i>Total</i>
<i>Percentage of Sales</i>	20	52	28	100
<i>Sales ('000)</i>	\$150,000	\$390,000	\$210,000	\$750,000
<i>Variable Expenses ('000)</i>	108,000	78,000	84,000	270,000
<i>Contribution Margin ('000)</i>	42,000	312,000	126,000	480,000
<i>Fixed Expenses ('000)</i>				449,280
<i>Net Income ('000)</i>				\$30,720

As shown by these data, net operating income is budgeted at \$30,720,000. Assume that actual total sales for the month is \$750,000,000 as planned. Actual sales by product are: Biscuit, \$300,000,000; Cereal, \$180,000,000; and Fruit juice, 270,000,000.

Required:

- Prepare a contribution income statement for the month based on the actual sales. Present the income statement as the format shown above.
- Compute the break-even point in sales dollars for the month based on your actual data.
- Considering the fact that the company met its \$750,000 sales budget for the month, the president is shocked at the result shown on your income statement in (i) above. Prepare a brief memo for the president explaining why both the operating results and the break-even point in sales dollars are different from what was budgeted.

**END OF ASSIGNMENT QUESTIONS**

**(All assignments and test questions are to assist students to prepare for final exam. Some parts of the questions posted have already been chosen to be final exam questions. So don't delay answering the question and discuss with your friends. Check all your assignments.)**