



STUDYDADDY

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UNIVERSITY OF WINDSOR
Odette School of Business
04-70-255 Section 30
Winter 2017
Professor Orawski
100 marks

INDIVIDUAL ASSIGNMENT
(Weighting 20%)

ASSIGNMENT DETAILS

1. Read the following five (5) problem-solving exercises and answer the required questions. All necessary workings should be shown. Where appropriate, secondary sources of information used in your report should be referenced accordingly. All solutions must be in a **MS Word format, font 12, New Times Roman, margins of 1 inch all sides on letter-sized paper and double-spaced except for numerical workings which can be single-spaced.**

Question 1: What to Do?

Question 2: Pacific Air Corporation

Question 3: Hillview Gardens

Question 4: Elf's Place Inc.

Question 5: Link's Fine Burger's Inc.

2. **Submission deadline: April 3, 2017 at end of class.**

4. Late assignments without prior consent will be penalized at the instructor's discretion. It is the student's responsibility to inform the instructor as soon as possible of the circumstances regarding a late assignment. **Assignments are considered late if they are not submitted by e-mail to the professor by the submission date.**

5. The instructor reserves the right to deduct the marks of students who do not contribute to group work. When there is **academic dishonesty** of any form, the instructor reserves the right to assign the normal default **grade of zero** on the assignment in question. There will be no supplementary exam or assignments for individuals who have breached this code of conduct. **You are responsible for the contents of the assignment and subject to the default grade.** In this course, your assignment might be submitted to electronic verification for the detection of plagiarism.

QUESTION 1 – WHAT TO DO? (19 marks)

Linda Lindeman, manager and owner of an advertising company in Charlotte, North Carolina, had arranged a meeting with Eric Weddle, the chief accountant of a large, local competitor. The two are lifelong friends. They grew up together in a small town and attended the same university. Eric was a competent, successful accountant but currently was experiencing some personal financial difficulties. The problems were created by some investments that had turned sour, leaving him with a \$25,000 personal loan to pay off just at the time his oldest son was scheduled to enter college.

Linda, on the other hand was struggling to establish a successful advertising business. She had recently acquired the rights to open a branch of a large regional advertising firm headquartered in Atlanta, Georgia. During her first two years, she had managed to build a small, profitable practice; however, the chance to gain a significant foothold in the Charlotte advertising community hinged on the success of winning a bid to represent the state of North Carolina in a major campaign to attract new industry and tourism. The meeting she had scheduled with Eric concerned the bid she planned to submit.

Linda: "Eric, I'm at a critical point in my business venture. If I can win the bid for the state's advertising dollars, I'll be set. Winning the bid will bring \$750,000 to \$1,000,000 of revenues into the firm. On top of that, I estimate that the publicity will bring another \$350,000 to \$400,000 of new business."

Eric: "I understand. My boss is anxious to win that business as well. It would mean a huge increase in profits for my firm. It's a competitive business, though. As new as you are, I doubt that you'll have much chance of winning."

Linda: "You may be wrong. You're forgetting two very important considerations. First, I have the backing of all the resources and talent of a regional firm. Second, I have some political connections. Last year, I was hired to run the publicity side of the governor's campaign. He was impressed with my work and would like me to have this business. I am confident that the proposals I submit will be very competitive. My only concern is to submit a bid that beats your firm. If I come in with a lower bid and good proposals, the governor can see to it that I get the work."

Eric: "Sounds promising. If you do win, however, there will be a lot of upset people. After all, they are going to claim that the business should have been given to local advertisers, not to some out-of-state firm. Given the size of your office, you'll have to get support from Atlanta. You could take a lot of heat."

Linda: "True. But I am the owner of the branch office. That fact alone should blunt most of the criticism. Who can argue that I'm not local? Listen, with your help, I think I can win this bid. Furthermore, if I do win it, you can reap some direct benefits. With that kind of business; I can afford to hire an accountant, and I'll make it worthwhile for you to transfer jobs. I can offer you an up-front bonus of \$25,000. On top of that, I'll increase your annual salary by 20 percent. That should solve most of your financial difficulties. After all, we have been friends since day one and what are friends for?"

QUESTION-1 (CONTINUED)

Eric: "Linda, my wife would be ecstatic if I were able to improve our financial position as quickly as this opportunity affords. I certainly hope that you win the bid. What kind of help can I provide?"

Linda: "Simple. To win, all I have to do is beat the bid of your firm. Before I submit my bid, I would like you to review it. With the financial skills you have, it should be easy for you to spot any excessive costs that I may have included. Or perhaps I included the wrong kind of costs. By cutting excessive costs and eliminating costs that may not be directly related to the project, my bid should be competitive enough to meet or beat your firm's bid."

Required: (Please note this answer should not be more than 3 pages maximum)

- a) What would you do if you were Eric? Explain the reasons for your decision and apply the code of ethics to the proposal given, to Eric assume that Eric is a member of a professional accounting body. (10 marks)
- b) What is the risk to Eric personally if he reviews the bid? Should the *degree* of risk influence his decision? Explain your reasons. (9 marks)

QUESTION 2 PACIFIC AIR CORPORATION (18 marks)

Pacific Air Corporation is a business providing a wide variety of aviation products to pilots throughout the world. Dana Lombardi, the recently hired assistant controller, has been asked to develop a cost function to forecast shipping costs. The previous assistant controller had forecasted shipping department costs each year by plotting cost data against direct labor-hours for the most recent 12 months and visually fitting a straight line through the points. The results were not satisfactory.

After discussions with the shipping department personnel, Lombardi decided that shipping costs could be more closely related to the number of orders filled. She based this conclusion on the fact that 10 months ago the shipping department added some automated equipment. Furthermore, she believes that using linear regression analysis will improve the forecasts of shipping costs. Cost data for the shipping department have been accumulated for the last 25 weeks. She ran two regression analysis of the data, one using direct labor-hours, and one using the number of cartons shipped. The information from the two linear regressions is the following:

	Regression 1	Regression 2
Equation	$SC = 804.3 + 15.68 DL$	$SC = 642.9 + 3.92 NR$
R-squared	0.365	0.729
Standard error of the estimate	2.652	1.884

QUESTION 2 (CONTINUED)

Where:

SC = Total shipping department costs

DL = Total direct labour hours

NR = Number of cartons shipped

Required:

- a) Identify which regression equation (Regression 1 or Regression 2) that Pacific Air should adopt for forecasting total shipping department costs and explain your reasons. (7 marks)
- b) If Pacific Air estimates that 600 orders will be filled in the coming week, calculate the total shipping department costs using the regression that you have selected in part (a). (3 marks)
- c) Are there any limitations to the regression that you have selected in part (a) above? If so, identify ways to address the limitations. Include in your answer the effect, if any, of the global nature of Pacific Air Corporation business. (8 marks)

QUESTION 3 HILLVIEW GARDEN CARE INC. (25 marks)

Hillview Garden Care Inc. is a lawn and garden care service. The company originally specialized in serving small residential clients but has recently started contracting for work on large apartment and office building grounds. Since Phyllis Flower (owner) believes that commercial lawn care is more profitable she is considering dropping residential services altogether.

Five field employees worked a total of 20,000 hours last year, 13,000 on residential jobs and 7,000 on commercial jobs. Wages amounted to \$9 per hour for all work done. Direct materials used are included in overhead as supplies. All overhead is allocated on the basis of labour-hours worked, which is also the basis for customer charges. Because of the increased competition for commercial accounts, Phyllis can charge \$22 per hour for residential work but only \$19 per hour for commercial work.

Recently, Phyllis attended an accounting workshop on overhead-costing and activity analysis. She applied what she had learnt on the company. Further analysis revealed that the overheads consist of activities relating to transportation, equipment use and supplies. These costs are attributed to the following cost drivers *as* shown below:

QUESTION 3 (CONTINUED)

Activity	Cost Driver	Cost	Activity Level	
			Commercial	Residential
Transportation	Number of clients serviced	\$8,000	15	45
Equipment Use	Equipment hours	\$18,000	3,500	2,100
Supplies	Area serviced in square yards	\$36,000	130,000	70,000
Total Overhead		\$62,000		

Required:

- If the overhead is \$62,000, calculate the profits of commercial and residential services using labour as the allocation base. (7 marks)
- Recalculate your profits for the commercial and residential services using overhead as the cost driver. (10 marks)
- Based on your results for both a) and b), make recommendations to management on what action to take on both of these services and explain your reasons. (8 marks)

QUESTION 4 – ELF’S PLACE INC. (18 marks)

Elf’s Place Inc. (Elf’s) sells toys, games and books. A popular service is the birthday service, which includes free gift wrapping and delivery of gifts to local families. Elf’s accepts cash, cheques, Visa, MasterCard, and American Express credit cards. These methods of payment have the following characteristics:

Cash	Payment is immediate; no fee is charged
Cheque	Payment is immediate; the bank charges \$0.25 per cheque; and 1 percent of cheque revenue is from “bad” cheques that Elf cannot collect
Visa/MasterCard	Elf accumulates these credit card receipts throughout the month and submits them in one bundle for payment on the last day of the month. The money is credited to Elf’s account by the fifth day of the following month. A fee of 1.50 percent is charged by the credit card company.
American Express	Elf accumulates these credit card receipts throughout the month and mails for payment on the last day of the month. American Express credit’s Elf’s account by the tenth day of the following month. A fee of 3.50 percent is charged by American Express.

QUESTION 4 (CONTINUED)

During a typical month, the type of payment used by customers is as follows:

American Express:	20% of sales
Visa/MasterCard:	50% of sales
Cheque:	5% of sales (average cheque is \$37.50)
Cash:	25% of sales

Required:

If Elf's estimates sales of \$30,000 in April and \$60,000 in May, what are his planned net cash receipts for May? Show your workings. (18 marks)

QUESTION 5 LINK'S FINE BURGERS INC. (20 marks)

Link's Fine Burgers Inc. (Link's), is a new company currently studying various alternatives in regard to opening burger outlets. The only available data was formulated by a hired consultant who, unfortunately, left the country suddenly. A summary of the information that the consultant developed is as follows:

Average Selling Price per Burger \$7.50

Normal Monthly Costs	Fixed	Variable
Cost of Burger's Sold	\$0	\$5,500
Manager's Salary	2,000	0
Wages	2,000	0
Rent	1,500	500
Utilities	500	200
Insurance and Commissions	<u>1,000</u>	<u>0</u>
Total Costs	\$7,000	\$6,200

***Note: Costs are based on budgeted sales of 2,000 burger's per month.**

The above information represents estimates for the operations of a burger outlet. Link's is interested in opening the outlets as soon as possible and has asked you to comment on the various scenarios as reflected in the questions a thru to c below.

Required:

- Compute the breakeven point for a burger outlet in terms of both sales dollars and number of burger's sold each month. (6 marks)
- The company is considering offering a promotional selling price of \$5.00 per burger during the first month of operations. How many extra burger's will have to be sold by a burger outlet at

QUESTION 5 (CONTINUED)

the promotional price compared to the normal average selling price in order to earn operating income of \$2,500 during the first month? (6 marks)

c) As an incentive program for the outlet manager, Link's is considering implementing an alternative compensation method. Instead of paying the manager a fixed salary of \$2,000 per month, the company is considering an incentive plan of \$1,000 per month plus 8% of monthly revenue. Using this alternative method and the normal average selling price per burger, calculate how many burger's will have to be sold to achieve an operating income of \$2,000 per month. (8 marks)



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