

## BUS 600

### Finance and Accounting for Leaders

#### Pre-Assignment

(80 points)

Please answer the following questions using your current knowledge/understanding. For conceptual questions, each answer should not be more than 1-5 sentences. I do not grade this assignment for accuracy; grading is based on on-time completion. **Submit your answer to the pre-assignment folder (under the assignment tab) in the course website before 9 am on September 9.**

1. The CFO says “profits are great but money’s tight – everyone needs to conserve cash.” Explain why profit for the year is different from the ending cash balance for the year.
2. “Even though as CFO my job is to manage the bottom line, if there is no top line there isn't anything for the rest of us to do!” Rephrase the above statement using alternative words for the underlined words.
3. A CEO stated “I’ve been studying the figures, and it looks as if our sales reps are sacrificing gross margin for revenue.” What is gross margin? Explain how sales reps can sacrifice gross margin for revenue.
4. “Wal-Mart is by far the largest retailer in the world with more than \$400 billion in store revenues as of 2009, far ahead of competitors like Costco, Target and Best Buy. Wal-Mart, with its power over suppliers and strong credit quality, can thus efficiently manage its working capital.” What is working capital? What are some measures that a company can take to efficiently manage the working capital?
5. Hardy Tent Company (HTC) produces Model A tents. Total unit cost of a Model A tent is \$ 375. Currently, HTC sells these tents to Super Store for \$500 each. HTC has received a special order to produce 1,000 tents to the US army at \$ 300 per unit. Should HTC accept or reject the order from the US army? If the special order came from Hood Expeditions Company at the same price (\$300), should HTC accept or reject the order?
6. “Our inventory days are creeping upward. We have to find a way to reverse that trend.” What does the term “inventory days” mean? What actions can a company take to reduce the inventory days?
7. Your company makes engines for lawn mowers. Currently, the company make the propeller for the engine, and the total cost per propeller is \$55. An outside supplier has offered to supply all the propellers you need at \$40 each. Should you accept the offer (based on financial factors only)?

8. M. K. Gallant is president of Kranback Corporation, a company whose stock is traded on a national exchange. In a meeting with investment analysts at the beginning of the year, Gallant had predicted that the company's earnings would grow by 20% this year. Unfortunately sales have been less than expected for the year, and Gallant knew that it would be impossible to report the earnings increase he predicted unless some drastic action was taken. Company is expected to have substantial inventories of work in process and finished goods. He ordered to scrutinize all costs that are currently classified as period costs and reclassify as many as possible as product costs.  
What are product costs? What are period costs? Is the president's order ethical?
9. According to the production budget, production manager of a shoe manufacturer was supposed to make 100 pairs of shoes. But there was demand for more; so he made 120 pairs. All 120 pairs were sold. Production manager's bonus was tied to meeting the production cost budget. Because the production manager produced more, he couldn't meet the cost targets and lost his bonus. Was it fair that he lost the bonus? Explain.
10. Assume that you are the facilities manager of a company. You decided to replace the current office desks with new office desks. What financial statements are impacted by your decision and how?
11. What are the two basic sources of capital? What are the advantages and disadvantages of each type?
12. You and your friends go to a restaurant as a group. At the end of the meal, the issue arises as to how the bill for the group should be shared. One alternative is to figure out the cost of what each individual consumed, and separate the bill accordingly. Another alternative is to split the bill equally among the individuals. Which alternative is more accurate? Which alternative is easier to use? In your company (or business or organization) have you encountered a comparable situation? With regards to what cost? How does your company allocate that cost?
13. Espresso Express operates a number of espresso stands in busy suburban malls. The fixed weekly expense of operating a coffee stand is \$1,200 and the variable cost per cup of coffee is \$0.22. If Espresso Express plans to serve 2,000 cups of coffee in its Westwood Mall espresso stand next week, what is the total weekly cost of operating that coffee stand?

14. Cynthia lives Boston. She likes to visit a friend in New York City over the weekend (2 days). She is trying to decide whether to drive or to take the train. She is on a tight budget and wants to consider the costs of the two alternatives in making the decision. Consider the following information.

The distance between Boston and New York is 230 miles. She will not take the dog to NYC irrespective of her mode of transportation.

Depreciation per mile	\$	0.28
Gasoline cost per mile	\$	0.10
Maintenance and repair cost per mile	\$	0.07
Annual Cost of auto insurance and license	\$	1,380.00
Reduction in resale value due to mileage (per mile)	\$	0.03
Cost of round trip ticket from Boston to NYC	\$	104.00
Cost of keeping the dog in a Kennel (per day)	\$	40.00
Cost of parking in NYC (per day)	\$	25.00

Which mode of transportation should she select? (Please show your calculation).

15. Consider Norton Materials Inc., which produces concrete blocks, bricks, and roofing tile. The controller has prepared the following estimated segment income statement for the next year.

	<b>Blocks</b>	<b>Bricks</b>	<b>Tile</b>	<b>Total</b>
Sales revenue	\$500	\$800	\$150	\$1,450
Less: Variable expenses	<u>250</u>	<u>480</u>	<u>140</u>	<u>870</u>
Contribution margin	\$250	\$320	\$ 10	\$ 580
Less direct fixed expenses:				
Advertising	(10)	(10)	(10)	(30)
Salaries	(37)	(40)	(35)	(112)
Depreciation	<u>(53)</u>	<u>(40)</u>	<u>(10)</u>	<u>(103)</u>
Segment margin	<u>\$150</u>	<u>\$230</u>	<u>\$ (45)</u>	<u>\$ 335</u>

These results are similar to those of the three previous years, where Blocks and Bricks divisions were profitable and the Tile division incurred losses. Should Norton drop the Tile division?