Prestige telephone company

the lowest return on investment in seven years, Rowe felt it was time to reassess Prestige Data Services. Susan Bradley asked for more time, as she felt the subsidiary would be profitable by March. But when the quarterly reports came (Exhibits 1 and 2), Rowe called Bradley to arrange their meeting. Rowe received two reports on operations of Prestige Data Services. The Summary of Computer Utilization (Exhibit 1) summarized the use of available hours of computer time. Service was offered to commercial customers 24 hours a day on weekdays and eight hours on Saturdays.

Routine maintenance of the computers was rovided by an outside contractor who took the computer off line for eight hours each week for testing and upkeep:. The reports for the quarter revealed a persistent problem; available hours, which did not provide revenue, remained high. Revenue and cost data were summarized in the quarterly report on results of operations (Exhibit 2). Intra-company work was billed at $400 per hour, a rate based on usage estimates for 2000 and the Public Service Commission's restrictions that cost to Prestige Telephone should not exceed an average of $82, 000 per month.

Commercial sales were billed at $800 per hour. While most expenses summarized in the report were self explanatory, Rowe reminded himself of the characteristics of a few. Space costs were all paid to Prestige Telephone. Prestige Data Services rented the ground floor of a central exchange building owned by the company for $8, 000 per month. In addition, a charge for custodial service based on the estimated annual cost per square foot was paid by Data Services, as Telephone personnel provided these services.

Computer equipment had been acquired by lease and by purchases; leases had four years to run and were non-cancelable. Owned equipment was all salable but robably could not bring more than its book value in the used equipment market. Wages and salaries were separated in the report to show the expense of four different kinds of activities. Operating salaries included those of the six persons necessary to run the center around the clock well as amounts paid hourly help who were required when the computer was in operation.

Salaries of the programming staff who provided service to clients and maintained the operating system were reported as system development and maintenance. Sales personnel, who called upon and serviced present and prospective commercial clients, were also salaried.. Because of its relationship with Prestige Telephone, Prestige Data Services was able to avoid many costs an independent company would have. For example, all payroll, billing, collections, and accounting were done by telephone company personnel.

For those corporate services, Prestige Data Services paid Prestige Telephone an amount based on wages and salaries each month. Although Rowe was discouraged by results to date, he was reluctant to suggest to Bradley that Prestige Data Services be closed down or sold. The idea behind the subsidiary Just seems too good to give up easily. Besides, he was not sure that the ccounting report really revealed the contribution that Data Services was making to Prestige Telephone.

In other cases, he felt that the procedures used in accounting for separate activities in the company tended to obscure the costs and benefits they provided. After examining the reports briefly, Rowe resolved to study them in preparation for asking Bradley to estimate the possible effects on profits of increasing the price to customers other than Prestige Telephone, reducing prices, increasing sales efforts and promotion, and of going to two-shift rather than 24-hour operations.