

Case questions danshui plant essay sample



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1) Explain briefly contribution margin. How is it calculated? 2) Using Budget Data, estimate the breakeven sales for Apple iPhone 4 3) Using the budget Data, what was the total expected cost per unit if all manufacturing and shipping overhead (both variable and fixed) were allocated to planned production? What was the actual cost per unit of production and shipping? 3 4) State the differences between a static budget and a flexible budget. Prepare Flexible budget for 160, 000 iPhone 4's 4 5) Prepare Flexible budget for 180, 000 iPhone 4's and calculate flexible budget variances using actual costs for August. 5 6) Give your suggestions on some strategies or decisions that Wentao Chen should consider in trying to solve the problems with the Apple iPhone 4 contract in the next nine months? How would these change the cost and profitability of Danshui Plant No. 2 iPhone 4 contract? 6 Works Cited 7

1) Explain briefly contribution margin. How is it calculated?

Contribution margin is defined as how much of a company's revenues will be contributing (after covering the variable expenses) to the company's fixed expenses and net income. The contribution margin can be presented as

- 1) The total amount for the company
- 2) The amount for each product line
- 3) The amount for a single unit of product
- 4) As a ratio or percentage of net sales

Total Variable Costs

Material Cost + Labor Cost + Shipping Cost

$187.89 + 13.11 + 1.06 = 202.06$ Per Unit

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Total Fixed Costs

Factory rent + Machine Depreciation + Utility fees and taxes + Supervision

$$400000 + 150000 + 52000 + 127000 = 729,000 \text{ Per Month}$$

Contribution Margin

Price Per Unit - Variable Cost Per Unit

$$\text{Price} = 41,240,000 / 200,000 = 206.2 = 206.2 - 202.6 = 4.14 \text{ Per Unit}$$

2) Using Budget Data, estimate the breakeven sales for Apple iPhone 4

Break Event Point

Fixed Cost / Contribution Marginal

$$729,000 / 4.14 = 176,086.95 \text{ unit}$$

3) Using the budget Data, what was the total expected cost per unit if all manufacturing and shipping overhead (both variable and fixed) were allocated to planned production? What was the actual cost per unit of production and shipping?

Total Cost Per Unit

Total Variable Cost Per Unit + Total Fixed Cost Per Unit

$$(40,411,000 / 180,000) + (729,000 / 180,000)$$

$$224.50 + 4.05 = 228.55$$

Total expected cost / Unit

$$41,140,000 / 200,000 = \$205.7 \text{ Per Unit}$$

Actual cost / Unit

$$38,148,000 / 180,000 = \$211.93 \text{ Per Unit}$$

4) State the differences between a static budget and a flexible budget.

Prepare Flexible budget for 160, 000 iPhone 4's

Static Budget is a budget that never changes, even if the activity level changes. However, the Flexible Budget changes based on actual activity. The flexible budget is more accurate than the static budget because budget amounts change for changes in activity.

Revenue for 160, 000 Units

$$41,240 \times 1,000 / 200,000 \times 160,000 = 32,992,000$$

6) Give your suggestions on some strategies or decisions that Wentao Chen should consider in trying to solve the problems with the Apple iPhone 4 contract in the next nine months? How would these change the cost and profitability of Danshui Plant No. 2 iPhone 4 contract?

The variance of revenue is positive because Apple increased price of flash memory by \$2. Though the company didn't gain profits from the revenue due to the increased price of flash memory provided by Samsung. The variance of flash memory is negative because of two reasons: The price of each unit raised \$2

The company damaged 1, 000 units of flash memory

So company used more flash memories than expected. The variance of 8 other chips is positive, we cannot say the amount of chips decreased, so it should be the price of chips went down. The variance of supplies and tools is negative. Because of the below reasons: Company used the supplies and

tools less efficient, which means used more of supplies and tools Company spends more money on purchase supplies and tools

The variance of labor is negative, due to the wages of labor increased and working hours also increased, it was inefficient. The supervision is unfavorable because of the salary of supervisor increased. In conclusion, the actual net income is negative because company spends more money or use more on flash memories, supplies and tools and assembly and packing. In addition, company didn't gain more revenue so that the revenue can't cover the total cost. The company did a good job on other costs that were not change, such as Application Process and Gyroscope.

Works Cited

Accounting Coach. 20 April 2013. . Media, Demand. Static vs. Flexible Budgets for New Businesses. 9 Feb 2005. .