Return on investment and residual income

Finance, Investment

Portia Carter is the president of a company that owns six multiplex movie theaters. Carter has delegated decision-making authority to the theater managers for all decisions except those relating to capital expenditures and film selection. The theater managers' compensation depends on the profitability of their theaters. Max Burgman, the manager of the Park Theater, had the following master budget and actual results for the month.

Assuming that the theaters are profit centers, prepare a performance report for the Park Theater using the chart below. Include a flexible budget. Determine the variances between actual results, the flexible budget, and the master budget. Mr. Max Burgman's performance as a manager was pretty good I think, although ticket sales were not as expected his operating income was better than expected. This is possibly due to the lower cost on the concessions and the direct labor.

Other factors exist such as gains from increased tick prices were offset by lower concession income. 3. Assume that the managers are assignedresponsibilityfor capital expenditures and that the theaters are thus investment centers. Park Theater is expected to generate a desired ROI of at least 6 percent on average invested assets of $2, 000, 000. Using the ROI and residual income, evaluate Burgman's performance as a manager. I believeMr. Max Burgman's performance was mediocre.

The theatre planned to sell 120, 000 tickets but only sold 110, 000 tickets so they undersold by 10, 000 tickets. Because of this his ROI and RI fell short of original projects in budget. The actual ROI was 6. 3% which meant it fell between the flexible budget projection of 6% and the master budget of 7%. His residual income was $6, 000, which means it also fell between the flexible budget’s projected RI of $0 and the master budget’s projection of $20, 000. But, his ROI and RI exceeded the projections in the flexible budget.