

Morrissey forgings, inc. essay



**ASSIGN
BUSTER**

1-a. What is your estimate of the 1983 income statement and balance sheet?

Morrissey Forgings, Inc. Balance Sheet 1983 ?????????????????????? b. What is your estimate of Return on Assets in 1983? (Assume a 40% tax rate.) How is the company doing in 1983? For simplicity, you may assume that individual price and cost components have not changed 1983 and 1985. From the Income statement we have that profit before taxes equals to \$1, 790, 000. 00. $\$1, 790, 000. 00 * 40\%$ (tax rate) = \$716, 000. 00 Net income = Profit before taxes - Taxes = \$1, 790, 000 - \$716, 000 = \$1, 074, 000

Return on assets (ROA) = Net Income/Total Assets = $\$1, 074, 000/12, 890, 000 = 0. 08 = 8\%$ As we all know, the higher the ROA number, the better, because the company is earning more money on less investment. In this specific case the ROA is 8%, which means that the company has to invest more of its assets to earn more money. We could also say that this company is not good at converting its investment into profit, since it only earns \$0. 08 cents on each dollar of assets invested. It will be better to make more profit with little investment. Morrissey Forgings, Inc. Income Statement 1983 ??????????????????

In order to do the Balance Sheet for 1983, I assumed the following facts:

Cash - \$9, 000, 000. 00 (\$9, 000, 000 on sales) Beginning of year Inventory - \$0. 00, however, I considered the \$1, 200, 000 of materials as part of my inventory. Account receivable - \$0. 00 I assumed that the company incurred in the following expenses in the production of the 30, 000 units that the company sold: General expenses - \$1, 500, 000 Labor - \$1, 500, 000 Rent - \$550, 000 Sales commission - \$450, 000 Selling and Shipping in 1985 were two and a half times what they were in 1983. Selling and shipping = (\$1,

$625,000 + \$1,300,000) / 2 = \$1,170,000.00$ Accumulated depreciation - 7 years from 1977 to 1983, so 7 years * $\$800,000 = \$5,600,000.00$ Property equipment - $\$800,000 * 15 \text{ years} = \$12,000,000$ Total Liabilities and Owner's equity equal to total Assets. 2-Taking a closer look at cost allocation for manufacturing, selling and shipping expenses, what is your estimate of ovens profit and stoves profit for 1985? Morrissey Forgings, Inc. Income Statement 1985 (Ovens & Stoves) ?????????????? My estimate is a loss of $(\$270,000.00)$ for stoves and a profit of $\$115,000.00$ for ovens for the period of 1985. -What is your estimate of the income statement for 1986 if only ovens were sold (30,000 units)? Morrissey Forgings, Inc. Income Statement 1986 (Ovens) ?????????????? 4-How much does it cost, on average, to ship a stove within the core area? How much does it cost, on average, to ship a stove outside the core area? Total shipping cost for stoves from Exhibit 1 = $\$1,300,000.00$ Stoves sales from Exhibit 1 = $\$7,500,000.00$, assuming that all the stoves were sold outside the core area. Outside the core area shipping costs were about 17% of sales. So, $\$7,500,000.00 * 17\% = \$1,275,000.00 / 25,000 \text{ units} = \51.00 to ship a stove outside the core area. Total shipping cost - outside of core area shipping cost = within the core area shipping cost $\$1,300,000 - \$1,275,000 = \$25,000 / 25,000 \text{ units} = \1.00 to ship a stove within the core area. 5-How much does it cost, on average, to generate a sales order for stoves in the core area (order getting costs)? How much does it cost, on average, to generate a sales order for ovens outside the core area? So what? Total Selling Cost - $\$3,125,000$, which include: Advertising and promotion (6% of total sales $\$14,500,000$) - $\$870,000$ Order getting cost is $\$2,255,000$ vens were sold outside of the core area. 6-How big an order (number of units) is needed for ovens outside

the core area for the order to be profitable? For stoves? So what? 1983 to 1985. I believe that the company should try to reduce selling and shipping costs for stoves. In addition, since the company is already expending a considerable amount in shipping and selling, they should consider to expand, its market outside the core area for stoves as they did for ovens. 7-What is your advice to Tim Morrissey? Be specific and show your supporting analysis.

As they mention in the case the wood stove is a declining product with more than thirty competitors, so they need to offer better prices and excellent quality to be able to compete. Therefore, if the company decides to continue manufacturing stoves, they must find ways to reduce prices, do their best to reduce costs, and explore new markets. If this is not possible, then they should, as mentioned by Tim, “ pull the plug” on stove and focus all they efforts on wood ovens. Manufacturing Financial Statements Manufacturing companies have several different accounts compared to service and merchandising companies.

These include three types of inventory accounts—raw materials, work-in-process, and finished goods—and several long-term fixed asset accounts. A manufacturing company uses purchased raw materials and/or parts to produce a product for sale. At a point in time, the company’s inventories consist of raw materials, those materials and parts waiting to be used in production; work-in-process, all material, labor, and other manufacturing costs accumulated to date for products not yet completed; and finished goods, the cost of completed products that are ready to be sold.

The value of each type of inventory is disclosed in a company's financial statements. The amounts may be shown individually on the face of the balance sheet or disclosed in footnotes.

Sales (30, 000 units) \$ 9, 000, 000.
 00 Cost of good sold Materials (\$40*30, 000 units) \$ 1, 200, 000. 00 Labor and Benefits (\$10/hr.)(\$50*30, 000 units) \$ 1, 500, 000. 00 Variable Overhead (\$24*30, 000 units) \$ 720, 000. 00 Fixed Overhead (40% of \$2, 520, 000) \$ 1, 008, 000. 00 Cost of good sold \$ (5, 100, 000. 00) Gross margin \$ 3, 900, 000. 00 Selling Cost \$ (650, 000. 00) Shipping Cost (520, 000. 00) Sales Commission (9, 000, 000*5%) \$ (450, 000. 00) General Expenses (\$245, 000*2) \$ (490, 000. 00) Profit before taxes \$ 1, 790, 000. 00

Ovens (20, 000 units) Stoves (25, 000 units) Sales \$ 7, 000, 000. 00 \$ 7, 500, 000. 00 Cost of good sold Materials \$ 900, 000. 00 \$ 1, 000, 000. 00 Labor and Benefits (\$10/hr.) \$ 1, 100, 000. 00 \$ 1, 250, 000. 00 Variable Overhead \$ 480, 000. 00 \$ 600, 000. 00 Fixed Overhead \$ 1, 120, 000. 00 \$ 1, 400, 000. 00 Cost of good sold (3, 600, 000. 00) \$ (4, 250, 000. 00) Gross margin \$ 3, 400, 000. 00 \$ 3, 250, 000. 00 Selling Cost \$ (1, 500, 000. 00) \$ (1, 625, 000. 00) Shipping Cost (17% of sales) \$ (1, 190, 000. 00) \$ (1, 275, 000. 00) Sales Commission (5% sales) \$ (350, 000. 00) \$ (375, 000. 00) General Expenses \$ (245, 000. 00) \$ (245, 000. 00) Profit/Loss \$ 115, 000. 00 \$ (270, 000. 00)

Sales (30, 000 units at \$350) \$ 10, 500, 000. 00 Cost of good sold Materials (\$45*30, 000 units) \$ 1, 350, 000. 0 Labor and Benefits (\$10/hr.)(\$55*30, 000 units) \$ 1, 650, 000. 00 Variable Overhead (\$24*30, 000 units) \$ 720, 000. 00 Fixed Overhead (60% of \$2, 520, 000) \$ 1, 512, 000. 00 Cost of good sold \$ (5, 232, 000. 00) Gross margin \$ 5, 265, 000. 00 Selling Cost \$ (3, 125, 000. 00) Shipping Cost (17% of sales) \$ (1, 785, 000. 00) Sales Commission (5% of sales) \$ (525, 000. 00) General Expenses

(\$245, 000*2) \$ (490, 000. 00) Profit/Loss \$ (660, 000. 00) Assets Cash \$ 9, 000, 000. 00 Account Receivables \$ 0. 00 Inventory (materials) 1, 200, 000. 00 \$ 10, 200, 000. 00 Minus sales expenses: General expenses \$ (490, 000. 00) Labor \$ (1, 500, 000. 00) Rent \$ (550, 000. 00) Other expenses (selling and shipping) \$ (1, 170, 000. 00) \$ (3, 710, 000. 00) Property equipment (including vehicle) \$ 12, 000, 000. 00 Accumulated depreciation \$ (5, 600, 000. 00) \$ 6, 400, 000. 00 Total Assets \$ 12, 890, 000. 00 Liabilities and Owner's Equity Since no information was given I assumed that total liabilities and owner's equity are equal to total assets. Total liabilities and Owner's Equity \$ 12, 890, 000. 00