Economics of electronics commerce

ASSIGN BUSTER

1a. Activity-based costing is appropriate when a project can be divided into defined activities so there is no overlap between them. Also, the amount of time and cost spent on preparing the cost drivers must not be so great that they exceed the benefits. It is also appropriate when the number of activities is uncertain or may change during the estimate process (Activity Based Costing, n. d.).

1b. In traditional cost accounting it is assumed that cost objects consume resources whereas in ABC it is assumed that cost objects consume activities. Traditional cost accounting mostly utilizes volume related allocation bases while ABC uses drivers at various levels. Traditional cost accounting is structure-oriented whereas ABC is process-oriented (Emblemsvag, 2006).

2a. Operating leverage is the highest in e-commerce companies. E-commerce companies have very low variable costs but high initial up-front development cost. For example, Amazon. com initially had a fixed up-front development cost of over $60 million but no per transaction cost (Economics of Electronics Commerce, n. d.). Operating leverage is the lowest in merchandizing companies. Such companies mainly engage in the buying and selling of goods. Their fixed costs include mainly storage and selling costs. A higher proportion of their costs is variable costs such as packaging of goods and transportation costs. In between, service companies have a higher proportion of fixed costs and hence higher operating leverage than manufacturing companies. Service companies, such as hair salons, incur a fixed amount of rent, staff salary, and facility and equipment cost regardless of whether there are any customers. Variable costs, such as shampoo, are a very low proportion. Manufacturing companies have a lower operating leverage than service companies and e-commerce companies but higher

operating leverage than merchandizing companies. Their fixed costs include land, equipment, machinery, plants, and facilities. However, they also have a high level of variable costs such as direct labor and direct material.

2b. Operating leverage can be increased so that the impact of increase in sales goes almost entirely to the profits.

3a. An example is the determination of the units of products to sell in order to break even.

3b. If the 10% increase in sales is caused by increase in sales price, then the revenue line is shifted upwards to the left. The breakeven point would be decreased and the profits would be increased assuming that the company sells the same volume. If the 10% increase in sales is caused by increase in volume, this represents a shift to the right along the revenue line. The breakeven point would still remain the same but profit is now increased as the gap between the revenue line and the total costs line increases. If the company has been operating at a loss, then, the loss is now decreased as the gap between the revenue line and the total costs line decreases.

OPERATING PROFITABLILITY

McDonald's

2005 Operating profit margin = Net income + Interest

Sales

= (2602. 2 + 356. 1 - 36. 1)/20460. 2

= 14. 28%

2004 Operating profit margin = Net income + Interest

Sales

= (2278. 5 + 358. 4 - 20. 3)/19064. 7

= 13. 72%

Burger King

2006 Operating profit margin = Net income + Interest

Sales

= (27 + 72 + 18)/2048

= 5. 71%

2005 Operating profit margin = Net income + Interest

Sales

= (47 + 73)/1940

= 6. 19%

McDonald's

2005 Return on assets = Net income + Interest

Average total assets

= (2602. 2 + 356. 1 - 36. 1)/[(29988. 8 + 27837. 5)/2]

= 10. 11%

2004 Return on assets = Net income + Interest

Average total assets

= (2278. 5 + 358. 4 - 20. 3)/[(27837. 5 + 25838)/2]

= 9. 75%

Burger King

2006 Return on assets = Net income + Interest

Average total assets

= (27 + 72 + 18)/[(2552 + 2723)/2]

= 4. 44%

2005 Return on assets = Net income + Interest

Average total assets

= (47 + 73)/[(2723 + 2665)/2]

= 4. 45%

ASSET UTILIZATION

McDonald's

2005 Total assets turnover = Sales

Average total assets

= 20460. 2/[(29988. 8 + 27837. 5)/2]

= 0. 71

2004 Total assets turnover = Sales

Average total assets

= 19064. 7/[(27837. 5 + 25838)/2]

= 0. 71

Burger King

2006 Total assets turnover = Sales

Average total assets

= 2048/[(2552 + 2723)/2]

= 0. 78

2005 Total assets turnover = Sales

Average total assets

= 1940/[(2723 + 2665)/2]

= 0. 72

McDonald's

2005 Average collection period = Average receivables

Average daily sales

= (795. 9 + 745. 5)/(20460. 2/365)

= 27. 4 days

2004 Average collection period = Average receivables

Average daily sales

= (745. 5 + 734. 5)/(19064. 7/365)

= 28. 3 days

Burger King

2006 Average collection period = Average receivables

Average daily sales

= (109 + 110)/(2048/365)

= 39. 0 days

2005 Average collection period = Average receivables

Average daily sales

= (110 + 111)/(1940/365)

= 41. 6 days

RISK MANAGEMENT

McDonald's

2005 Total debt ratio = Total liabilities

Total assets

= (29988. 8 - 15146. 1)/29988. 8

= 0. 49

2004 Total debt ratio = Total liabilities

Total assets

= (27837. 5 - 14201. 5)/27837. 5

= 0. 49

Burger King

2006 Total debt ratio = Total liabilities

Total assets

= (2552 - 567)/2552

= 0. 78

2005 Total debt ratio = Total liabilities

Total assets

= (2723 - 477)/2723

= 0. 82

McDonald's

2005 Times interest earned = EBIT

Interest payments

= (2602. 2 + 356. 1 + 1099. 4)/356. 1

= 11. 39

2004 Times interest earned = EBIT

Interest payments

= (2278. 5 + 358. 4 + 923. 9)/358. 4

= 9. 94

Burger King

2006 Times interest earned = EBIT

Interest payments

= (27 + 72 + 53)/72

= 2. 11

2005 Times interest earned = EBIT

Interest payments

= (47 + 73 + 31)/73

= 2. 07

REFERENCES

Activity based costing. (n. d.). Retrieved October 7, 2006, from http://www.

directives. doe. gov/pdfs/doe/doetext/neword/430/g4301-1chp24. pdf#search=%22activity%20based%20costing%20appropriate%20%22

Burger King Holdings, Inc. (2006). Form 10-K. Retrieved October 7, 2006, from http://investor. bk. com/phoenix. zhtmlc= 87140&p= irol-sec&secCat01Enhanced. 2_rs= 1&secCat01Enhanced. 2_rc= 10&control_pr-mentionsradioon=&control_pr-mentionsradiooff=&control_pr-mentionsdescr=&control_ir-regulatorynewsradioon=&control_ir-regulatorynewsradiooff=&control_ir-regulatorynewsdescr=&control_ir-financialnewsradioon=&control_ir-financialnewsradiooff=&control_ir-financialnewshidden=&control_ir-financialnewsdescr=&control_ir-financialnewscheckbox=&control_ir-debtradioon=&control_ir-debtradiooff=&control_ir-debtdescr=&control_ir-annualrptradioon=&control_ir-annualrptradiooff=&control_ir-annualrptdescr=&control_alertsjs=&control_ir-secradioon=&control_ir-secradiooff=&control_ir-secdescr=&control_ir-rptradioon=&control_ir-rptradiooff=&control_ir-rptdescr=&control_ir-quoteradioon=&control_ir-quoteradiooff=&control_ir-quotedescr=&control_ir-quotecheckbox=&control_ir-presentationradioon=&control_ir-presentationradiooff=&control_ir-presentationdescr=&control_ir-newsradioon=&control_ir-newsradiooff=&control_ir-newsdescr=&control_ir-mediaradioon=&control_ir-mediaradiooff=&control_ir-mediadescr=&control_ir-governanceradioon=&control_ir-governanceradiooff=&control_ir-governancedescr=&control_ir-eventradioon=&control_ir-eventradiooff=&control_ir-eventdescr=&control_ir-eodsecradioon=&control_ir-eodsecradiooff=&control_ir-eodsecdescr=&control_ir-

eodseccheckbox=&control_alertzip=&control_alerttitle=&control_alertstate=&control_alertphone=&control_alertmname=&control_alertlname=&control_alertfname=&control_alertfax=&control_alertextension=&control_alertcountry=&control_alertcompany=&control_alertcity=&control_alertaddr2=&control_alertaddr1=&control_symbol=

Burger King Holdings, Inc.: financial statement. (n. d.). Retrieved October 7, 2006, from http://moneycentral. msn. com/investor/invsub/results/statemnt. aspxSymbol= BKC&lstStatement= Balance&stmtView= Ann

Economics of electronics commerce. (n. d.). Retrieved October 7, 2006, from http://www2. gsb. columbia. edu/faculty/gheal/B7006-001/B %207006%20Part%204%20-%20E-condotcom. ppt

Emblemsvag, J. (2006). ABC. Retrieved October 7, 2006, from http://www. emblemsvag. com/abc. htm

McDonald's Corporation (2005). 2005 Financial Report. Retrieved October 7, 2006, from http://www. mcdonalds. com/corp/invest/pub/2005_Financial_Report. html