Contribution margin percentage assignment

Business

Complete Research & Application 5-34 page 207 of Managerial Accounting for Managers Abstract Complete Research & Application 5-34 page 207 of Managerial Accounting for Managers. The questions in this exercise are based on the Benetton Group, a company headquartered in Italy and known in the United States primarily for one of its brands of fashion apparel? United Colors of Benetton. To answer the questions, you will need to download the Benetton Group's 2004 Annual Report at: http://media. corporate-ir. net/media_files/irol/11/114079/reports/2004ar. pdf You do not need to print this document to answer the questions.

Benetton 1. How do the formats of the income statements shown on pages 33 and 50 of Benetton's annual report differ from one another (disregard everything beneath the line titled " income from operations")? Which expenses shown on page 50 appear to have been reclassified as variable selling costs on page 33? Absorption is a method where all the costs of production are allocated to the produced units. This method is in contrast to variable (or marginal or direct) costing, which attaches only variable costs to the manufactured output and charges the fixed costs to the accounting period (referenceforbusiness. om, n. d.). The page 50 income statement uses the absorption format. The page 33 income statement is set using a contribution format. The contribution format centers on the idea that each unit sold provides a certain amount of contribution margin that goes to covering fixed costs. In 2004 expenses like distribution and transport (29, 988) and the sales commissions (73, 573) have been reclassified (contribution format) as variable selling costs on page 33 ([104]). 2. Why do you think cost of sales is included in the computation of contribution margin on page 33?

Benetton's cost of sales includes some fixed expenses but most of the expenses Benetton incurs are variable. The cost of sales is included in the computation of contribution margin because the costs that go into creating the products that Benetton sells have a direct relationship with the production of the products. Because the manufacturing of Benetton's products is outsourced to many different suppliers the majority of expenses are variable. 3. Perform two separate computations of Benetton's break-even point in Euros. For the first computation, use data from 2003.

For the second computation, use data from 2004. Why do the numbers that you computed differ from one another? | | 2003 | | 2004 | | General and administrative | 464 | | 436 | | expenses | | | | | Divide Contribution margin % | 0. 374 | | 0. 387 | | Breakeven | 1240. 64 | | 1126. 1 | The numbers differ due to fixed expenses in 2004 are less than fixed expenses in 2003 and its contribution margin percentage in 2004 is larger than contribution margin percentage in 2003. 4. What sales volume would have been necessary in 2004 for Benetton to attain a target income from operations of ??? 300 million? | | 2004 | | Target Income | 300 | | General and administrative expenses | 436 | Total | 736 | | Divide Contribution margin % | 0. 387 | | Sales to meet target profit | 1901. 81 | 5. Compute Benetton's margin of safety using data from 2003 and 2004. Why do your answers for the two years differ from one another? | | 2003 | | 2004 | | Sales | 1859 | | 1686 | | Subtract Break-even | 1240. 4 | | 1126. 61 | | Margin of safety | 618. 36 |?? | 559. 39 | | % | 33. 26% | | 33. 18% | The margin of safety is how much output or sales level can fall before a business reaches its breakeven point. The margin of safety has slightly dropped due to a decrease in sales is more the than the decrease in breakeven sales. 6. What is Benetton's degree of operating leverage in 2004?

If Benetton's sales in 2004 had been 6% higher than what is shown in the annual report, what income from operations would the company have earned? What percentage increase in income from operations does this represent? | | 2004 | | Contribution margin | 653 | | Divided by Income from operations | 217 | | Degree of operating leverage | 3. 01 | 6% increase in sales | 2004 | | Sales + 6% increase (1, 686 ? 1. 06) | 1787. 16 | | multiply contribution margin percentage | 0. 387 | | Contribution margin | 691. 63 | | General and administrative expenses | 436 | | Income from operations | 255. 63 | The degree of operating leverage = 3 and a 6% increase in sales equals 18% in income from operations. 7.

What income from operations would Benetton have earned in 2004 if it had invested ??? 10 million additional Euros in advertising and promotions and realized a 3% increase in sales? As an alternative, what income from operations would Benetton have earned if it not only invested ??? 10 million additional Euros in advertising and promotions but also raised its sales commission rate to 6% of sales, thereby generating a 5% increase in sales? Which of these two scenarios would have been preferable for Benetton? | | 2004 | | Sales (1, 686 ? . 03) | 1736. 58 | | multiply contribution margin percentage | 0. 387 | | Contribution margin | 672. 06 | | General and administrative expenses | 446. 00 | | Income from operations | 226. 06 | | | 2004 | | Sales (1, 686 ? 1. 5) | 1770. 30 | | Contribution margin percentage |

0. 39 | | sales commission 73, 573 divided by 1, 686, 351 subtract 6. 00% | 0. 02 | | increase | | | New Contribution percentage | 0. 3706 | | Sales Multiplied by New Contribution % | 656. 07 | | Fixed general and administrative expenses | 446. 0 | | Income from operations | 210. 07 | Benetton would choose the first scenario because it increases income and the second scenario decreases income. 8. Assume that total sales in 2004 remained unchanged at ??? 1, 686 million (as shown on pages 33 and 50); however, the Casual sector sales were ??? 1, 554 million, the Sportswear and Equipment sector sales were ??? 45million, and the Manufacturing and Other sector sales were ??? 87 million. What income from operations would Benetton have earned with this sales mix? Hint: look at pages 36 and 37 of the annual report.) Why is the income from operations under this scenario different from what is shown in the annual report? | | Casual | Sportswear | Manufacturing | Total | | | Sales | 1554 | 45 | 87 | 1686 | | | multiply CM ratio | 0. 18 | 0. 208 | 0. 089 | 0. 395 |((1554 X . 418) + (45 X . 208)| | | | | | |+ (87 X . 089)) / (1554 + 45 | | | | | | |+ 87) | | CM | 649. 72 | 9. 36 | 7. 743 | 665. 97 | | | Subtract Fixed expenses | | | | 436 | | | Income | | | | 229. 7 | | | | | | | | | Income is greater because the increase in sales to Casual also has the highest contribution margin ratio. References

Absorption Accounting. (n. d.). Reference For Business – Encyclopedia of Small Business, Business Biographies, Business Plans, and Encyclopedia of American Industries. Retrieved November 9, 2009, from http://www. referenceforbusiness. com/encyclopedia/A-Ar/Absorption-Accounting. html