

Questions 3 and 4

Business



Question 3 Relevant Cost The partnership business entails a lot for its survival. Mutual agreement is key for any decision to be effected. The case of disagreement can be the first sign of tough times to come. Noble ideas are necessary for the business to flourish. In a partnership type of business, the input of each partner matters a lot. Respect is immensely vital for the longevity of the business. A partnership requires people who can sit down and select the most viable idea for a given course.

In Progressive Business Solutions, there seems to be a dilemma. The major cause being the evaluation of the best decision to make. One partner suggests that the business should be moved to a vacant office in downtown Boston. She argues that the additional business gained will exceed the charges for rent and moving the office. The other partner at Progressive Business Solutions does not want to buy that idea. He argues that cost of office stationery and business cards is covered and that moving will prove to be costly.

In the case of the partnership business, a lot of factors can be considered. The factors can originate from the evaluation of the costs and benefits. Every business entity will always want to make the most possible benefits .

Reduction of costs is another target of the business. In this case, a partner's decision is considered as optimal if it leads to the best outcome at a particular time. The outcome will make the participants in the business to gauge whether it is optimum or not. The partner needs to estimate how altering the business can affect both the benefits and the costs that the business incurs from carrying out that particular activity. If altering the activity makes the benefits to increase more than the costs, or the costs reduce more than the benefits, the partnership will grow.

Question 4

Basic Estimation

A security analyst specializing in the stocks of the motion picture industry wants to determine the relationship between the number of Movie Theater tickets sold in December and the annual level of earnings in the motion picture industry. Time-series data for the last 15 years are used to estimate the regression model. $E = a + bN$ where E is total earnings of the motion picture industry measured in dollars per year and N is the number of tickets sold in December. The regression output is as follows:

DEPENDENT VARIABLE: E

R-SQUARE

F-RATIO

P-VALUE ON F

OBSERVATIONS: 15

0. 8311

63. 96

0. 0001

VARIABLE

PARAMETER ESTIMATE

STANDARD ERROR

T-RATIO

P-VALUE

INTERCEPT

25042000. 00

20131000. 00

1. 24

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0. 2369

N

32. 31

8. 54

3. 78

0. 0023

How well do movie ticket sales in December explain the level of earnings for the entire year? Present statistical evidence to support your answer. Also, sales of movie tickets in December are expected to be approximately 950,000. According to this regression analysis, what do you expect earnings for the year to be? Prior to this analysis, the estimates for earnings in December are \$48 million. Is this evidence strong enough for you to consider improving the current recommendation for the motion picture industry? Explain how you might do so.

Solution

i. Level of earning in December

$$E = a + bN$$

$$48000000 = a + 950,000b$$

$$25042000 = 8.54a + 32.31b$$

$$a = 950000b + 48000000$$

$$25042000 = 8.54(950000b + 48000000) + 32.31b$$

$$25042000 = 8113000b + 409920000 + 32.31b$$

$$384878000 = 8113032.31b$$

$$b = 47.44$$

$$a = 2932,497.98$$

In December, sales of ticket will be higher since there will be more people

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who would want to attend to Movie Theatre.

This evidence is strong enough for one to consider improving the current recommendation for the motion picture industry. This can be done through increasing the sale of tickets.

References

Jackson, S., Sawyers, R., & Jenkins, G. J. (2009). Managerial accounting: A focus on ethical decision making. Australia: South-Western Cengage Learning.