

ANSWERS TO SECTION 8.2 EXERCISES (text p. 266)

Exercise 1, p. 266

A., B.

Professional Engineering and Consulting Income Statement Years Ended June 30, 20-2 and 20-1				
Revenues	20-2	20-1	Increase or Decrease (-)	% Change
Consulting	\$ 62 250	\$ 60 402	+ 1 848	+ 3.06%
Construction	202 365	290 201	- 87 836	-30.27%
Designing	35 250	36 603	- 1 353	- 3.70%
Total Revenue	<u>\$299 865</u>	<u>\$387 206</u>	<u>- 87 341</u>	<u>-22.56%</u>
Operating Expenses				
Advertising Expense	\$ 3 520	\$ 3 400	+ 120	+ 3.52%
Automobiles Expense	25 025	16 350	+ 8 675	+53.06%
Bank Charges Expense	15 850	11 200	+ 4 650	+41.52%
Building Expense	4 200	3 700	+ 500	+13.51%
Equipment Maintenance Expense	1 525	1 750	- 225	-12.57%
Insurance Expense	5 014	3 000	+ 2 014	+67.13%
Light, Heat, and Water Expense	3 124	3 107	+ 17	+ 0.55%
Miscellaneous Expense	312	250	+ 62	+24.80%
Property Taxes Expense	1 215	950	+ 265	+27.89%
Telephone Expense	1 507	904	+ 603	+66.70%
Wages Expense	102 301	78 201	+ 24 100	+30.82%
Total Expenses	<u>\$163 593</u>	<u>\$122 812</u>	<u>+ 40 781</u>	<u>+33.21%</u>
Net Income	<u>\$136 272</u>	<u>\$264 394</u>	<u>- 12 812</u>	<u>-4.84%</u>

C. The four expense accounts showing the greatest dollar change for the year are: Wages Expense, Automobiles Expense, Bank Charges Expense, and Insurance Expense.

ANSWERS TO SECTION 8.2 EXERCISES (cont.)

Exercise 1 (cont.)

- D.** *Here are some points that the report to Mr. Haywood should make:*
- Although your company is still making a substantial profit, the results for 20-2 are considerably lower than for 20-1.*
- The two principal reasons for the decrease in net income are:*
- A decrease in Construction Revenue of \$87 836*
- An increase in Wages Expense of 24 100*
- These two items alone accounted for \$111 936 of the profit decrease.*
- In addition, there were the following three substantial increases in expense items.*

	Increase
<i>Automobiles Expense</i>	<i>\$ 8 675</i>
<i>Bank Charges</i>	<i>4 650</i>
<i>Insurance</i>	<i>2 014</i>
<i>Total</i>	<i><u>\$15 339</u></i>

Exercise 2, p. 267

A.

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	\$20 700	\$22 356	\$23 184	\$23 805	\$24 219
Per cent of Year 1	<u>100.0 %</u>	<u>108.0 %</u>	<u>112.0 %</u>	<u>115.0 %</u>	<u>117.0 %</u>
Increase in Percentage		<u>8.0 %</u>	<u>4.0 %</u>	<u>3.0 %</u>	<u>2.0 %</u>

- B.** *Sales are increasing each year but the rate of increase is diminishing.*
- _____
- _____

Exercise 3, p. 267

A.

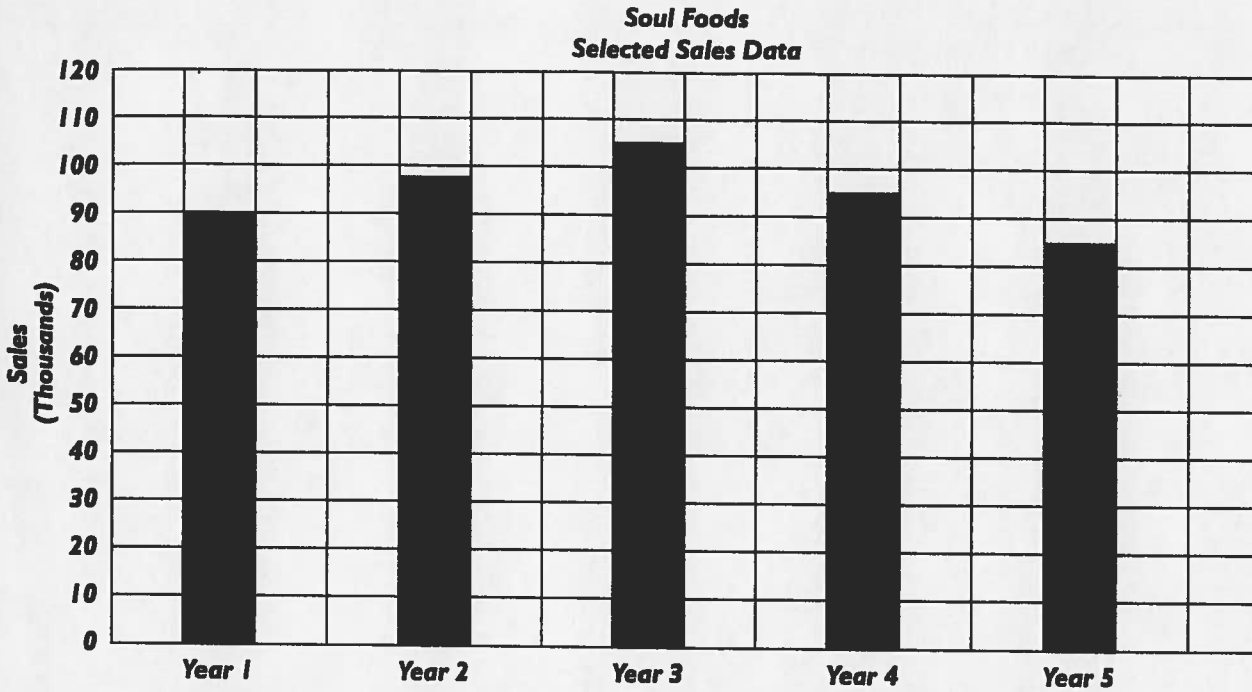
	Year 1	%*	Year 2	%	Year 3	%	Year 4	%	Year 5	%
Sales	\$57 000	<u>100.0</u>	\$58 254	<u>102.0</u>	\$58 767	<u>103.1</u>	\$59 223	<u>103.9</u>	\$59 451	<u>104.3</u>
Expenses	\$35 000	<u>100.0</u>	\$36 050	<u>103.0</u>	\$36 575	<u>104.5</u>	\$36 785	<u>105.1</u>	\$37 520	<u>107.2</u>
Net Income	\$22 000	<u>100.0</u>	\$22 204	<u>100.9</u>	\$22 192	<u>100.9</u>	\$22 438	<u>102.0</u>	\$21 931	<u>99.7</u>
* % of First Year										

- B.** *Sales are increasing steadily but by small amounts. Expenses are increasing steadily and at a greater rate than sales. Net income is very level. There is a slight increase in Year 4, but the figure for Year 5 is less than that for Year 1. This is poor performance.*
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- _____

ANSWERS TO SECTION 8.2 EXERCISES (cont.)

Exercise 4, p. 267

A.



B. Sales rose nicely for two years and then suffered two consecutive serious drops. Sales for Year 5 are lower than sales for Year 1.

ANSWERS TO SECTION 8.2 EXERCISES (cont.)

Exercise 5, p. 268

A.

Income Statements				
Year End December 31, 20-				
	Company A		Company B	
Revenue				
Sales	<u>\$197 000</u>	<u>100.0</u> %	<u>\$421 000</u>	<u>100.0</u> %
Expenses				
Automotive Expense	\$ 40 200	<u>20.4</u> %	\$ 80 270	<u>19.1</u> %
Bank Interest Expense	3 500	<u>1.8</u> %	27 050	<u>6.4</u> %
Rent Expense	12 000	<u>6.1</u> %	30 000	<u>7.1</u> %
Wages Expense	86 750	<u>44.0</u> %	214 860	<u>51.0</u> %
Other Expenses	<u>1 800</u>	<u>0.9</u> %	<u>10 900</u>	<u>2.6</u> %
Total Expenses	<u>\$144 250</u>	<u>73.2</u> %	<u>\$363 080</u>	<u>86.2</u> %
Net Income	<u>\$ 52 750</u>	<u>26.8</u> %	<u>\$ 57 920</u>	<u>13.8</u> %

B. Observations:

1. *Bank Interest Expense shows that Company B has a much larger bank loan than Company A.*
2. *Company B pays out more of each sales dollar in wages.*
3. *Other expenses are fairly comparable.*
4. *Relative to sales, Company A earns twice as much as Company B.*

Conclusion:

Company A appears to be the better buy.

Additional Information Required:

Before a final conclusion can be reached, it is necessary to know the selling price for each company.