

Segments Defined as Divisions

	Total Company	Divisions	
		Business Products Division	Consumer Products Division
Sales	<u>\$500,000</u>	<u>\$300,000</u>	<u>\$200,000</u>
Variable expenses:			
Variable cost of goods sold	180,000	120,000	60,000
Other variable expenses	<u>50,000</u>	<u>30,000</u>	<u>20,000</u>
Total variable expenses	<u>230,000</u>	<u>150,000</u>	<u>80,000</u>
Contribution margin	270,000	150,000	120,000
Traceable fixed expenses	<u>171,000</u>	<u>90,000</u>	<u>81,000</u>
Divisional segment margin	99,000	<u>\$ 60,000</u>	<u>\$ 39,000</u>
Common fixed expenses not traceable to individual divisions	<u>85,500</u>		
Net operating income	<u>\$ 13,500</u>		

**Segments Defined as Product Lines
of the Consumer Products Division**

	Consumer Products Division	Product Line	
		Clip Art	Computer Games
Sales	<u>\$200,000</u>	<u>\$75,000</u>	<u>\$125,000</u>
Variable expenses:			
Variable cost of goods sold	60,000	20,000	40,000
Other variable expenses	<u>20,000</u>	<u>5,000</u>	<u>15,000</u>
Total variable expenses	<u>80,000</u>	<u>25,000</u>	<u>55,000</u>
Contribution margin	120,000	50,000	70,000
Traceable fixed expenses	<u>70,000</u>	<u>30,000</u>	<u>40,000</u>
Product-line segment margin	50,000	<u>\$20,000</u>	<u>\$ 30,000</u>
Common fixed expenses not traceable to individual product lines ...	<u>11,000</u>		
Divisional segment margin	<u>\$ 39,000</u>		

**Segments Defined as Sales Channels for One Product Line,
Computer Games, of the Consumer Products Division**

	Computer Games	Sales Channels	
		Online Sales	Retail Stores
Sales	<u>\$125,000</u>	<u>\$100,000</u>	<u>\$25,000</u>
Variable expenses:			
Variable cost of goods sold	40,000	32,000	8,000
Other variable expenses	<u>15,000</u>	<u>5,000</u>	<u>10,000</u>
Total variable expenses	<u>55,000</u>	<u>37,000</u>	<u>18,000</u>
Contribution margin	70,000	63,000	7,000
Traceable fixed expenses	<u>25,000</u>	<u>15,000</u>	<u>10,000</u>
Sales-channel segment margin	45,000	<u>\$ 48,000</u>	<u>\$ (3,000)</u>
Common fixed expenses not traceable to individual sales channels ...	<u>15,000</u>		
Product-line segment margin	<u>\$ 30,000</u>		

Lecture

Review Problem 2: Segmented Income Statements

The business staff of the law firm Frampton, Davis & Smythe has constructed the following report that breaks down the firm's overall results for last month into two business segments—family law and commercial law:

	Company Total	Family Law	Commercial Law
Revenues from clients	\$1,000,000	\$400,000	\$600,000
Variable expenses	<u>220,000</u>	<u>100,000</u>	<u>120,000</u>
Contribution margin	780,000	300,000	480,000
Traceable fixed expenses	<u>670,000</u>	<u>280,000</u>	<u>390,000</u>
Segment margin	110,000	20,000	90,000
Common fixed expenses	<u>60,000</u>	<u>24,000</u>	<u>36,000</u>
Net operating income (loss)	<u>\$ 50,000</u>	<u>\$ (4,000)</u>	<u>\$ 54,000</u>

However, this report is not quite correct. The common fixed expenses such as the managing partner's salary, general administrative expenses, and general firm advertising have been allocated to the two segments based on revenues from clients.

Required:

1. Redo the segment report, eliminating the allocation of common fixed expenses. Would the firm be better off financially if the family law segment were dropped? (Note: Many of the firm's commercial law clients also use the firm for their family law requirements such as drawing up wills.)
2. The firm's advertising agency has proposed an ad campaign targeted at boosting the revenues of the family law segment. The ad campaign would cost \$20,000, and the advertising agency claims that it would increase family law revenues by \$100,000. The managing partner of Frampton, Davis & Smythe believes this increase in business could be accommodated without any increase in fixed expenses. Estimate the effect this ad campaign would have on the family law segment margin and on the firm's overall net operating income.
3. Compute the companywide break-even point in dollar sales and the dollar sales required for each business segment to break even.

EXERCISE 6–11 Segmented Income Statement

Wingate Company, a wholesale distributor of electronic equipment, has been experiencing losses for some time, as shown by its most recent monthly contribution format income statement, which follows:

Sales	\$1,000,000
Variable expenses	<u>390,000</u>
Contribution margin	610,000
Fixed expenses	<u>625,000</u>
Net operating income (loss)	<u>\$ (15,000)</u>

In an effort to isolate the problem, the president has asked for an income statement segmented by division. Accordingly, the Accounting Department has developed the following information:

	Division			
	East	Central	West	
Sales	\$250,000	+ \$400,000	+ \$350,000	= 1,000,000
Variable expenses as a percentage of sales	52%	30%	40%	
Traceable fixed expenses	\$160,000	\$200,000	\$175,000	

Required:

1. Prepare a contribution format income statement segmented by divisions, as desired by the president.
2. As a result of a marketing study, the president believes that sales in the West Division could be increased by 20% if monthly advertising in that division were increased by \$15,000. Would you recommend the increased advertising? Show computations to support your answer.

Exercise 6-7 Segmented Income Statement [LO6-4]

Shannon Company segments its income statement into its North and South Divisions. The company's overall sales, contribution margin ratio, and net operating income are \$600,000, 50%, and \$50,000, respectively. The North Division's contribution margin and contribution margin ratio are \$150,000 and 75%, respectively. The South Division's segment margin is \$70,000. The company has \$60,000 of common fixed expenses that cannot be traced to either division.

Required:

Prepare an income statement for Shannon Company that uses the contribution format and is segmented by divisions. (Round your percentage answers to 1 decimal place (i.e. .1234 should be entered as 12.3))

	Total Company		North		South	
	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage
Sales	600,000	100%				
Variable Expenses						
Contribution Margin		50%	150,000	75%		
Traceable Fixed Expenses						
Territorial Segment Margin					70,000	
Common Fixed Expenses	(60,000)					
Net Operating Income	50,000					