

11002

Direct costs from 3rd quarter onwards $\$5,500 \div \$13,750 = 40\%$ of revenue

Variable overhead rate = $\frac{\text{Variable overhead}}{\text{Direct costs}} = \frac{\$1,650}{\$1,350} \div \frac{\$5,500}{\$4,500} = \frac{30\%}{30\%}$ of direct costs

Variable selling costs = $\frac{\$2,100 - \$1,900}{\$5,500 - \$4,500} = \frac{\$200}{\$1,000}$
 = 38.18% 42.22% 20.00% of direct costs

Fixed selling costs = $\$2,100 - 20\% \times \$5,500 = \$1,000$
 = (Total costs - variable costs) = $\$1,900 - 20\% \times \$4,500 = \$1,000$

The Ace Division		Quarter 3	
Income statement		In thousands	2001
Revenue			\$17,500
Costs			
Direct costs		\$7,000	40% of revenue
Variable overhead		\$2,100	30% of direct costs
Fixed overhead		\$500	
Gross margin			\$7,900
Selling costs	Variable	\$1,400	20% of direct costs
	Fixed	\$1,000	
Earnings before taxes			\$5,500
Income taxes	40%		\$2,200
Net income			\$3,300

Percentage of sales collected in the next period = $\frac{\text{Ending accounts receivable}}{\text{Sales in the period}}$

Ending Accounts Receivable = $\frac{\$4,125}{\$13,750} = \frac{\$2,700}{\$9,000} = 30.00\%$ of sales

Ending finished goods inventory = $\frac{\$2,860}{\$5,500 + \$1,650} = \frac{\$2,860}{\$7,150} = 40.00\%$ of next period COGS

Cash flow statement	Quarter 3
Indirect Method	2001

Net income	\$3,300
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Depreciation (50% of fixed overhead)	\$250	50% of fixed overhead
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Accounts Receivable	
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Ending	\$5,250	30% of sales
Beginning	\$4,125	
Increase	\$1,125	(\$1,125)

Finished goods inventory	
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Ending	\$4,680	40.00% of next period COGS	\$11,700	<u>1</u>
Beginning	\$3,640			
Increase	\$1,040	(\$1,040)		

Taxes payable	
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Ending	\$2,200	
Beginning	\$1,600	
Increase	\$600	\$600

Cash Flow from Operations	<u>\$1,985</u>
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The Ace Division	Quarter 4
Income statement	2001

Revenue	\$22,500
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Costs	
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Direct costs	\$9,000	40% of revenue	<u>1</u>
Variable overhead	\$2,700	30% of direct costs	

Cost of goods sold	<u>\$11,700</u>
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