

**Cost Accounting\_ADM3346**  
**CAPSTONE EXERCISE**  
**Chapter 10&11**

**Q1. Textbook: 10-32&33 (page 406-407)**

**Q2. Keep or Drop, Multiple Product Breakeven, Qualitative Factors**

Horton and Associates produces two products named Big Winner and Loser. Last month 1,000 units of Loser and 4,000 units of Big Winner were produced and sold. Average prices and costs for the two products for last month follow:

	Loser	Big Winner
Selling price	\$90	\$225
Direct materials	40	95
Direct labour	5	25
Variable overhead	5	15
Product line fixed costs	10	40
Corporate fixed costs	<u>25</u>	<u>25</u>
Average margin per unit	<u>\$10</u>	<u>\$25</u>

The production lines for both products are highly automated, so large changes in production cause very little change in total direct labour costs. Workers who are classified as direct labour monitor the production line and are permanent employees who regularly work 40 hours per week.

All costs other than corporate fixed costs listed under each product line could be avoided if the product line were dropped. Corporate fixed costs totalled \$125,000, and the total sales amounted to 5,000 units, producing the average cost per unit of \$25. About \$10,000 of the corporate fixed costs could be avoided if Loser were dropped, and about \$15,000 of the corporate fixed costs could be avoided if Big Winner were dropped. The remaining \$100,000 could be avoided only by going out of business entirely.

Required:

1. What is the overall corporate breakeven in total sales revenue, assuming that the sales mix is the same as last month's?
2. What is the breakeven sales volume (in units produced and sold) for Loser?
3. Should Horton and Associates keep or drop Loser? List at least two qualitative factors that would affect the decision to keep or drop Loser.