MBA 650

Quiz 2

CT9.2

Dawson Company manufactures three types of computer games: Skyhawk, Seahawk, and Sharks. It allocates overhead to the games based on the number of direct labor hours worked on each product. The results of the most recent period follow:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Skyhawk** | **Seahawk** | **Sharks** |
| Units produced and sold | 9,000 | 8,000 | 7,000 |
| Selling Price | $45.00 | $30.00 | $25.00 |
| Less: |  |  |  |
| Direct materials per unit | 5.50 | 4.25 | 3.00 |
| Direct labor cost per unit | 9.00 | 2.00 | 3.00 |
| Manufacturing overhead per unit | 27.00 | 6.00 | 9.00 |
| Gross Margin | 3.50 | 17.75 | 10.00 |
| Less: |  |  |  |
| Selling cost per unit | 2.25 | 1.50 | 1.25 |
| Administration cost per unit | 3.75 | 3.00 | 2.75 |
| Net Income (loss) per unit | $(2.50) | $13.25 | $6.00 |

The manager of Dawson Company is concerned that the Skyhawk game seems to be a net loser and he is considering whether to discontinue it. He has asked you to analyze the situation and make a recommendation. Your analysis reveals that Dawson Company has three levels of overhead – faculty sustaining, batch-related, and unit-related – and that the appropriate overhead rates are $6.00 per square foot, $1,000 per production run, and $4 per unit, respectively. Resource usage during the past period follows. In addition, you discover that administrative costs are fixed while selling costs are variable per unit.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Skyhawk** | **Seahawk** | **Sharks** |
| Square feet occupied | 10,000 | 12,500 | 15,000 |
| Production runs | 9 | 12 | 12 |

Required:

1. Determine whether Dawson Company should drop any game.
2. Write a memo to the manager with your recommendation.