

Unit 10 Discussion: Scenario

Stacy Lynn, Inc. (SLI) is a manufacturer of rice cookers. The rice cookers sell for \$45 per unit; the sales were 3,600 units in the current year. SLI has 400 units available for sale at the end of the current year and is projecting sales of 4,400 units next year. SLI is planning the same production level for the current year as last year - 4,000 units. The variable manufacturing costs for SLI are \$16 and the variable selling costs are only \$.50 per unit. The fixed manufacturing costs are \$100,000 per year and the fixed selling costs are only \$500 per year. Assume that beginning inventory was -0-.

Stacy Ann Lynn, the great grand-daughter of the company's founder is the current CEO/President of the company, which is still a family-owned business. The past several years have been especially difficult due to price-pressure from Chinese imports. At the moment, all that Stacy believes she can do is to try to keep the company running until the economy improves. But, the company needs an immediate infusion of cash. So, she has decided to ask her bank for a large line of credit to maintain operating viability for the foreseeable future.

Based on the information provided in the narrative above, and the financial statements below, post a response to each Part below:

Part A) If Stacy Lynn wants to show the bank the maximum profit over the previous 2-year period, which costing method should be presented?

Part B) But, the bank requires that all financial statements conform to Generally Accepted Accounting Principles (GAAP). Based on that requirement, which costing method should be presented?

Part C) The bank has delivered a memo to SLI in preparation for the meeting to negotiate the Credit Line; the memo states that they will expect a significant Net Income. Based on your responses to Parts A and B, what are the legal and ethical issues facing Stacy Lynn?

Additional Financial Information for SLI:

Current Income Statement:

	<u>Using Full Costing</u>	<u>Using Variable Costing</u>
<u>Item:</u>		
Sales (4,400 x 45)	\$198,000	\$198,000
Cost of Goods Sold:		
Beg. Inv.	\$ 16,400	\$ 6,400
COGM	164,000	64,000
COGAS	180,000	70,400
End. Inv.	<u>0</u>	<u>0</u>
COGS	<u>180,400</u>	<u>70,400</u>
Less Variable Selling & Admin Expenses		\$ 2,200
Gross Margin	\$ 17,600	
Contribution Margin		\$125,400
Less Fixed Mfg. Costs		\$ 100,000
Less Selling & Admin Costs		
Variable	\$ 2,200	
Fixed	<u>500</u>	<u>500</u>
Operating Income	<u>\$ 14,900</u> =====	<u>\$ 24,900</u> =====

You must post your initial response to the Discussion Board before 11:59 p.m. (ET) on Saturday of the unit. Then, you must respond to at least 2 of your colleagues by the end of the unit on Tuesday. These 3 separate posts must be made on 3 different days.

Also, if the instructor asks a follow-up question to your post, your reply to that question will also qualify to satisfy the requirements to make 2 response posts.

Note to Students: Please review the Discussion Board Checklist and the Discussion Board Grading Rubrics supplied in the Unit 1 Discussion Board screen. Those files will be used for all Discussion Board assessments. The files are also available for download in Doc Sharing.