Exercise 12-6 (20 minutes)

1.

	Total Company		Division: East		Division: Central		Division: West	
	Amount	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
Sales	$1,000,000	100.0	$250,000	100	$400,000	100	$350,000	100
Less variable expenses	390,000	39.0	130,000	52	120,000	30	140,000	40
Contribution margin	610,000	61.0	120,000	48	280,000	70	210,000	60
Less traceable fixed expenses	535,000	53.5	160,000	64	200,000	50	175,000	50
Divisional segment margin	75,000	7.5	$(40,000)	(16)	$ 80,000	20	$ 35,000	10
Less common fixed expenses not traceable to divisions*	90,000	9.0						
Net operating income (loss)	$ (15,000)	(1.5)						

*$625,000 – $535,000 = $90,000.

2.

Incremental sales ($350,000 × 20%)	$70,000
Contribution margin ratio	× 60%
Incremental contribution margin	42,000
Less incremental advertising expense	15,000
Incremental net operating income	$27,000

Yes, the advertising program should be initiated.