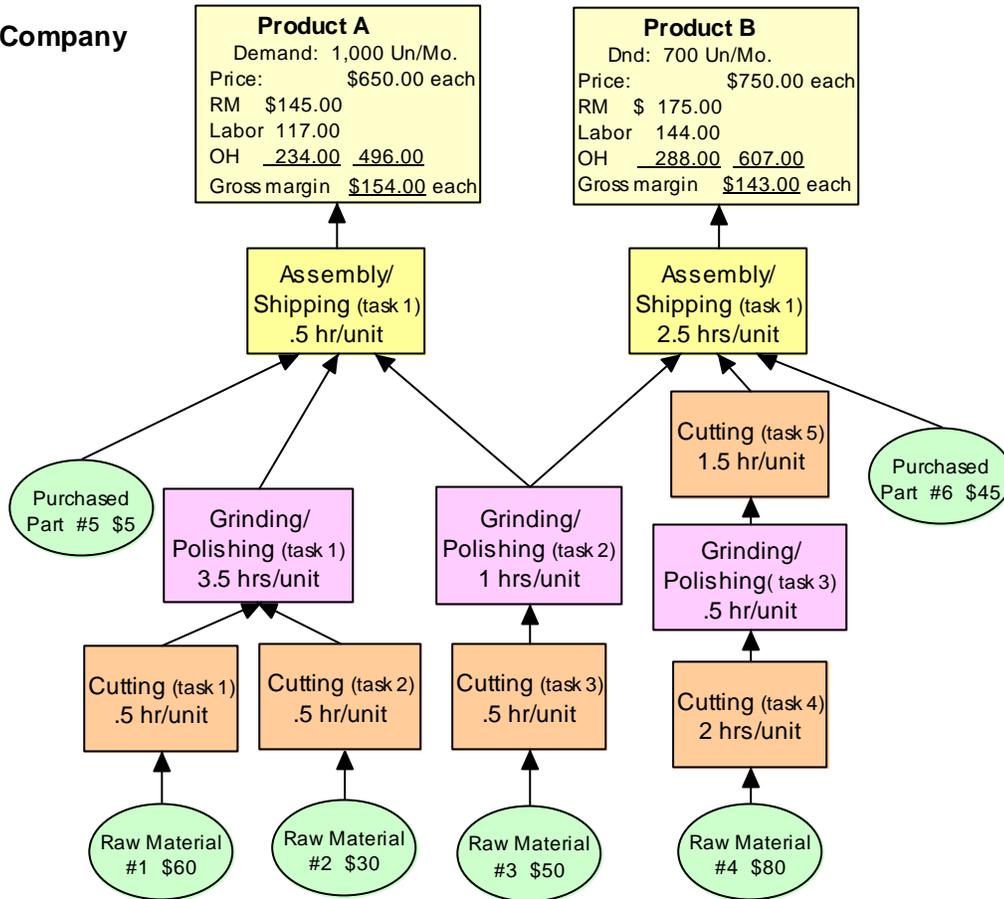


## Sample Finance & Metrics Case

You have been provided with the following information concerning A-B Company:

### A-B Company



**Operations:**  
 Labor cost \$243,000 per month (Avg. rate=\$18.00/hour)  
 Overhead cost 486,000 per month (estimated at 200% of labor)  
 Tot. mfg. cost \$729,000 per month

Availabilities: Cutting: 6,000 hours per month  
 Grind/Polish: 5,000 hours per month  
 Assembly: 2,500 hours per month

Selling and administrative expenses: \$5 per unit plus \$60,000

Time/Labor Cost per Product

Resource	A	B
Cutting	1.5 hrs@\$18.00 = \$ 27.00	4.0 hrs @\$18.00 = \$ 72.00
Grind/Polish	4.5 hrs@\$18.00 = 81.00	1.5 hrs @\$18.00 = 27.00
Assemble	<u>0.5 hr @\$18.00 = 9.00</u>	<u>2.5 hrs @\$18.00 = 45.00</u>
Total	6.5 hrs@\$18.00 = \$117.00	8.0 hrs@\$18.00 = \$144.00

Showing all your work, answer the following questions:

1. Assuming A-B is extremely reluctant to ever lay off any of its well-trained employees, how many units of Product A should the company produce and sell in order to make the maximum profit this month?
2. How many units of Product B should the company produce and sell in order to make the maximum profit this month?
3. Using your responses to parts a and b above, compute total gross profit for the month.
4. Using your responses to parts a and b above, compute Throughput operating profit (before income taxes) for the month.
5. Assuming the company has one unit in process, 78 percent complete at the end of the period, compute the ending work-in-process inventory under:
  - a. Throughput accounting, and
  - b. GAAP accounting
6. Assume that company policy has established a goal of 90% efficiency for all resources, but recently has implemented TOC DBR.
  - a. What instructions should be given to the Cutting resource at the present time?
  - b. What instructions should be given to the Grinding/Polishing resource at the present time?
  - c. What instructions should be given to the Assembly/Shipping resource at the present time?
7. Company engineers have come up with a proposal to spend \$10,000 to cut 1 hour off of Cutting-Task 4 (reducing time from 2 hours to 1 hour). Should this proposal be accepted? Justify your response.
8. Company engineers now propose spending \$29,000 to save 5 minutes on Grinding, Task 2. Should this proposal be accepted? Justify your response.
9. Present traditional (standard cost) accounting analysis for the investment proposal in either item 7 or 8 above.