

Allocating constrained resources: delegating the most efficient way to use limited resources.

- You must first find the contribution margin for each activity, and divide them each individually by the number of the constrained resource they will require (in this case, it's the captain hours that is the constrained resource).
 - This provides you with the contribution margin per constrained resource (captain hours), a more accurate way to get you the most bang for your buck, essentially.
- Using the CM per Constrained Resource, you start with what makes the most, and use as many of the total hours you can to reach full demand of that activity. Then with the next most profitable activity you do the same, and so on until you run out of your constrained resource (you definitely will run out at some point, that is what makes the resource constrained).
 - You use every amount of the constrained resource that you can. In this case, we don't have enough hours to fulfill all of the scuba demand, so we only use what we have left over – we cannot provide extra hours that do not exist.

	<u>Fishing</u>	<u>Scuba Diving</u>	<u>Island Hopping</u>
CM per Excursion	\$70	\$30	\$40
÷ Required Captain Hrs	8	6	4
= CM per Captain Hrs	\$8.75	\$5.00	\$10.00

1	Island Hopping:	65 Trips	x	4 hours	=	260 captain hours
2	Fishing:	95 Trips	x	8 hours	=	760 captain hours
						1,020 captain hours
3	Scuba	1,200 captain hours available				
		- 1,020 captain hours used				
		180 hours remaining				
		÷ 6 hours per scuba trip				
		30 trips				

Keeping vs. eliminating operations: finding the impact on operating income if an aspect of the business is eliminated, and using that information to determine if it is more valuable to keep or eliminate that operation

Remember: Direct Fixed Costs are AVOIDABLE; Common Fixed Costs are UNAVOIDABLE

<u>If the Island Spa & Health Club is eliminated</u>	<u>Impact on Op. Income</u>
Lost sales revenues	\$(255,000)
Variable cost savings	\$195,000
Fixed cost savings (direct fixed expenses)	\$40,000
Impact on operating income	(\$20,000)

If the spa is eliminated, they will be \$20,000 worse off

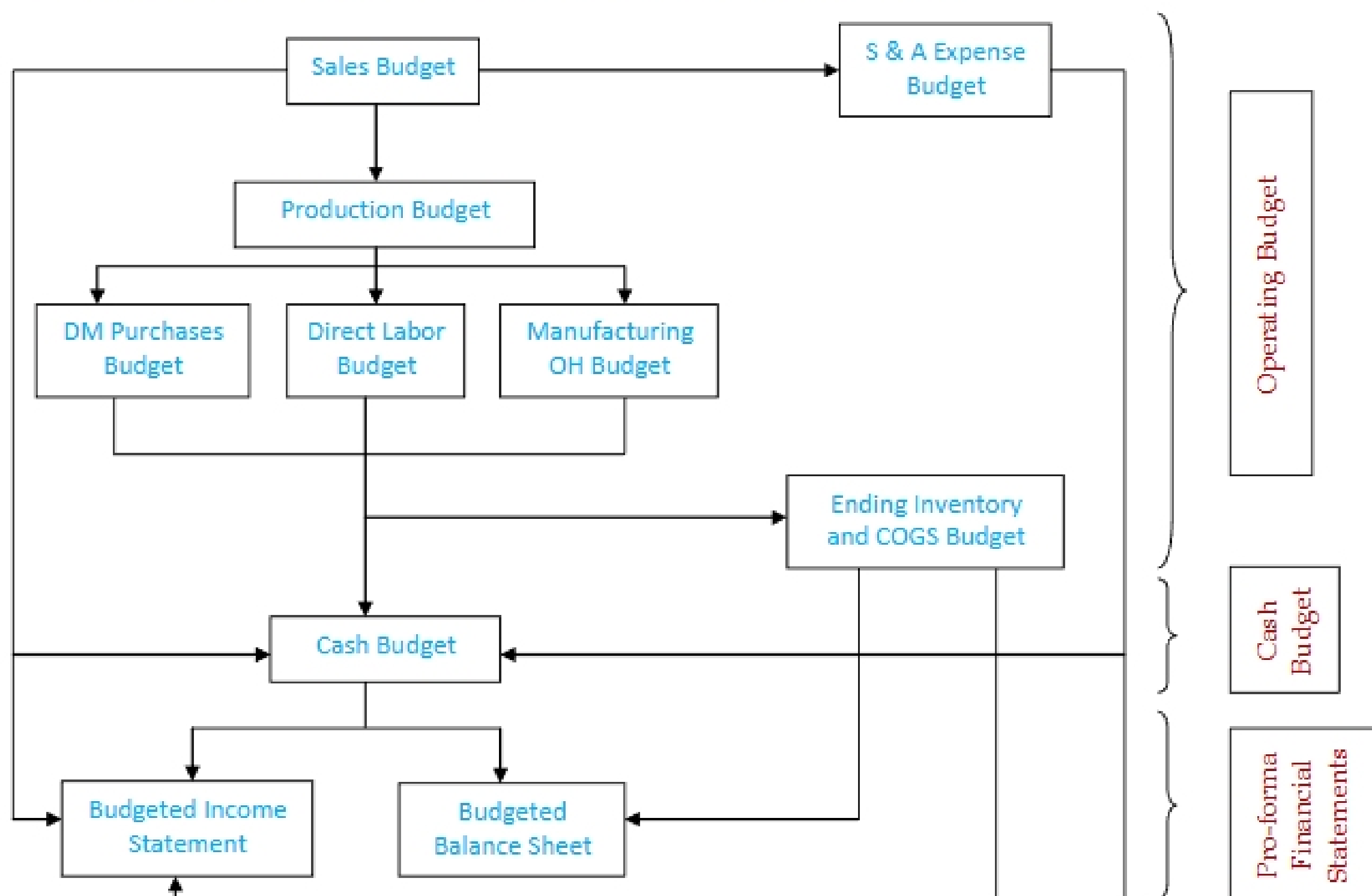
Sell "as is" vs. process further: when a company decides if it is more financially efficient (profitable) to sell a current product as it is, or if it would be better to process it further

Remember: Processing further will provide for higher revenue, but will also have to endure additional costs that need to be accounted for

If the Sunset Cruise is turned into a Dinner Cruise:

Add'l sales revenue (\$75 - \$50) <small>(Dinner sale price - Sunset sale price)</small>	\$25
- Add'l costs (\$55 - \$33) <small>(Dinner unit costs - Sunset unit costs)</small>	\$22
Add'l Profit	\$3
	x 35,000 customers
Total Additional Profit	<u>\$105,000</u>

Budgeting in general: an operating plan that is expressed primarily in financial terms



Each component of the master budget ::

Sales Budget: the starting point of the master budget because often other components of the master budget are based on the estimated volume of sales

	January	February	March	Quarter
Budgeted # of Goods	1,500	1,600	1,900	5,000
x Budgeted Average Sales Price	x \$25.00	x \$25.00	x \$25.00	x \$25.00
Budgeted Sales Revenue	\$37,500	\$40,000	\$47,500	\$125,000

Flows to the budgeted income statement

Selling & Administrative Expense Budget: includes expenses required for selling the product and managing the business, such as advertising, insurance, accounting, legal services, etc.

- Total all of the Selling & Administrative expenses together for each period or quarter, and that total flows to the Budgeted Income Statement