

# Intermediate Management Accounting Project 2

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## PROJECT 2 (40 MARKS)

Project 2 consists of a second report from Martine to Gretel, the president of Holzmann Cleaning Services (HCS). It is due at the end of Week 5 and is out of 40 marks.

1. Prepare a complete 20X7 operating budget for both commercial and residential operations, based on the details provided in Exhibit 4 in Project Details. The operating budget will require adjustments to the activity-based analysis prepared for the direct costs in requirement 2 of Project 1. Indirect general costs should be allocated 60% to commercial and 40% to residential. **(6 marks)** Provide a discussion of the results in your report. **(4 marks)**

Note: It is important to provide the analysis done in Project 1 so that markers don't deduct marks for errors made in Project 1.

2.

- a) Revise the 20X7 operating budget statements to a contribution format. Assume the following are variable costs:
  - i) Wages and benefits
  - ii) Cleaning supplies
  - iii) Transportation costs

All remaining costs are fixed. **(1 mark)**

Based on the 20X7 budget:

- b) Calculate the break-even point in sales dollars based on the 20X7 sales mix. **(2 marks)**
  - c) Calculate the sales revenue required to achieve a 25% profit margin. **(2 marks)**
  - d) Provide comments on the results in the report. Your discussion should also include comments on the margin of safety **(1 mark)** and the limits of the CVP analysis as it pertains to HCS. **(2 marks)**
3. To assist Gretel in submitting bids for new work, use the 20X7 contribution margin budget to determine an average markup percentage on variable costs for both commercial and residential cleaning services. Using the markup percentages, calculate the sales price of a typical commercial and residential contract (see Exhibit 5 in Project Details). **(8 marks)** Also provide a short discussion of the results in your report. **(2 marks)**

#### 4. Cash analysis:

- a) Prepare a cash budget for the quarter starting July 20X6 using the information in Exhibit 6 found in Project Details. **(6 marks)**
- b) Prepare a discussion that highlights your findings in your report. What advice can you give Gretel regarding the handling of cash and her operations during this period? **(4 marks)**

In addition to the above, award **2 marks** for report format and professionalism. Your report should clearly communicate the important details of the case and effectively persuade the reader to act on your advice.

**NOTE ON ROUNDING:** Use unrounded numbers for all calculations and round the final answer to the nearest dollar.