

Financial Analysis Assignment (50 points)

Due: Sunday, November 29, 2020

During your study of Chapter 13, you learned about utilizing sensitivity analysis to analyze and evaluate the effects of changing volumes, costs, contribution margins, etc. on business decisions. Review the information below and complete the requirements for the assignment.

Adapted from the textbook:

Classic Limo, Inc. provides limousine service to Tri-Cities airport. The price of the service is fixed at a flat rate for each trip and most costs of providing the service are stable for each trip. Marc Pence, the owner, budgets income by estimating two factors that fluctuate with the economy: the fuel cost associated with each trip and the number of customers who will take trips. Looking at next year, Marc develops the following estimates of contribution margin (price less variable cost of the trip, including fuel) and for the estimated number of customers. Although Marc understands that it is not strictly true, he assumes that the cost of fuel and the number of customers are independent.

Scenario	Contribution Margin Per Ride (Price – Variable cost)	Number of Customers
Excellent	\$40	10,500
Fair	\$25	6,000
Poor	\$15	4,500

In addition to the costs of a ride, Marc estimates that other service costs are \$50,000 plus \$5 for each customer (ride) in excess of 6,000 rides. Annual administrative and marketing costs are estimated to be \$25,000 plus 10% of the contribution margin.

Required:

- 1) Using the above information, construct an Excel spreadsheet to prepare an analysis of the possible operating income for Classic Limo, Inc., similar to that in Exhibit 13.15 on page 558 of the textbook. You must submit this part of the assignment as an Excel file and utilize formulas for all calculations. You will be graded on the answers provided, formulas/calculations, and presentation. If you would like feedback on this part of the assignment before submitting, please email your spreadsheet to me at least 48 hours prior to the due date.
- 2) If you were manager of Classic Limo, Inc. and had to choose only one budget scenario to use for planning for the year, which one of the nine scenarios would you choose? This should be based on the scenario that is most likely. Be sure not to just go with the one you or the company would prefer.
- 3) Write a two-page paper detailing the thought process used to make the final budgeting decision. The paper must include what assumptions were made (i.e. – location of airport, economic conditions) and the full rationale behind your decision. While you have to freedom to make certain assumptions to support your selection, you must use at least two outside sources with factual information to support your decision as well (i.e. – fuel prices, weather conditions,

tourism statistics). There is not one right answer. You will be graded on whether the rationale you provide actually supports the selection you made. There are many different angles from which to write this type of paper. Because this is a 'mini' research project, you must be concise and focus on just a few key items. You should also think about how areas outside of accounting, like marketing and economics, might affect your decision.

References should be cited using APA format. Your submission will be graded on a 50-point scale for the course and also assessed using the Integrative Business Knowledge rubric provided. Please be sure to review the rubric before starting your paper and incorporate as many areas outside of accounting into this project as are appropriate.