

# Superior Manufacturing Co. Harvard Case Solution & Analysis

## QUESTION 1:

Based on Exhibits 1 and 2, prepare a contribution format of income statement. For sales and variable costs, show both total \$ amount and per unit \$ amount by product line. For fixed expenses, do not need to split them into product lines. What is the company's break-even point in dollar sales?

	Product 101	Product 102	Product 103	Total
Sales	\$1,000,000	\$1,000,000	\$1,000,000	\$3,000,000
Variable Costs	\$400,000	\$400,000	\$400,000	\$1,200,000
Contribution Margin	\$600,000	\$600,000	\$600,000	\$1,800,000
Fixed Expenses	\$1,200,000	\$1,200,000	\$1,200,000	\$3,600,000
Income				(\$1,800,000)

## Cost system

- Manufactured a single cost system.
- Management practices to assign all of the company's costs to each of the three products in a way that would lead to the most useful product costs.
- Two categories of costs: Major (Direct) cost and indirect cost.



## About the Company

- Superior manufacturing company makes three industrial products: 101, 102 and 103.
- Products that are made are sold and used in the processes of other manufacturers.
- Superior is one of eight companies with similar products in New England.
- Its main competitor is The Gamma Company.

## QUESTION 2:

Do you agree with Waters' decision to keep product 103? Why? Note that you may use your contribution format of income statement from exercise 1) to show your analysis.

	Product 101	Product 102	Product 103
Sales	\$1,000,000	\$1,000,000	\$1,000,000
Variable Costs	\$400,000	\$400,000	\$400,000
Contribution Margin	\$600,000	\$600,000	\$600,000

Thank you!

## Question 4:

Should Superior lower as of January 1, 2006 its price of product 103 to \$22,500? Why?

What does Superior's contribution margin look like if the price is \$24,500 and if it is lowered to \$22,500?

	Product 101	Product 102	Product 103
Sales	\$1,000,000	\$1,000,000	\$1,000,000
Variable Costs	\$400,000	\$400,000	\$400,000
Contribution Margin	\$600,000	\$600,000	\$600,000

## About the Company

- After the death of Richard Harvey, his son Paul took over and made several poor decisions due to lack of experience.
- As a result, the income statement in 2004 showed a net loss of \$688,000.
- Herbert Waters was appointed as the company's general manager in order to make up for the losses.
- No Major changes were made regarding the strategies for producing the company's three products.

## Manufacturing Strategies

- Dedicated factory concept
- Each product is produced in its own factory.
- Each product factory is horizontally integrated.



## Question 3:

If one could sell 100,000 units of any one of the three products, which product should be chosen?

	Product 101	Product 102	Product 103
Sales	\$1,000,000	\$1,000,000	\$1,000,000
Variable Costs	\$400,000	\$400,000	\$400,000
Contribution Margin	\$600,000	\$600,000	\$600,000

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## QUESTION 1:

Based on Exhibits 1 and 2, prepare a contribution format of income statement. For sales and variable costs, show both total \$ amount and per unit \$ amount by product line. For fixed expenses, do not split them into product lines. What is the company's break-even point in dollar sales?

Manufacturing Costs		Variable Expenses	
Product Line	Amount	Product Line	Amount
Product 101	\$1,000,000	Product 101	\$1,000,000
Product 102	\$1,000,000	Product 102	\$1,000,000
Product 103	\$1,000,000	Product 103	\$1,000,000

## Cost system

- Maintained a simple cost system
- Management's goal was to assign all of the company's costs to each of the three products in a way that would lead to the most useful product costs
- Two categories of costs: Material (Direct) cost and Indirect cost.

Category	Product 101	Product 102	Product 103
Material	\$1,000,000	\$1,000,000	\$1,000,000
Indirect	\$1,000,000	\$1,000,000	\$1,000,000

## About the Company

- Superior Manufacturing Company makes three industrial products: 101, 102 and 103.
- Products that are made are sold and used in the production of other manufacturers.
- Superior is one of eight companies with similar products in New England.
- Its main competitor is the Suresco Company.

## QUESTION 2:

Do you agree with Waters' decision to keep product 103? Why? Note that you may use your contribution format of income statement from exercise 1) to show your analysis.

Product Line	Amount
Product 101	\$1,000,000
Product 102	\$1,000,000
Product 103	\$1,000,000

Thank you!

## Question 4:

Should Superior lower as of January 1, 2006 its price of product 101 to \$22.50? Why?

What does Superior's contribution margin look like if the price is \$24.50 and if it is lowered to \$22.50?

Price	Contribution Margin
\$24.50	\$2,000,000
\$22.50	\$1,500,000

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## Question 3:

If one could sell 100,000 units of any one of the three products, which product should be chosen?

Product Line	Amount
Product 101	\$1,000,000
Product 102	\$1,000,000
Product 103	\$1,000,000

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- Superior manufacturing company makes three industrial products; 101, 102 and 103.
- Products that are made are sold and used in the processes of other manufacturers.
- Superior is one of eight companies with similar products in New England.
- Its main competitor is the Samra Company.

# About the Company

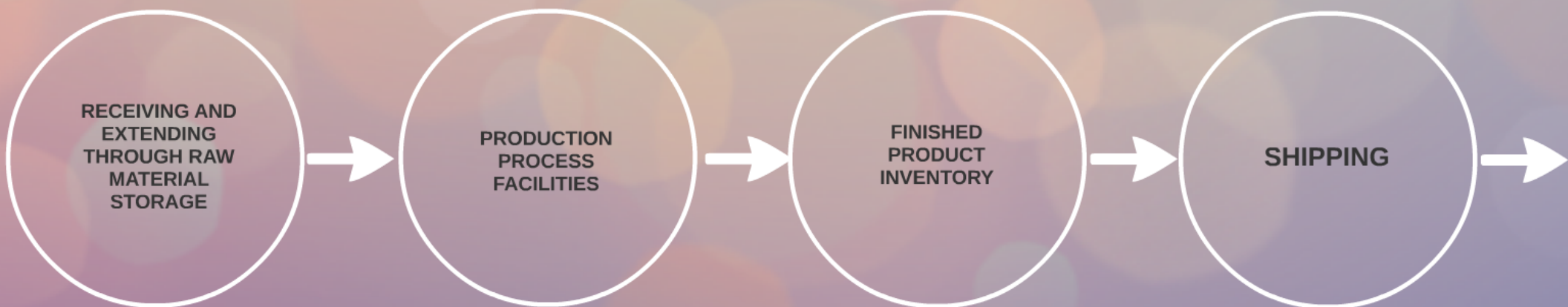
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**RECEIVING AND  
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THROUGH RAW  
MATERIAL  
STORAGE**





**PRODUCTION  
PROCESS  
FACILITIES**