

2. value:
20.00 points

Milden Company has an exclusive franchise to purchase a product from the manufacturer and distribute it on the retail level. As an aid in planning, the company has decided to start using a contribution format income statement. To have data to prepare such a statement, the company has analyzed its expenses and has developed the following cost formulas:

Cost	Cost Formula
Cost of good sold	\$35 per unit sold
Advertising expense	\$210,000 per quarter
Sales commissions	6% of sales
Shipping expense	?
Administrative salaries	\$145,000 per quarter
Insurance expense	\$9,000 per quarter
Depreciation expense	\$76,000 per quarter

Management has concluded that shipping expense is a mixed cost, containing both variable and fixed cost elements. Units sold and the related shipping expense over the last eight quarters follow:

Quarter	Units Sold	Shipping Expense
Year 1:		
First	10,000	\$119,000
Second	16,000	\$175,000
Third	18,000	\$190,000
Fourth	15,000	\$164,000
Year 2:		
First	11,000	\$130,000
Second	17,000	\$185,000
Third	20,000	\$210,000
Fourth	13,000	\$147,000

Milden Company's president would like a cost formula derived for shipping expense so that a budgeted contribution format income statement can be prepared for the next quarter.

Required:

1. Using the high-low method, estimate a cost formula for shipping expense based on the data for the last eight quarters above. (Do not round your intermediate calculations. Round the Variable cost per unit to 2 decimal places.)

	Units Sold	Shipping Expense
High activity level		
Low activity level		
Change	0	\$ 0
Variable cost per unit		per unit
Fixed cost element		

Y = + X

2. In the first quarter of Year 3, the company plans to sell 12,000 units at a selling price of \$100 per unit. Prepare a contribution format income statement for the quarter. (Do not round your intermediate calculations.)

Milden Company		
Budgeted Contribution Format Income Statement		
For the First Quarter, Year 3		
Variable expenses:		
Total variable expenses		0
		0
Fixed expenses:		
Total fixed expenses		0
		\$ 0

References eBook & Resources

Financial statements Learning Objective: 02-05
Analyze a mixed cost using a scattergraph plot and the high-low method.

Difficulty: 2 Medium Learning Objective: 02-06
Prepare income statements for a merchandising company using the traditional and contribution formats.

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