Assignment - 1

স্কুল অব বিজনেস

MBA: 3309

Bangladesh Open University

MBA Program

Semester: 181 (3rd Level)

Course: Management Accounting **Due on: May 31, 2019**

Instructions

- Answer the all questions in your own handwriting on A4 size white paper.
- The assignment must be submitted on the assigned date to the Coordinator of the study center you are attached with.
- Spiral binding is strictly prohibited. Instead, transparent folder or file cover or any other soft binding may be used.

Questions

1. (a) Differentiate amount "Stewardship Accounting", "Control Accounting" and "Decision Accounting."
   (b) List the qualitative characteristics of accounting information.
   (c) A variable cost is a cost that varies per unit of product, whereas a fixed cost is constant per unit of product. Do you agree? Explain.
   (d) Define the following terms: relevant cost, opportunity cost, and sunk cost.

2. Various costs and sales data for Meriwell Company for the just completed year appear below:

1.	Finished Goods Inventory, beginning	Tk. 20,000
2.	Finished Goods Inventory, ending	40,000
3.	Administrative Expenses	110,000
4.	Manufacturing Overhead	105,000
5.	Purchase of law material	125,000
6.	Raw materials inventory, beginning	9,000
7.	Raw materials inventory, ending	6,000
8.	Direct Labor	70,000
9.	Work in process inventory, beginning	17,000
10.	Work in process inventory, ending	30,000
11.	Sales	500,000
12.	Selling expenses	80,000

Of the Tk. 105,000 of manufacturing overhead, Tk. 15,000 is variable and Tk. 90,000 is fixed.

Required:

(a) Prepare a schedule of cost of goods manufactured.
(b) Prepare an income statement.
(c) Assume that the company produced the equivalent of 10,000 units of product during the year just completed. What was the average cost per unit for direct materials? What was the average cost per unit for fixed manufacturing overhead?
(d) Assume that the company expects to produce 15,000 units of product during the coming year. What average cost per unit and what total cost would you expect the company to incur for direct materials at this level of activity? For fixed manufacturing overhead? Assume that direct materials is a variable cost.

Note: The assignment must be submitted to the Coordinator of the study center you are attached with.

(e) As the manager responsible for production costs, explain to the president any difference in the average costs per unit between (3) and (4) above.

3. (a) What is meant by a product's CM ratio? How is this ratio useful in planning business operations?

(b) Menlo Company manufactures and sells a single product. The company's sales and expenses for last quarter follows:

	Total	Per Unit
Sales	Tk.450,000	Tk.30
Less variable expenses	180,000	12
Contribution margin	270,000	Tk.18
Less fixed expenses	216,000	
Net income	Tk.54,000	

Required:

i. What is the quarterly break-even point in units sold and in sales taka?

ii. Without resorting to computations, what is the total contribution margin at the break-even point?

iii. How many units would have to be sold each quarter to earn a target profit of Tk.90,000? Use the unit contribution method. Verify your answer by preparing a contribution income statement at the target level of sales.

iv. Refer to the original data. Compute the company's margin of safety in both taka and percentage terms.

v. What is the company's CM ratio? If sales increase by Tk.50,000 per quarter and there is no change in fixed expenses, by how much would you expect quarterly net income to increase?

Note: The assignment must be submitted to the Coordinator of the study center you are attached with.

Assignment - 2

স্কুল অব বিজনেস

MBA: 3309

Bangladesh Open University

MBA Program

Semester: 181 (3rd Level)

Course: Management Accounting **Due on: July 26, 2019**

(Assignment is to be presented in own handwriting on A4 size white pages)

1. Garden Sales, Inc., sells garden supplies. Management is planning its cash needs for the second quarter. The company usually has to borrow money during this quarter to support peak sales of lawn care equipment, which occur during May. The following information has been assembled to assist in preparing a cash budget for the quarter:

a. Budgeted monthly income statements for April – July are:

	April	May	June	July
Sales	Tk. 600,000	Tk. 900,000	Tk.500,000	Tk. 400,000
Cost of goods sold	420,000	630,000	350,000	280,000
Gross margin	180,000	270,000	150,000	120,000
Less operating expenses:				
Selling expense	79,000	120,000	62,000	51,000
Administrative expense*	45,000	52,000	41,000	38,000
Total selling and administrative expenses	124,000	172,000	103,000	89,000
Net operating income	Tk. 56,000	Tk. 98,000	Tk. 47,000	Tk. 31,000

Includes Tk. 20,000 depreciation each month.

b. Sales are 20% for cash and 80% on account.

c. Sales on account are collected over a three-month period with 10% collected in the month of sale; 70% collected in the first month following the month of sale; and the remaining 20% collected in the second month following the month of sale. February's sales totaled Tk.200000, and March's sales totaled Tk. 300,000.

d. Inventory purchases are paid for within 15 days. Therefore, 50% of a month's inventory purchases are paid for in the month of purchase. The remaining 50% is paid in the following month. Accounts payable at March 31 for inventory purchases during March total Tk. 126,000.

e. Each month's ending inventory must equal 20% of the cost of the merchandise to be sold in the following month. The merchandise inventory at March 31 is Tk. 84,000.

f. Dividends of Tk. 49,000 will be declared and paid in April.

g. Land costing Tk. 16,000 will be purchased for cash in May.

h. The cash balance at March 31 is Tk. 52,000; the company must maintain a cash balance of at least Tk. 40,000 at the end of each month.

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i. The company has an agreement with a local bank that allows the company to borrow in increments of Tk. 1,000 at the beginning of each month, up to a total loan balance of Tk. 200,000. The interest rate on these loans in 1% per month and for simplicity we will assume that interest is not compounded. The company would, as far as it is able, repay the loan plus accumulated interest at the end of the quarter.

Required:

i. Prepare a schedule of expected cash collections for April, May and June, and for the quarter in total.

ii. Prepare the following for merchandise inventory:

a. A merchandise purchases budget for April, May and June.

b. A schedule of expected cash disbursements for merchandise purchases for April, May and June, and for the quarter in total.

iii. Prepare a cash budget for April, May, and June as well as total for the quarter.

2. Miller Toy Company manufactures a plastic swimming pool at its Westwood Plant. The plant has been experiencing problems for some time as shown by its June income statement below:

	Budgeted	**Actual**
Sales (15,000 pools)	Tk.450,000	Tk.450,000
Less variable expenses:		
Variable cost of goods sold*	180,000	196,290
Variable selling expenses	20,000	20,000
Total variable expenses	200,000	200,000
Contribution margin	250,000	233,710
Less fixed expenses:		
Manufacturing overhead	130,000	130,000
Selling and administrative	84,000	84,000
Total fixed expenses	214,000	214,000
Net income	Tk.36,000	Tk.19,710

Contains direct materials, direct labor, and variable manufacturing overhead.

Janet Dunn, who has just been appointed general manager of the Westwood Plant, has been given instructions to "get thins under control." Upon reviewing the plant's income statement, Ms. Dunn has concluded that the major problem lies in the variable cost of goods sold. She has been provided with the following standard cost per swimming pool:

	Standard Quantity or Hours	**Standard price or Rate**	**Standard Cost**
Direct materials	3.0 pounds	Tk.2.00 per pound	Tk.6.00
Direct labor	0.8 hours	6.00 per hour	4.80
Variable manufacturing overhead	0.4 hours*	3.00 per hour	1.20
Total standard cost			

Based on machine-hours.

Ms. Dunn has determined that during June the plant produced 15,000 pools and incurred the following costs:

(a) Purchased 60,000 pounds of materials at a cost of Tk.1.95 per pound.

(b) Used 49,200 pounds of materials in production, (Finished goods and work in process inventories are insignificant and can be ignored).

(c) Worked 11,800 direct labor-hours at a cost of Tk.7.00 per hour.

Note: The assignment must be submitted to the Coordinator of the study center you are attached with.

(d) Incurred variable manufacturing overhead cost totaling Tk.18,290 for the month. A total of 5,900 machine-hours was recorded.

It is the company's policy to close all variances to cost of goods sold on a monthly basis.

Required:

(i) Compute the following variances for June:

(a) Direct materials price and quantity variances.
(b) Direct labor rate and efficiency variances.
(c) Variable overhead spending and efficiency variances.

(ii) Summarize the variances that you computed in (1) above by showing the net overall favorable or unfavorable variance for the month. What impact did this figure have on the company's income statement? Show computations.

3. Presented below are the comparative balance sheets for Canca Works Company as of December, 31.

Canca Company
Comparative Balance Sheets
December 31

Assets	**2007**	**2006**
Cash	Tk.38,000	Tk.45,000
Accounts receivable	49,500	52,000
Inventory	153,450	142,000
Prepaid expenses	15,780	21,000
Land	100,000	130,000
Equipment	228,000	155,000
Accumulated depreciation-equipment	(45,000)	(35,000)
Building	200,000	200,000
Accumulated depreciation-building	(60,000)	(40,000)
	Tk.679,730	Tk.670,000
Liabilities and Stockholders' Equity		
Accounts payable	Tk.35,730	Tk.40,000
Bonds payable	250,000	300,000
Common stock, Tk.1 par	200,000	150,000
Retained earnings	194,000	80,000
	Tk.679,730	Tk.670,000

Additional information:

1. Operating expenses include depreciation expense of Tk.42,000.
2. Land was sold for cash at book value.
3. Cash dividends of Tk.24,000 were paid.
4. Net income for 2007 was Tk.38,000.
5. Equipment was purchased for Tk.95,000 cash. In addition, equipment costing Tk.22,000 with a book value of Tk.10,000 was sold for Tk.8,100 cash.
6. Bonds were converted at face value by issuing 50,000 shares of Tk.1 par value common stock.
7. Net sales for 2007 totaled Tk.420,000.

Instructions

(a) Prepare a statement of cash flows for the year ended December 31, 2007, using the indirect method.
(b) Compute free cash flow for 2007.

Note: The assignment must be submitted to the Coordinator of the study center you are attached with.

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Assignment - 1

স্কুল অব বিজনেস

MBA: 3310

Bangladesh Open University

MBA Program

Semester: 181 (3rd Level)

Course: Marketing Management **Due on: May 31, 2019**

Instructions

- **Answer all the questions in your <u>own handwriting</u> on <u>A4 size white paper</u>.**
- **The assignment must be submitted on the assigned date to the Coordinator of the study center you are attached with.**
- **Spiral binding is strictly prohibited. Instead, transparent folder or file cover or any other soft binding may be used.**

Questions

1. (a) What is meant by marketing management?
   (b) Identify different states of demand and discuss the corresponding marketing takes.
   (c) Identify two local organization involved in anti smoking campaign and show how they undertake and implement this campaign.

2. (a) How can a company fill the strategic planning gap? Discuss.
   (b) Select a product line of a toiletry manufacture and prepare the effective marketing plan for the said product line.

3. (a) Define product positioning. Narrate the product positioning strategy.
   (b) Discuss the challenges that faced by a company in developing new product.
   (c) Explain different general strategies are followed by market leader.

Note: The assignment must be submitted to the Coordinator of the study center you are attached with.

Assignment - 2

স্কুল অব বিজনেস

MBA: 3310

Bangladesh Open University

MBA Program

Semester: 181 (3rd Level)

Course: Marketing Management **Due on: July 26, 2019**

(Assignment is to be presented in own handwriting on A4 size white pages)

1. (a) Suppose you are the manufacturer of a brand of mineral water. Identify your different classes of competitions and show how you will select whom to be attacked and whom to be avoided decide conclusively how you are going to do this.

   (b) What do you mean by an innovation and innovation diffusion process? Describe the product adoption process.

2. (a) Discuss the strategies that a marketer may pursue during the different stage of PLC.

   (b) Define product mix. Discuss how a company can build and manage its product mix.

3. Write the following key terms with example:

   Baby boomers, Benchmarking, Benefit segmentation, Brand, Brand equity, Brand extension, Break-even analysis, Buzz marketing, By-product pricing, Behavioral segmentation, Business buying process, Buyer-readiness stages, Category killer, Causal research, Consumerism, Convenience product, Cost-based pricing, Concentrated (niche) marketing, Customer-perceived value, Culture, Customer relationship management, Demographic segmentation, Descriptive research, Downsizing, Derived demand, Direct marketing, Dissonance-reducing buying behavior, Engel's laws, Experimental research, Exploratory research, Fad, Fashion, Franchise, Integrated marketing, Innovative marketing, Joint venturing, Market challenger, Market follower, Market leader, Licensing, Marketing information system (MIS), Marketing myopia, Market nicher, Market-penetration pricing, Market-skimming pricing, Marketing intelligence, Market management, Marketing mix, Marketing research, Observational research, Online marketing, Super market, Specialty store.

Note: The assignment must be submitted to the Coordinator of the study center you are attached with.

4. **Read the following case carefully and answer the questions that follow:**

Partex Group started its journey in 1959 with the torchbearer M.A Hashem, founder chairman of the group. M.A Hashem, the living legend steered the group with such incomparable dynamics and skills, that the group attained prolific growth over a period of 50 years conglomerating 60 companies; most of which are diverse manufacturing units.

The enormous growth and fulfillment of anticipated success caused eventually a natural exodus from patrimonial management system while using the Partex as a springboard that has been held in high respect both at home and abroad for last 50 years for our adherence to vales, quality, products and business ethics.

With the passage of time and advent of business, the pioneering spirit of Partex has been showcased by family generation comprising Mr. Aziz Al-Kaiser, Mr. Aziz Al-Mahmood, Mr. Aziz Al-Masud, Mr. Showkat Aziz Russell & Mr. Rubel Aziz, Significantly enough, Partex Star Group an offshoot of Partex Group steering business successfully with Mrs. Sultana Hashem at Chairperson and Mr. Aziz Al Kaiser as Vice Chairman.

Partex Group, steered by Mr. Showkat Aziz Russell at the helm, operating in business sectors like communications and information technology, energy, materials, services and consumer products. The major Partex Group manufacturing units are Partex Denim, Amber Cotton Mills Limited, Partex Board Mill Limited, Partex Sugar Mills Limited, Partex Rotor Spinning Mills Limited, Partex Energy Limited and service providing companies are Partex Holdings Ltd, Dhakacom Ltd.

The group has created by and large an employment opportunity of over 25,000 employees as collective work force. Partex's companies are market leaders in nearly all sectors, including food and beverages, plastics, fabrics, cotton, sugar, paper, jute, shipping, furniture, real estate, media, education, services, IT, and many more.

Questions:

(a) Describe the decision making process followed by Partex Group in increasing the length of its product line.
(b) Define the Marketing concept of Marketing Management philosophy regarding various brand development of Partex Group.
(c) Describe the Marketing mix functions for Partex Group.
(d) As a consumer, do you want to purchase food products from Partex or Square Company? How do you evaluate Partex as a brand?

Note: The assignment must be submitted to the Coordinator of the study center you are attached with.

Assignment # 1

স্কুল অব বিজনেস

Bangladesh Open University

MBA Program

Semester: 181 (3rd Level)

MBA 3311

Course: Strategic Management **Due on: May 31, 2019**

Instructions

- **Answer all the questions in your own handwriting on A4 size white paper.**
- **The assignment must be submitted on the assigned date to the Coordinator of the study center you are attached with.**
- **Spiral binding is strictly prohibited. Instead, transparent folder or file cover or any other soft binding may be used.**

Questions

1. (a) What is strategic management? State the benefits of strategic management.
   (b) Distinguish between competitive strategy and business strategy.
   (c) Describe in brief the challenges of today's organizations.

2. (a) What is core competency? Explain with examples.
   (b) Discuss the factors that are external to an organization.

3. (a) Why is industry analysis necessary? Describe the Porter's Five Forces model. Explain with example.
   (b) State the strategic implications of Porter's Five Forces model.

Note: Submit your assignment to the Coordinator of the Study Center you are attached with.

Assignment # 2

স্কুল অব বিজনেস

MBA 3311

Bangladesh Open University

MBA Program

Semester: 181 (3rd Level)

Course: Strategic Management **Due on: July 26, 2019**

(Answer all the questions in own handwriting on A4 size white pages)

1. (a) What is situation analysis of a business organization?

   (b) Discuss the steps that managers need to follow while conducting SWOT analysis in their organizations.

2. (a) What is competitive advantage? Why is it considered as the ultimate goal of a competitive strategy?

   (b) As a manager of an organization what measures would you undertake to ensure sustenance of competitive advantage?

2. (a) Distinguish between strategic alliances and joint venture. Give example of each.

   (b) Discuss the strategic advantages and disadvantages of vertical integration.

3. **Read the following case carefully and answer the questions that follow:**

Margaret Quinn, the president of Eastern Electric Corporation, one of the large electric utilities operating in the eastern United States, had long been convinced that effective planning in the company was absolutely essential to success. For more than 10 years she had tried to get a company planning program installed without seeing much result. Over this time she had consecutively appointed three vice presidents in charge of planning and, although each had seemed to work hard at the job, she noticed that individual department heads kept going their own ways. They made decisions on problems as the came up, and they prided themselves on doing an effective job of "fighting fires".

But the company seemed to be drifting, and individual decisions of department heads did not always tally with each other. The executive in charge of regulatory matters was always pressing state commissions to allow higher electric rates without having very much luck, since the commissions felt that costs, although rising, were not justified. The head of public relations was constantly appealing to the public to understand the problems of electric utilities, but electric users in the various communities felt that the utility was making enough money and that the company should solve its problems without raising rates. The vice president in charge of operations, pressed by many communities to expand electric lines, to put all lines underground to get rid of unsightly poles and lines, and to give customers better services, felt that costs were secondary to keeping customers off his back.

Note: Submit your assignment to the Coordinator of the Study Center you are attached with.

When a consultant called in at the request of Ms. Quinn looked over the situation, he found that the company really was not planning very well. The vice president of planning and his staff were working hard, making studies and forecasts and submitting them to the president. There they stopped, since all the department heads looked on them as impractical paperwork that had no importance for their day-to-day operations.

***Questions*:**

(a) If you were the consultant, what steps would you suggest to get the company to plan effectively?

(b) What advice would you give the company as and how far in the future to plan?

(c) How would you suggest to the president that your recommendations be put into effect?

Note: Submit your assignment to the Coordinator of the Study Center you are attached with.

Assignment # 1

স্কুল অব বিজনেস

MBA 3314

Bangladesh Open University

MBA Program

Semester: 181 (3rd Level)

Course: Managerial Finance **Due on: May 26, 2019**

Instructions

- **Answer all the questions in your <u>own handwriting</u> on <u>A4 size white paper</u>.**
- **The assignment must be submitted on the assigned date to the Coordinator of the study center you are attached with.**
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Questions

1. (a) What is finance? What is managerial finance?
   (b) What are the key differences between sole proprietorships, partner-ships, and corporations? Which legal form of business organization is most common?
   (c) Why should a company concentrate primarily on wealth maximization instead of profit maximization? Discuss the reasons.

2. (a) Why are the notes to the financial statements important to professional securities analysts?
   (b) Describe the purpose of each of the four major financial statements.
   (c) What is financial leverage? What ratio can be used to measure the firm's degree of indebtedness?
   (d) Define and differentiate between return on total assets (ROA), return on equity (ROE), and earnings per share (EPS). Which measure is probably of greatest interest to owners? Why?

3. (a) (a) What is *capital budgeting? How* do capital expenditures relate to the capital budgeting process?
   (b) Describe each of the five steps involved in the capital budgeting process.
   (c) What are *sunk* costs? What are opportunity costs? What effect do each of these types of costs have on a project's incremental cash flows?
   (d) Bay sciences is planning to purchase a high powered microscopy machine for Tk.55,000 and incur an additional Tk.75,000 in installation expenses. It is replacing similar microscopy equipment that can be sold to net Tk.35,000, resulting in taxes from a gain on the sale of Tk.112,500. Because of this transaction, current assets will increase by Tk. 60,000 and current liabilities will increase by Tk.40,000.
   Calculate the initial investment in the high-powered microscopy machine.

4. (a) Define *risk* in terms of the cash inflows from a capital budgeting project? Explain how exchange rate risks and political risk are unique to multinational companies affect their capital budgeting decisions.
   (b) Do the net present value (NPV) and internal rate of return (IRR) always agree with respect to accept reject decisions? With respect to ranking decisions? Explain.

Note: Submit your assignment to the Coordinator of the Study Center you are attached with.

স্কুল অব বিজনেস

Bangladesh Open University

MBA Program

Semester: 181 (3rd Level)

Course: Managerial Finance **Due on: July 26, 2019**

(Answer all the questions in own handwriting on A4 size white pages)

1. (a) What is meant by the term leverage? Discuss the different types of leverage. Show how operating leverage, financial leverage, and total leverage are related to the income statement.
   (b) What are the two ways that firms can distribute cash to shareholders? Why do rapidly growing firms generally pay no dividends?

2. **Read the following case carefully and answer the questions that follow:**

<u>Relevant cash flows for a marketing campaign</u>

Marcus Tube, a manufacturer of high-quality aluminum tubing, has maintained stable sales and profits over the past 10 years. Although the market for aluminum tubing has been expanding by 3% per year, Marcus has been unsuccessful in sharing this growth. To increase its sales, the firm is considering an aggressive marketing campaign that centers on regularly running ads in all relevant trade journals and exhibiting products at all major regional and national trade shows. The campaign is expected to require an *annual* tax deductible expenditure of Tk.150,000 over the next 5 years. Sales revenue, as shown in the accompanying income statement for 2012, totaled Tk.20,000,000. If the proposed marketing campaign is not initiated, sales are expected to remain at this level in each of the next 5 years, 2013 through 2017.

Marcus Tube Income Statement For the year ended December 31, 2012		**Marcus Tube Sales forecast**	
Sales Revenue	Tk. 20,000,000	**Year**	**Sales Revenue**
Less: cost of goods sold (80%)	16,000,000	2013	Tk. 20,500,000
Gross profits	4,000,000	2014	21,000,000
Less: Operating expenses	2000,000	2015	21,500,000
Depreciation expense	500,000	2016	22,500,000
Total operating expense	2,500,000	2017	23,500,000
Earnings before interest and taxes	1,500,000		
Less: Taxes (40%)	600,000		
Net operating profit after tax	900,000		

With the marketing campaign, sales are expected to rise to the levels shown in the accompanying table for each of the next 5 years; cost of goods sold is expected to remain at 80% of sales; general and administrative expense (exclusive of any marketing campaign outlays) is expected to remain at 10% of sales; and annual depreciation expense is expected to remain at Tk.500,000. Assuming a 40% tax rate, find the **relevant cash flows** over the next 5 years associated with the proposed marketing campaign.

Note: Submit your assignment to the Coordinator of the Study Center you are attached with.

Assignment # 1

স্কুল অব বিজনেস

Bangladesh Open University

MBA Program

Semester: 181 (3rd Level)

MBA 3315

Course: Operations Management **Due on: May 31, 2019**

Instructions

- **Answer all the questions in your own handwriting on A4 size white paper.**
- **The assignment must be submitted on the assigned date to the Coordinator of the study center you are attached with.**
- **Spiral binding is strictly prohibited. Instead, transparent folder or file cover or any other soft binding may be used.**

Questions

1. (a) What do you understand by operations management? Explain the operations system.

   (b) Accomplishing an organization's goals requires that operations management accounts for the organization's industry strategy, operations policy and conversion process. How do these elements relate to one another? How they relate to accomplishing organizational goals? Justify.

2. (a) What do you mean by distinctive competencies? Explain the different types of distinctive competencies.

   (b) Suppose you are a production manager in a finished leather based goods industry. Earning of your company have been reduced this year. Your top level management asked you to find the reasons for incurring less profit and how to overcome such types of problems. How would you analyze the situation to make your recommendations?

3. (a) What is benchmarking? Describe the different types of benchmarking.

   (b) Tell the name of the functions to be benchmarked in the following companies: DHL, ACI, BRAC Dairy, Biman Bangladesh, DESCO.

Note: Submit your assignment to the Coordinator of the Study Center you are attached with.

Assignment # 2

স্কুল অব বিজনেস

MBA 3315

Bangladesh Open University

MBA Program

Semester: 181 (3rd Level)

Course: Operations Management **Due on: July 26, 2019**

(Answer the all questions in own handwriting on A4 size white pages)

1. (a) Discuss the different types of manufacturing processes. How will you match the manufacturing process with the product variety?
   (b) Explain the advantages at CAD and CAM.

2. (a) Discuss the new service development process.
   (b) **Read the following passage and answer the questions that follow:**

Long-term responses

Due to uncertain future demand and technologies long-term capacity requirements (5-10 years) are more difficult and risky to determine. With the fast technological developments it is difficult to say whether the existing products will continue at the period or not. Obviously, long-range capacity requirements are dependent on marketing plans, product development, and the life cycles of the products. It is important to anticipate the process technology also. Even if product remains unchanged, the method for generating them may change dramatically. Hence, capacity planning must involve forecasts of technology as well as demand.

Economics undergo both growth and recession. Organization today cannot be locked into thinking only about *expanding* the resource base; they must also consider optimal approaches to *contracting* it. Let's consider two examples of expansion and contraction. A warehousing operation foresees the need for an additional 100,000 square feet of space by the end of the next five years. One option is to add an additional 50,000 square feet now and another 50,000 square feet two years from now. Another option is to add entire 100,000 square feet now. Estimated costs for building the entire addition now are 50/square foot. If expanded incrementally, the initial 50,000 square feet will cost $60/ square foot. The 50,000 square feet to be added later are estimated at $ 80/square foot. The operations manager must consider the costs, benefits, and risks of each option. At a minimum, the lower construction cost plus excesses capacity costs of total construction now must be compared with higher costs of deferred construction.

Capacity contraction most often involves selling off existing facilities, equipment, and inventories, and firing employees. As serious decline in demand occurs, we may gradually terminate operations. Permanent capacity reduction or shutdown occurs as a last resort. Because a great deal of effort, capital, and human skills have gone into building up a technology. Often this technology and skill base is Transferable to other products or services.

Question:

(i) In the situition of economic growth what factors should the organization be considered in making decision about long range capacity requirements.

(ii) Under the above circumstances, what decision should the company be taken in adding capacity? Justify your opinion.

Note: Submit your assignment to the Coordinator of the Study Center you are attached with.