

Enterprise Systems

Exercise: identify the financial impacts of an investment in ERP system.

Summary of Projected Costs and Benefits

Cost of ERP software: \$10,000,000 (*depreciated over 10 years*)

Impact on sales: 10% increase

Impact on shipping costs: 10% increase

Impact on purchase and production costs: 5% increase

Impact on direct labor costs: 5% increase

Impact on accounting and legal costs: 50% decrease

Impact on salaries & wages: 20% decrease

Impact on payroll expenses: 35% decrease

Fill out the blank cells in the income statement on the following page to reflect the projected impact of the ERP system.

What is the final impact on net income for the company?

How is the cost of the ERP system reflected in the income statement?

Is the investment in the ERP system worthwhile?

INCOME		
	Actual 2017	Projected 2018 (ERP)
Sales		
Sales	83,675,000	
Total Sales	\$ 83,675,000	
Cost of Goods		
Beginning Inventory	12,000,000	
Purchases and Production Costs	20,329,000	
Shipping and Delivery	375,000	
Labor (wages and payroll)	8,750,000	
Less Ending Inventory	10,000,000	
Total Cost of Goods Sold	\$ 31,454,000	
Gross Profit	\$ 52,221,000	
Non-Operating Income		
Interest Income	480,000	
Rental Income	272,000	
Other	372,000	
Total Non-Operating Income	\$ 1,124,000	
Total INCOME	\$ 53,345,000	
EXPENSES		
Operating Expenses		
Accounting and Legal	1,200,000	
Advertising	450,000	
Depreciation	4,000,000	
Insurance	280,000	
Interest Expense	425,000	
Maintenance and Repairs	685,000	
Office Supplies	36,000	
Payroll Expenses	92,000	
Rent	500,000	
Research and Development	400,000	
Salaries and Wages	2,400,000	
Travel	90,000	
Utilities	90,000	
Web Hosting and Domains	6,500	
Total Operating Expenses	\$ 10,654,500	
Non-Recurring Expenses		
Furniture, Equipment and Software	25,000	
Gifts Given	13,000	
Other	12,000	
Total Non-Recurring Expenses	\$ 50,000	
Total EXPENSES	\$ 10,704,500	
Net Income Before Taxes	\$ 42,640,500	
Income Tax Expense	7,675,290	
NET INCOME	\$ 34,965,210	
Owner Distributions / Dividends		
Adjustment to Retained Earnings	\$ 34,965,210	