

B&B Manufacturing Co.
Income Statement
For the month ended June 2014

Sales			\$279,000
Less:			
Raw materials purchased		\$ 19,000	
Direct labor		\$ 84,000	
Indirect labor		\$ 15,000	
Utilities		\$ 18,000	
Depreciation		\$ 21,000	
Insurance		\$ 15,000	
Rent		\$ 3,000	
Selling and Administrative		\$ 48,000	
Advertising		\$ 15,500	
Total expenses			238,500
Net loss			40,500
Other information			
Inventory		June 1 Balance	June 30 Balance
Raw materials		\$ 14,000	\$32,000
Work in process		\$ 17,500	22,000
Finished Goods		\$ 28,000	54,000

80 percent of utilities, depreciation, insurance, and rent are related to production operations, whereas 20 percent of those costs are related to selling and administrative activities.

B&B Manufacturing
Income Statement
For the Month Ended June 30

Sales	\$	279,000
Less: Cost of goods sold	\$	115,100
Gross margin	\$	163,900
Less: Operating expenses	\$	74,900
Net Operating Income	\$	89,000

B&B Manufacturing
Statement of Cost of Goods Sold
For the Month Ended June 30

Beginning finished-goods inventory	\$	28,000
Add: Cost of goods manufacture	\$	141,100
Deduct: Ending finished-goods inventory	\$	(54,000)
Cost of goods sold	\$	115,100

2 Selling and administrative expenses:

Utilities	\$	3,600
Depreciation	\$	4,200
Insurance	\$	3,000
Rent	\$	600
Other selling, general and adminis	\$	48,000
Advertising	\$	15,500
Total selling and administrativ	\$	74,900

B&B Manufacturing
Statement of Cost of Goods Manufactured
For the Month Ended June 30

Beginning inventory of work i	\$	17,500
Plus: Raw materials used in proc	\$	1,000
Plus: Direct labor	\$	84,000
Plus: Manufacturing overhead	\$	60,600
Less: Ending work in process	\$	(22,000)
Cost of goods manufactured	\$	141,100
Raw materials used in production:		
Beginning inventory of raw ma	\$	14,000
Plus: Raw material purchased	\$	19,000
Raw material available for use	\$	33,000
Less: Ending inventory of raw mat	\$	(32,000)
Raw materials used in produc	\$	1,000
Manufacturing overhead:		
Indirect labor	\$	15,000
Utilities	\$	14,400
Depreciation	\$	16,800
Insurance	\$	12,000
Rent	\$	2,400
Total manufacturing overhead	\$	60,600

B.

No. The company is profitable. The investors should be willing to continue financing the company.

C.

The previous controller incorrectly expensed all manufacturing costs even though some of the costs should still be shown on the balance sheet as inventory. These costs will not appear on the income statement