2-1

The accounting function is the economic analysis function within a company. It is concerned with the dollar impact of past decisions. It is important to understand and account for these past decisions from management, operational, and legal perspectives. Accounting data relate to all manner of activities in the business.

2-8

1. Equity = Assets – Liabilities = ($930,000 + $320,000 − $108,000) – ($350,000 + $185,000)

= $607,000

1. Retained Earnings = Equity – (Stock + Capital Surplus) = $607,000 – $402,000

= $205,000

2-16

The two primary general accounting statements are the balance sheet and the income statement. The former gives a snapshot of the firm’s financial state at a particular time, while the income statement traces cashflows into and out of the firm over a year. Both serve useful functions.

2-17

6 days/week\* 52 weeks/year = 312 days/year in operation

$1000 profit/day\* 312 days/year = $312,000 profit/year

Revenues – expenses = $500,000 − 312,000 = $188,000

2-22

a) Plant and equipment = $15M + $3M = $18M

b) Accumulated depreciation = $8M + $2M = $10M

c) REend = REbegin + Net income or Loss + New Stock – Dividends

= $60M + [($51M + $35) – ($70M + $7M)] + 0 – 0 = $60M + $9M = $69M

2-23

**Direct costs** (increase in proportion to products produced):

Machine run costs

Material handling costs

Cost of materials

Overtime expenses

Cost of storage (possibly; if the company has a permanent warehouse, this could be an indirect cost)

**Indirect costs** (these don’t change as the volume of production changes)

Machine depreciation

Machine operator wages (assuming the operators are permanent staff)

Support staff salaries

Marketing costs

Insurance costs

Costs of sales force

Engineering drawings

Tooling and fixtures

2-25

* 1. Using direct-labour cost to allocate indirect cost:

|  |  |  |
| --- | --- | --- |
| **Cost Component** | **Amount—Standard** | **Amount—Deluxe** |
| Direct labour cost | $50,000.00 | $65,000.00 |
| Direct material cost | $35,000.00 | $47,500.00 |
| Indirect cost\*\* | $15,217.39 | $19,782.61 |
| Total cost | $100,217.39 | $139,282.61 |
|  | | |
| Units produced | 1,800 | 1,400 |
| Per unit cost (*A*) | $55.68 | $94.49 |
| Per unit selling price (*B*) | $60.00 | $95.00 |
| Net revenue per unit (*B*–*A*) | $4.32 | $0.51 |

\*\*For standard: $35,000 × $50,000/($50,000 + $65,000) = **$15,217.39**

For deluxe: $35,000 × $65,000/($50,000 + $65,000) = **$19,782.61**

* 1. Using direct-materials cost to allocate indirect cost:

|  |  |  |
| --- | --- | --- |
| **Cost Component** | **Amount—Standard** | **Amount—Deluxe** |
| Direct labour cost | $50,000.00 | $65,000.00 |
| Direct material cost | $35,000.00 | $47,500.00 |
| Indirect cost\*\* | $14,848.48 | $20,151.52 |
| Total cost | $99,848.48 | $132,651.52 |
|  | | |
| Units produced | 1,800 | 1,400 |
| Per unit cost (*A*) | $55.47 | $94.75 |
| Per unit selling price (*B*) | $60.00 | $95.00 |
| Net revenue per unit (*B*–*A*) | $4.53 | $0.25 |

\*\*For standard: $35,000 × $35,000/($35,000 + $47,500) = **$14,848.48**

For deluxe: $35,000 × $47,500/($35,000 + $47,500) = **$20,151.52**

2-27

**Operating Revenues and Expenses**

Revenue

Sales 30,000

Total 30,000

Expenses

Administrative 2,750

Cost of goods sold 18,000

Development 900

Selling 4,500

Total 26,150

Total operating income 3,850

**Non-Operating Revenues and Expenses**

Interest paid 200

Income before taxes 3,650

Taxes (@27%) 985.50

Net profit (loss) 2,664.50