**Redsmith Manufacturing Case Study**

Redsmith Manufacturing produces only a single product in its solo shop called the Grand Mar. Redsmith Manufacturing has been conducting business for 10 years and management has recently decided that they may want to consider adding more products to their line to keep up with the changing technology and competition. The management wants to consider adding additional products only if they feel they are producing at an efficient capacity. Redsmith recently hired a new cost accountant, Mark Windham. During the past several weeks, Mark has been observing the production efficiency, input prices and other variables and while everything seems consistent, it seemed as though output variables were varying and in considerable amounts. Redsmith has currently been operating at 400 units of output per week. Mark thought this would be a good time to do some cost analysis on the Grand Mar to consider its production and see whether or not it was being produced in the most efficient manner. Mark studied the production costs that were accumulated and accounted for and he discovered seven different groups, as listed below. He decided to conduct an additional study on whether it would be profitable for the company to start producing more.

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | ***Units of Output*** | ***Direct Materials*** | ***Direct Labor*** | ***Indirect Labor*** | ***Indirect Materials*** | ***Utilities*** | ***Insurance*** | | ***Other Overhead*** |
| *Week 1* | 400 | 300 | 500 | 180 | 300 | 115 | | 125 | 310 |
| *Week 2* | 500 | 375 | 625 | 200 | 300 | 125 | | 125 | 360 |
| *Week 3* | 600 | 450 | 750 | 220 | 300 | 135 | | 125 | 410 |

Mark Windham believed that based on the data for the three weeks’ production costs, it might be possible to identify other fixed costs, variable costs, and semivariable costs. He also wanted to develop some equations to show management what might be useful for future management decision-making. When Mark was discussing some of his findings with top management he discovered that Redsmith Manufacturing was receiving typical orders where the selling price of the Grand Mar was around $8.00. He also discovered that there were fixed costs from office supplies that were around $675. Additional costs per unit were discovered and for each of the three weeks and they were as follows:

|  |  |
| --- | --- |
|  | ***Add. Costs***  ***per unit***  ***(Commission)*** |
| *Week 1* | $280 |
| *Week 2* | $310 |
| *Week 3* | $350 |

Management of Redsmith Manufacturing has recently been concerned that they are not making enough profit and will have to close the shop. They have hired Mark Windham to run the analysis and provide crucial feedback as to how the company is doing financially and whether they are hitting their targets. Management receives compensation dependent upon whether the company hits their target marks in profit and in their costs. Their decisions to add additional products to their line will depend solely upon Windham’s answers and his full analysis as to whether the company could be operating more efficiently or whether they currently are operating at efficient capacity.

**Required:**

1. Prepare a simple income statement for each of the three weeks that Mark Windham will use to present his findings to management. What conclusions can you draw right away from the income statement and how would you describe it to someone who knew nothing about financial statements?
2. Analyze their cost of goods sold to find their cost of goods sold per unit sold in each of the three weeks. What factors could attribute to rising or lowering cost of goods sold?
3. How much profit does the company receive per unit sold if they sell 500 units? Management receives compensation based on week two’s profit per unit at $1.90. Will they receive this compensation? Why or why not?
4. Give an overview on how you think the company is doing financially and in what areas could they improve? Be specific.