Herrestad Company does produce and sell two products and the details below will be used to prepare a segmented income statement (showing the income for each product and the total) for the company. Use ABC to allocate all fixed costs to the two products.

|  |  |  |  |
| --- | --- | --- | --- |
|   |   |   |   |
| Background information |   |   |   |
|   | Total | Prod A | Prod B |
| Beginning inventory | 0 |   |   |
| Units produced | 10,000 | 2,500 | 7,500 |
| Units sold | 8,000 | 2,000 | 6,000 |
|   |   |   |   |
| **Selling price per unit** | $255 | 480 | 180 |
| **Variable costs per unit** |   |   |   |
| Direct material | 100 | 280 | 40 |
| Direct labor | 60 | 60 | 60 |
| Variable overhead | 25 | 40 | 20 |
| Variable selling and admin. exp. | 10 | 13 | 9 |
|   |   |   |   |
| **Fixed costs** |   |   |   |
| Fixed manufacturing overhead | 200,000 |   |   |
| Fixed selling and administrative | 100,000 |   |   |
|   |   |   |   |
|   |   |   |   |
| Production runs (not $) | 100 | 65 | 35 |
| Number of sales reps (not $) | 25 | 15 | 10 |

Here are the first few lines of the segmented income statement to help you get started. Complete the statement in good format and make sure you allocate the fixed costs to the two products. When done, comment on the information and the relative profitability of the two products.

|  |
| --- |
| Herrestad Company |
| Segmented Income Statement |
| For the period ending Dec. 31, 2011 |
|   | A | B | Total |
| Sales | $960,000 | $1,080,000 | $2,040,000 |
| Variable costs: |   |   |   |
| Direct material | 560,000 | 240,000 | 800,000 |
|   |   |   |   |