



PROBLEM 2-20 Classification of Salary Cost as a Period or Product Cost [LO2]
 You have just been hired by Edukrom Company, which was organized on January 2 of the current year. The company manufactures and sells a variety of educational DVDs for personal computers. It is your responsibility to supervise the employees who take orders from customers over the phone and to arrange for shipping orders via Federal Express, UPS, and other freight carriers.

- Required:
1. Prepare a schedule of cost of goods manufactured.
 2. Prepare an income statement.
 3. Assume that the company produced the equivalent of 10,000 units of product during the year. What was the average cost per unit for direct materials? What was the average cost per unit for factory depreciation?
 4. Assume that the company expects to produce 15,000 units of product during the coming year. What average cost per unit and what total cost would you expect the company to incur for direct materials at this level of activity? For factory depreciation? (In preparing your answer, assume that direct materials is a variable cost and that depreciation is a fixed cost; also assume that depreciation is computed on a straight-line basis.)
 5. As the manager responsible for production costs, explain to the president any difference in the average costs per unit between (3) and (4) above.

Account	Amount
1 Purchases of raw materials	\$90,000
2 Raw materials inventory, beginning	\$10,000
3 Raw materials inventory, ending	\$17,000
4 Depreciation, factory	\$42,000
5 Insurance, factory	\$5,000
6 Direct labor	\$60,000
7 Maintenance, factory	\$30,000
8 Administrative expenses	\$70,000
9 Sales	\$450,000
10 Utilities, factory	\$27,000
11 Supplies, factory	\$1,000
12 Selling expenses	\$60,000
13 Indirect labor	\$65,000
14 Work in process inventory, beginning	\$7,000
15 Work in process inventory, ending	\$30,000
16 Finished goods inventory, beginning	\$10,000
17 Finished goods inventory, ending	\$40,000

PROBLEM 2-19 Schedule of Cost of Goods Manufactured; Income Statement; Cost Behavior [LO1, LO2, LO3, LO4, LO5]
 Various cost and sales data for Medco, Inc., are given below for the just completed year:

3. Prepare a written evaluation to accompany the reports you have prepared in (1) and (2) above. This evaluation should discuss the distribution of quality costs in the company, changes in the distribution over the last year, and any other information you believe would be useful to management.

Cost Terms, Concepts, and Classifications

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Excel

