Problem 1-19A

Loss for the month of August = $12,000
a. 60% of utilities applies to factory operations ➔ 60% x $15,000 = $9,000 is manufacturing overhead; 40% x $15,000 = $6,000 is selling and administrative expense.

75% of insurance applies to factory operations ➔ 75% x $4,000 = $3,000 is manufacturing overhead; 25% x $4,000 = $1,000 is selling and administrative expense.

b. Beginning raw materials = $8,000; ending raw materials = $13,000
Beginning work in process = $16,000; ending work in process = $21,000
Beginning finished goods = $40,000; ending finished goods = $60,000
c. 80% of the rent applies to factory operations ➔ 80% x $50,000 = $40,000 is manufacturing overhead; 20% x $50,000 = $10,000 is selling and administrative expense.

Problem 1-19A (part 1)

Swift Company
Schedule of Cost of Goods Manufactured

Direct Materials:
- Beginning raw materials inventory $ 8,000
- Add: Raw materials purchases 165,000
- Raw materials available for use $173,000
- Deduct: Raw materials inventory, ending 13,000
- Raw materials used in production $160,000

Direct Labor 70,000

Manufacturing Overhead:
- Indirect labor $ 12,000
- Utilities (60% x $15,000) 9,000
- Depreciation, factory equipment 21,000
- Insurance (75% x $4,000) 3,000
- Rent on facilities (80% x $50,000) 40,000 85,000

Total Manufacturing Costs $315,000

Add: Beginning work in process 16,000 $331,000

Deduct: Ending work in process 21,000

Cost of goods manufactured $310,000
Problem 1-19A (part 2)

Swift Company
Income Statement
For the Month Ended August 31

Sales $450,000

Cost of goods sold:
  - Beginning finished goods inventory $ 40,000
  - Add: Cost of goods manufactured 310,000
  - Goods available for sale $350,000
  - Deduct: Ending finished goods inventory 60,000
  - Goods sold $290,000

Gross margin $160,000

Selling and administrative expenses:
  - Utilities (40% x $15,000) $ 6,000
  - Depreciation, sales equipment 18,000
  - Insurance (25% x $4,000) 1,000
  - Rent on facilities (20% x $50,000) 10,000
  - Selling and administrative salaries 32,000
  - Advertising 75,000

Net operating income $ 18,000

Problem 1-19A (part 3)

I would not recommend that the company look for a buyer. The reason is that the properly prepared income statement shows a net operating income of $18,000 as compared to the net operating loss of $12,000 as shown in the income statement prepared by Sam. The reason for the difference is twofold. First, Sam failed to distinguish between the product costs and period costs. Second, Sam did not take into account the changes in the inventories between the beginning of the month and the end of the month. The raw materials inventory increased by $5,000; the work in process inventory increased by $5,000; and the finished goods inventory increased by $10,000. The total increase in inventory, then is $30,000, which is the difference between the reported loss of $12,000, and the correct income of $18,000.