

Demonstration Problems for Chapter 1

Demonstration Problem 1-1 Identifying Product Costs



Eiffel Manufacturing Company makes small replicas of major landmarks that it sells to souvenir shops. The company was started on January 1, 2014, when it acquired \$60,000 cash from the issue of common stock. During 2014, the company purchased and used raw materials that cost \$16,000 cash. It paid wages of \$22,000 cash to the workers who made the replicas. Finally, manufacturing overhead costs, including rental fees paid for facilities and equipment, amounted to \$12,000 cash. The company started and completed the production of 1,000 replicas during 2014.

Required

- Determine the amount of expense Eiffel incurred in 2014, assuming none of the replicas was sold in 2014.
- Record the accounting events associated with making the 1,000 replicas in a financial statements model like the one shown below. The event pertaining to the issue of common stock is recorded in the model as an example.

Events	Assets		=	Equity		Rev.	-	Exp.	=	Net Inc.
	Cash	+	Inv.	=	Com. Stk.					
1	60,000	+		=	60,000	+			=	

- Determine the cost per unit of the 1,000 replicas. Determine the sales price per unit assuming the products are sold for cost plus 40% of cost.
- Record the sale of 800 replicas.
- Record the payment of a \$4,000 sales commission to the salesperson who sold the replicas.

Demonstration Problem 1-2 Effect of Product and Period Costs

Klyn Manufacturing Company experienced the following accounting events during its first year of operation. Except for the depreciation adjusting entries, all transactions are cash transactions.

1. Acquired \$50,000 cash from the issue of common stock.
2. Paid \$6,800 for the materials that were used to make its products. All products started were completed during the period.
3. Paid salaries of \$4,300 to selling and administrative employees.
4. Paid wages of \$7,200 to production workers.
5. On January 1, paid \$9,000 to buy furniture used in selling and administrative offices.
6. Recorded annual depreciation on the furniture referred to in Event 5. The furniture had a \$1,000 estimated salvage value and a 5-year useful life.
7. On January 1, paid \$23,000 to buy manufacturing equipment.
8. Recorded annual depreciation on the equipment referred to in Event 7. It had a \$3,000 estimated salvage value and a 4-year useful life.
9. Completed 4,000 units of product. Determine the cost per unit and the sales price per unit assuming the sales price is cost plus 60% of cost. Record the sale of 3,000 units of product.
10. Code the recognition of cost of goods sold for the units sold in Event 9.

Required

Show how these events would affect the balance sheet and income statement by recording them in a horizontal financial statements model like the one shown below. The first event is recorded as an example.

Horizontal Statements Model

Event No.	Assets			=	Equity		Rev. - Exp. = Net Inc.
	Cash +	Office Furn.*	Manuf. + Equip. + * Inv.	=	Com. Stk.	Ret. + Ear.	
1	50,000			=	50,000		