SOLUTIONS TO DEMONSTRATION PROBLEMS

Demonstration Problem 1-1 Solution

a. The amount of expense is zero. All of the costs are product costs. Since no inventory was sold in 2014 all of the costs would still be in the finished goods inventory account.

b. d. e. Horizontal Statements Model

	Assets			=	Equity								
Events	Cash	+	Inv.	=	Com. Stk.	+	Ret. Ear.	Rev.	–	Exp.	=	Net Inc.
1	60,000	+		=	60,000	+			–		=	
2	(16,000)	+	16,000	=		+			–		=	
3	(22,000)	+	22,000	=		+			–		=	
4	(12,000)	+	12,000	=		+			–		=	
5	56,000	+		=		+	56,000	56,000	–		=	56,000
6		+	(40,000)	=		+	(40,000)		–	40,000	=	(40,000)
7	(4,000)	+		=		+	(4,000)		–	4,000	=	(4,000)
Totals	62,000	+	10,000	=	60,000	+	12,000	56,000	–	44,000	=	12,000

(5) Sales Revenue ($70 x 800 units = $56,000)
(6) Cost of Goods Sold ($50 x 800 units = $40,000)

c. Product costs ($16,000 + $22,000 + $12,000) ÷ 1,000 units = $50 per unit.
Sales Price [$50 + ($50 x .4)] = $70

Demonstration Problem 1-2 Solution

Horizontal Statements Model

Event No.	*Assets*					=	*Equity*							
	Cash	+	Office Furn.*	+ Manuf. Equip.*	Inv.	=	Com. Stk.	+ Ret. Ear.		Rev.	– Exp.	= Net Inc.	
1	50,000	+	+	+		=	50,000	+			–	=	
2	(6,800)	+	+	+	6,800	=	+			–	=	
3	(4,300)	+	+	+	=		+	(4,300)		–	4,300	=	(4,300)
4	(7,200)	+	+	+	7,200	=	+			–	=	
5	(9,000)	+	9,000	+	+	=	+			–	=	
6	+		(1,600)	+	+	=	+	(1,600)		–	1,600	=	(1,600)
7	(23,000)	+	+	23,000	+	=	+			–	=	
8	+		+	(5,000)	+ 5,000	=	+			–	=	
9	22,800	+	+	+	=		+	22,800		22,800	–	=	22,800
10	+		+	+	(14,250)	=	+	(14,250)		–	14,250	=	(14,250)
Totals	22,500	+	7,400	+ 18,000	+ 4,750	=	50,000	+ 2,650		22,800	– 20,150	=	2,650

The cost per unit is $4.75 [($6,800 + $7,200 + $5,000) ÷ 4,000 units].

Cost of goods sold is $14,250 ($4.75 x 3,000 units).

The sales price per unit is $7.60 [$4.75 + (.6 x $4.75)].

Sales revenue is $22,800 ($7.60 x 3,000 units).