

Attached are the '93 and '94 financial statements, and '95 actual results of Ken Harper Gourmet Yeast Company. These statements have not been audited. However we do believe that they represent fairly, without material errors an accurate portrait of the company. Comments from management are also included for your consideration and review.

You may share your findings with other Assistants, but remember to turn in original work only.

And have fun, Accounting is fun and exciting stuff.

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Dave Campbell, CFO and Investor

25-Jan-95

Attached are the following documents:

Balance Sheet '93 - '94

Income Statement '93 - '94 (Traditional Format)

Stockholders' Equity '93 - '94

Income Statement '94 (C/M Format)

Cost-Volume-Profit Analysis '94

Variance Analysis '94 (Lazy E Format)

Static Budget vs. Actual Analysis '94

Flexible Budget vs. Actual Analysis '94

**Ken Harper's Gourmet Yeast Company's
Financial Statements (Unaudited)
Balance Sheet**




	<u>1993</u>	<u>1994</u>	Your review notes		
	(7 mos)				
Current Assets:					
Cash	\$ 122,845	\$ 10,500			
Accounts Receivable	250	24,000	Assuming no bad debts.		
Inventories					
Raw Materials	0				
(5,700 lbs. @ \$2.00)		11,400			
Work-in-progress	0	0	All units transferred to finish goods at		
Finish Goods	0		year-end		
(500 units @ \$7.81)	3,905				
(1,500 units @ \$8.25)		12,375			
Sub-total	3,905	23,775			
Total Current Assets	127,000	58,275			
Plant and Equipment:			For the most part, given for stock		
Factory Equipment	95,000	98,350			
Office Equipment	22,250	32,155			
Sub-total	117,250	130,505			
Less: Accumulated Depreciation	-	(6,180)			
Net, Plant and Equipment	117,250	124,325			
Total Assets	\$ 244,250	\$ 182,600			
Liabilities and Stockholders Equity					
Accounts Payable	\$ 16,155	\$ 4,625			
Income Taxes Payable (40% of taxable income)	0	0			
Long-term Debt	0	0			
Stockholders Equity	\$ 228,095	177,975			
Total Liabilities and Stockholders Equity	244,250	\$ 182,600			
Finish Goods Recap					
'93 Produced	1,500				
'93 Sold	1,000				
'93 Ending Inventory		500			
'94 Produced	15,000				
'94 Sold	14,000				
		1,000			
'94 Ending Inventory		1,500			

**Ken Harper's Gourmet Yeast Company's
Financial Statements (Unaudited)
Income Statement**



	1993	1994	Your review notes	
Income Statement				
	(7 mos)			
Units Produced	1,500	15,000		
Units Sold	1,000	14,000		
Unit Sales Price	\$ 8.00	\$ 10.00	Average sales price	
Sales Revenue	\$ 8,000	\$ 140,000		
Cost of Goods Sold	7,455	109,340	Actual costs to produced Standard '94 X 14,000 units sold = \$109,340	
Variances	0	(42,880)	See below for calculation	
Net, Cost of Goods Sold	7,455	152,220		
Gross Profit (Loss)	\$ 545	\$ (12,220)		Standards introduced in '94
Operating Expenses such as Selling and Administrative	2,450	37,900	See below for calculation	
Operating Income (Loss)	\$ (1,905)	\$ (50,120)		
Income Taxes	0	0		
Net Income	\$ (1,905)	\$ (50,120)		
Variances: (Unfavorable)				
Material Price		(5,640)		
Material Quantity		(8,100)		
Direct Labor Rate		775		
Direct Labor Efficiency		(1,275)		
Variable Spending		775		
Variable OH Efficiency		(525)	Total cost for one unit '95	\$ 8.25
Fixed OH Budget		(12,400)	Total cost for one unit '94	7.81
Fixed OH Volume		(17,150)	Change	0.44
		(43,540)	94 Ending inventory in units	1,500
Write-up of Ending Inventory		660		\$ 660
		(42,880)		
Cost of Goods Sold				
93 Actual costs to produce the product				
'94 Standard costing was used				
<u>Standards for '94</u>				
	<u>Item</u>	<u>Quantity</u>	<u>Cost \$</u>	<u>Per Unit</u>
	DM	1.2 lbs.	1.80	2.16
	DL	.5 dh	5.10	2.55
	VOH	.5 dh	2.10	1.05
	FOH	.5 dh	4.10	2.05
				7.81
<u>Standards for '95</u>				
	<u>Item</u>	<u>Quantity</u>	<u>Cost \$</u>	<u>Per Unit</u>
	DM	1.5 lbs.	2.00	3.00
	DL	.5 dh	5.00	2.50
	VOH	.5 dh	1.50	0.75
	FOH	.5 dh	4.00	2.00
				8.25
For reference only... You will be asked to calculate these stds later...				
Operating Expenses				
	Variable Selling		11,900	\$11,900 / 14,000 units sold = .85 per unit
	Fixed Selling		26,000	\$6,500 per month X 4 = \$26,000
	Total Expenses		37,900	

Ken Harper's Gourmet Yeast Company's Financial Statements (Unaudited)					
Income Statement & Stockholders' Equity					
			Notes		
	1993 (7 mos)	1994			
<u>Stockholders' Equity</u>					
Common Stock (\$0 par value & 1,000,000 Authorized)	\$ 230,000	\$ 230,000			
Beginning Retained Earnings	0	(1,905)			
Net Income (Loss)	\$ (1,905)	\$ (50,120)			
Ending Retained Earnings	(1,905)	(52,025)			
Total Stockholders' Equity	228,095	177,975			

**Ken Harper's Gourmet Yeast Company's
Financial Statements (Unaudited)
1994 Contribution Margin Income Statement**



	Total (14,000 units)	Per Unit	%	
Sales	\$ 140,000	\$ 10.00	100%	Always 100%
Variable Costs:				
Direct Materials	30,240	2.16	21.6%	Remember you could have a rounding problem occur in various calculations.
Direct Labor	35,700	2.55	25.5%	
Variable Overhead	14,700	1.05	10.5%	
Variable Selling	11,900	0.85	8.5%	
Total Variable Costs	92,540	6.61	66.1%	
Contribution Margin	47,460	\$ 3.39	33.9%	
Fixed Costs:				
Fixed Overhead	60,300	Includes \$29,550 of variances		
Fixed Selling	26,000			
Total Fixed	86,300			
Variances	13,330	In a perfect world would not exist		
Fixed OH	(2,050)	<u>\$2.05 for 1,000 units in ending inventory</u>		
Net Loss	(50,120)	Agrees with traditional income statement		
Total variances	42,880			
Less FOH Variance	29,550			Standard for FOH
Adjusted Variances	13,330			
Remember the dangers of building inventory. The higher the inventory the higher the profit				

**Ken Harper's Gourmet Yeast Company's
Financial Statements (Unaudited)
1994 Contribution Margin Income Statement**



Analysis

Cost Structure

A 34% C/M means that if sales drop \$1.00 we will drop \$0.34 in profits.
Since fixed costs are so high, we have to be concerned.

B-E-P (Break-even-point)

$$\frac{\text{Fixed Costs} + \text{Desired Profit}}{C/M} = \text{BEP}$$

$$\frac{\$86,300 + 0}{\$3.39} = 25,458 \text{ units}$$

25,458 X \$10.00 =

$$\frac{\$86,300 + 0}{33.9\%} = \$254,573 \text{ Sales}$$

\$254,573 / \$10.00 =

WATCH FOR
ROUNDING
ERRORS

PROOF

Sales	\$ 254,580		
Variable Costs	168,277		\$10.00 X 25,458
C/M	86,303		\$ 6.61 X 25,458
Fixed Costs	86,300		\$ 3.39 X 25,458
Rounding Error	3		

Margin of Safety

Since we don't have a profit we there cannot be a margin of safety.

$$\frac{\text{Actual Sales} - \text{BEP in Sales}}{\text{Margin of Safety}}$$

**Ken Harper's Gourmet Yeast Company's
Financial Statements (Unaudited)
Variance Analysis for '94**



DM	28,200 X 2.00 56,400	28,200 X 1.80 50,760	(Note: 28,200 - 22,500 = 5,700)
	5640 (u)		
	22,500 X 1.80 40,500	(15,000 X 1.2) 1.80 18,000 X 1.80 32,400	
	8,100 (u)		

DL	7,750 X 5 38,750	7,750 X 5.10 39,525	(15,000 X .5) 5.10 7,500 X 5.10 38,250
	775 (f)		1,275 (u)
	500 (u)		

Happens to be the same amount.

VOH	15,500	7,750 X 2.10 16,275	Applied (15000 X .5) 2.10 7,500 X 2.10 15,750
	775 (f)		525 (u)
	250 (f)		

FOH	Actual 60,300	Flexible 47,900	Applied (15,000 X .5) 4.10 7,500 X 4.10 30,750
	12,400 (u)		17,150 (u)
	29,550 (u)		

Sales Analysis for "94

A# X A\$	A# X P\$	P\$ X P#
14,000 X 10 140,000	14,000 X 12 168,000	15,500 X 12 186,000
Sales Price 28,000 (u)	Sales Volume 18,000 (u)	
46,000 (u)		

Note: Not recored -- for analysis purpose only!

**Ken Harper's Gourmet Yeast Company's
Financial Statements (Unaudited)
Static Budget vs Actual**



	<u>Static Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Your review notes</u>
<u>Income Statement</u>				
Units Produced	15,500	15,000	500	
Units Sold	15,500	14,000	1,500	
Unit Sales Price	\$ 12.00	\$ 10.00	\$ 2.00	
Sales Revenue	\$ 186,000	\$ 140,000	\$ 46,000	Unfavorable variance? NO! 15,500 X \$7.81
Cost of Goods Sold	121,055	109,340	11,715	Favorable variance?
Variances	0	(42,880)	42,880	
Net, Cost of Goods Sold	121,055	152,220	(31,165)	
Gross Profit (Loss)	\$ 64,945	\$ (12,220)	77,165	
Operating Expenses such as Selling and Administrative	39,175	37,900	1,275	Cost formula: $y = a + bx$ $y = \$26,000 + \$.85(15,500)$ IMPORTANT CONCEPT
Operating Income (Loss)	\$ 25,770	\$ (50,120)	\$ 75,890	
Income Taxes	10,308	0	10,308	40% tax rate
Net Income	\$ 15,462	\$ (50,120)	\$ 65,582	
<p align="center">Important Concept !! Question: Are these variance favorable or not? Answer; You don't know because of the production volume difference. Better Choice: Use the flexible budget... The production volume are the same.....</p>				

**Ken Harper's Gourmet Yeast Company's
Financial Statements (Unaudited)**



Flexible Budget

	1994			Your review notes
	Flexible	Actual	Variance	
Income Statement				
Units Produced	15,000	15,000	Not App	
Units Sold	15,500	14,000	(1,500)	
Unit Sales Price	\$ 12.00	\$ 10.00	\$ (2.00)	
Sales Revenue	\$ 186,000	\$ 140,000	(46,000)	See sales variance analysis:
Cost of Goods Sold				
Direct Materials (Purchase)	50,760	56,400	(5,640)	Based upon purchases Buy one & use another
Direct Materials (Usage)	32,400	40,500	(8,100)	Actual used not purchased
Direct Labor	38,250	38,750	(500)	
Variable Overhead	15,750	15,500	250	
Fixed Overhead	30,750	60,300	(29,550)	
	117,150	160,690	(43,540)	
Write-up of Inventories '94 Std	0	660	660	15,000 * \$7.81 = \$117,150
Ending Inventory Build at Std	7,810	7,810		1,000 * \$7.81 = \$7,810
Total COGS	109,340	152,220		
Gross Profit (Loss)	\$ 76,660	\$ (12,220)	\$ (88,880)	(46,000) + (42880) = (88,880)
Operating Expenses such as Selling and Administrative	39,175	37,900	(1,275)	Only selling is included to make the case more understandable See analysis below
Operating Income (Loss)	\$ 37,485	\$ (50,120)	(87,605)	
Income Taxes (40%)	14,994	0	14,994	
Net Income	\$ 22,491	\$ (50,120)	(72,611)	
Variiances: (Unfavorable)				
Material Price		(5,640)		
Material Quantity		(8,100)		
Direct Labor Rate		775		
Direct Labor Efficiency		(1,275)		
Variable Spending		775		
Variable OH Efficiency		(525)		Total cost for one unit '95 8.25
Fixed OH Budget		(12,400)		Total cost for one unit '94 7.81
Fixed OH Volume		(17,150)		Change 0.44
		(43,540)		94 Ending inventory in units 1,500
Write-up of Ending Inventory to '94 Stc		660		660
		(42,880)		

Standard Costs for '94						
Item	Quantity	Cost \$	Per Unit	# Produced	Std Cost	
DM	1.2 lbs.	1.80	2.16	15,000	32,400	
DL	.5 dh	5.10	2.55	15,000	38,250	
VOH	.5 dh	2.10	1.05	15,000	15,750	
FOH	.5 dh	4.10	2.05	15,000	30,750	
			7.81	15,000	117,150	
			Std Cost for Units Sold			
	Per Unit	#Sold	Sold	Std Cost	Difference	
DM	2.16	14,000	30,240	32,400	2,160	
DL	2.55	14,000	35,700	38,250	2,550	
VOH	1.05	14,000	14,700	15,750	1,050	
FOH	2.05	14,000	28,700	30,750	2,050	
	7.81	14,000	109,340	117,150	7,810	
Operating Expenses						
Variable Selling						
Planned sales X \$.85	13,175					
Fixed Selling						
\$6,500 X 4 quarters	26,000	Fixed is fixed because it is fixed				
	39,175					
	14,000 X .85		14,000 X .85		15,500 X .85	
Analysis of variable selling	\$ 11,900		\$ 11,900		13,175	
			<u>Spending</u>		<u>Volume/Efficiency</u>	
			\$0		1275	
			1275			
			The variance is due to lower sales volume			
		Actual		Flexible		Planned
Analysis of Fixed Selling	\$ 26,000		\$ 26,000		\$6,500 X 4 qtrs	
					\$ 26,000	
			<u>Budgeted</u>		<u>Volume</u>	
			\$0		0	
			0			

You can use the Lazy E concept to analyze almost any variable cost.

You can use the fixed Lazy E concept to analyze fixed costs...

**Ken Harper's Gourmet Yeast Company's
Financial Statements (Unaudited)**



Flexible Budget

	1994			Your review notes
	Flexible	Actual	Variance	
Income Statement				
Units Produced	15,000	15,000	Not App	
Units Sold	15,500	14,000	(1,500)	
Unit Sales Price	\$ 12.00	\$ 10.00	\$ (2.00)	
Sales Revenue	\$ 186,000	\$ 140,000	(46,000)	See sales variance analysis:
Cost of Goods Sold				
Direct Materials (Purchase)	50,760	56,400	(5,640)	Based upon purchases Buy one & use another
Direct Materials (Usage)	32,400	40,500	(8,100)	Actual used not purchased
Direct Labor	38,250	38,750	(500)	
Variable Overhead	15,750	15,500	250	
Fixed Overhead	30,750	60,300	(29,550)	
	117,150	160,690	(43,540)	
Write-up of Inventories '94 Std	0	660	660	15,000 * \$7.81 = \$117,150
Ending Inventory Build at Std	7,810	7,810		1,000 * \$7.81 = \$7,810
Total COGS	109,340	152,220		
Gross Profit (Loss)	\$ 76,660	\$ (12,220)	\$ (88,880)	(46,000) + (42880) = (88,880)
Operating Expenses such as Selling and Administrative	39,175	37,900	(1,275)	Only selling is included to make the case more understandable See analysis below
Operating Income (Loss)	\$ 37,485	\$ (50,120)	(87,605)	
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Fixed OH Budget		(12,400)		Total cost for one unit '94 7.81
Fixed OH Volume		(17,150)		Change 0.44
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DL	.5 dh	5.10	2.55	15,000	38,250	
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FOH	.5 dh	4.10	2.05	15,000	30,750	
			7.81	15,000	117,150	
			Std Cost for Units Sold			
	Per Unit	#Sold	Sold	Std Cost	Difference	
DM	2.16	14,000	30,240	32,400	2,160	
DL	2.55	14,000	35,700	38,250	2,550	
VOH	1.05	14,000	14,700	15,750	1,050	
FOH	2.05	14,000	28,700	30,750	2,050	
	7.81	14,000	109,340	117,150	7,810	
Operating Expenses						
Variable Selling						
Planned sales X \$.85	13,175					
Fixed Selling						
\$6,500 X 4 quarters	26,000	Fixed is fixed because it is fixed				
	39,175					
	14,000 X .85		14,000 X .85		15,500 X .85	
Analysis of variable selling	\$ 11,900		\$ 11,900		13,175	
			<u>Spending</u>		<u>Volume/Efficiency</u>	
			\$0		1275	
			1275			
			The variance is due to lower sales volume			
		Actual		Flexible		Planned
Analysis of Fixed Selling	\$ 26,000		\$ 26,000		\$6,500 X 4 qtrs	
					\$ 26,000	
			<u>Budgeted</u>		<u>Volume</u>	
			\$0		0	
			0			

You can use the Lazy E concept to analyze almost any variable cost.

You can use the fixed Lazy E concept to analyze fixed costs...