Online Course Manual

By Craig Pence

Module 1

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Module 1 Summary

I. Managerial Accounting Defined

A. Managers are responsible for ***planning, directing and controlling*** an organization's activities. Managers must also create an environment in which employees can work effectively together. The carrying out of the management functions requires the making of decisions, and decisions must be based on information.

B. ***Management accounting*** is concerned with the reporting of relevant and reliable information to the manager/decision-maker.

Instructor's Lecture Notes:

Most management textbooks describe the functions performed by managers in these or similar terms:

- Planning: Determining goals for the organization and deciding upon the best way to accomplish them. *Strategic planning* is concerned with broad, long-range policies and procedures, while *operational planning* is concerned with the day-to-day operation of the business.
- Directing: Ensuring that people within the organization work together effectively in order to accomplish the organization's goals. This requires that managers *motivate* employees (by giving them a reason to do their best work) and it requires *leadership* (communicating to employees how the job should be done and setting standards regarding performance and attitude).
- Controlling: Monitoring the organization's progress toward accomplishing its goals and modifying plans or adopting new strategies if the objectives are not being attained.
- Improving: Using feedback from monitoring activities to enhance profitability. A process of continually monitoring and improving the organization's processes is called *continuous improvement*.
- Deciding: Deciding upon the ways that the organization's resources can best be used to accomplish its goals.

Note that many theorists believe that workers cannot be "motivated" by others at all. Instead, they would argue, people are self-motivated and managers can only be held responsible for creating a work environment in which workers can achieve success – but only to the extent that they are able and internally motivated to do so. (Many teachers also share this view, as it applies to their courses and their students!) ☺

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II. **Several distinctions** may be drawn between **financial** and **managerial accounting**.

A. **Financial accounting** is concerned with the reporting of information to external users (stockholders and creditors outside the company). It is:

1. ***General purpose in nature***, reporting overall business results to general users. Reports are prepared periodically (monthly, quarterly, or annually) and convey ***financial information*** (dollars of revenues, expenses, assets, etc.) to interested parties.
2. Concerned primarily with ***past event****s* (i.e., historical revenues and expenses and the results of operations in the previous period).
3. Developed in accordance with the rules established for public reporting (i.e., ***Generally Accepted Accounting Principles***, or GAAP).

B. ***Managerial accounting*** is concerned with the reporting of information to internal users (managers inside the company). It is:

1. ***Special purpose in nature***, providing managers with detailed information about specific departments, divisions or activities of the business that the manager needs in order to make business decisions. Reports are often ***customized*** for a ***special purpose***, and are prepared when required and in a timely fashion.
2. Heavily involved with business planning and forecasting, reports often provide ***estimates*** of ***future*** costs, revenues, etc. as well as historical information.
3. Not concerned about GAAP and is characterized by "***anything goes***" reporting. The only concern is that the information reported be useful to decision-makers. This often involves the analysis and reporting of ***nonfinancial information*** (production times, numbers of customers served, etc.) in addition to financial information.

C. ***Cost Accounting*** is a term that is often used synonymously with ***Managerial Accounting*** (also called ***Management Accounting***). As large-scale, complicated manufacturing businesses began to develop in the late 1800's, it became increasingly difficult (and important, as far as investors and creditors were concerned) to determine the unit costs of the many items these companies manufactured and sold. "***Cost accountants***" were given the job of recording all the costs incurred during manufacturing and then applying them to the many different inventory items produced. **C*ost Accounting*** was the label applied to the body of processes and techniques these accountants developed in order to "cost the inventory." Today, cost accounting is a component of the field that we call Managerial Accounting, but the role of the managerial accountant is much broader than that of the traditional cost accountant. In addition, managerial accounting reports and processes are vital to all kinds of profit and nonprofit organizations and not just manufacturers.

Instructor's Lecture Notes:

- There are four basic areas in which the information provided by management accountants is of fundamental importance to not only manufacturers, but also service providers (doctors, lawyers, advertising agencies, etc.) and merchandisers (retail and wholesale operations).
    1. *Product costing*. Recording the costs of manufactured items (for manufacturers), the cost of purchased items (merchandisers), or the cost of the services provided (service providers) -- and then assigning them to inventories or to the cost of the goods sold (manufacturers and merchants) or to the cost of the services delivered to the customer (service companies).
    2. *Planning business operations*. Preparing budgets, etc. that are needed to set strategies and decide upon future courses of action.
    3. *Controlling business operations.* Preparing and analyzing production reports, evaluating variances from budgeted figures, and so on.
    4. *Decision making* (preparing special analyses and reports for use in setting strategies and initiating actions).
- Managerial and financial accounting are both parts of the company's management information system (MIS). The MIS gathers, processes and summarizes the information that internal and external users need in order to make decisions.
    1. The MIS is composed of multiple information systems. One of these, the Financial Information System, accumulates financial accounting information so that publicly reported financial statements can be prepared and distributed to (primarily) external users. Some of this information is reported internally, but managerial accounting reports are often based on information that comes from other parts of the MIS.
    2. Other information systems that make up the MIS include Engineering, Production, Inventory, Sales, Distribution, and Customer information systems. Management accountants draw data from and feed data to all of the separate information systems that make up the MIS, including the Financial Information System.

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III. Managerial Accounting Today.

A. The role of the management accountant remained closely tied to inventory costing through much of the 20th century. However, in the past 30 years four developments -- the adoption of ***JIT (just-in-time) inventory systems***, the creation of **TQM (total quality management)** environments, and ***process reengineering*** and ***TOC (theory of constraints)*** approaches to operations management (more on these later in the course) -- have created the need for new types of management information. As a result, management accounting is undergoing rapid change as new accounting approaches and techniques are developed to satisfy these information needs.

Instructor's Lecture Notes:

- The importance of managerial accounting in the United States was enhanced greatly in the latter part of the 20th century due to global competition. In order to compete with foreign companies, US firms have had to (1) improve product quality, (2) reduce product delivery time, (3) reduce inventory levels, (4) reduce materials scrap, (5) prevent machine breakdowns and production defects, and (6) better trace costs to products to more accurately determine the cost of manufacturing them.
- These efforts toward improvement have led to new production philosophies, plant layouts, and production processes. In all these areas the management accountant has had to satisfy the company's need for new types of information so that improvements could be made.
- One kind of change involves the reporting of large amounts of nonfinancial data in addition to financial accounting information. For example, in order to improve quality, satisfy the customer's needs, and improve manufacturing time and efficiency; nonfinancial information about things like defect rates, customer survey results, production time studies and so on must be provided by management accountants in addition to financial data regarding production costs, product sales revenues, etc.

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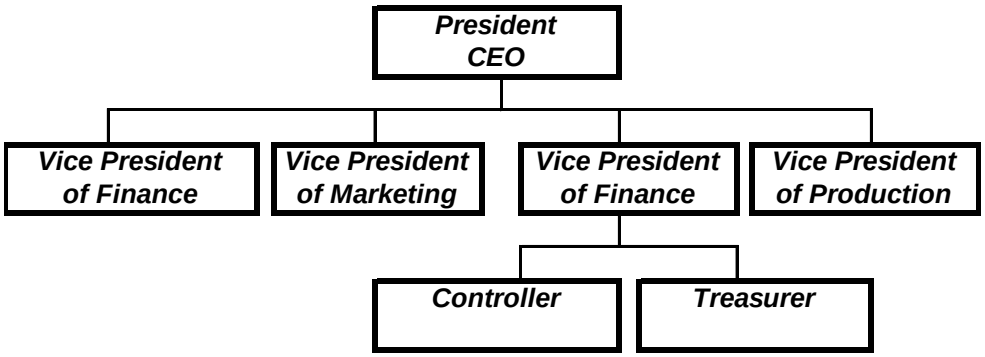
IV. A company's *organizational structure* is its internal structure of authority and responsibility. Without this structure, individuals within the organization, all of whom have their own styles and personalities, would not be able to work effectively together.

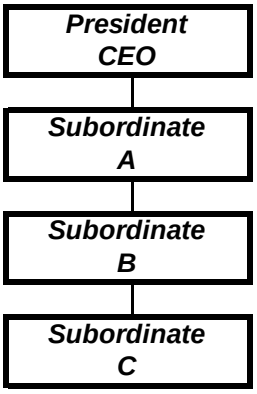
A. A company's organizational structure may be **centralized** (authority is concentrated in the hands of a relatively few individuals in the organization) or **decentralized** (authority is delegated throughout the organization).

B. The organization chart is a graphical representation of the organizational structure, depicting how authority has been delegated throughout the organization and illustrating the chain of command within the organization.

1. Line and staff positions are shown in the organizational chart.
2. Line positions are directly involved in carrying out the organization's objectives. Staff positions provide support to the line personnel.
3. The illustration below represents a typical decentralized organizational structure. Note that the ***Controller*** (or *Comptroller*) heads up the accounting function within the organization and oversees both the financial and managerial accounting functions.



4. The chart below represents a centralized organizational structure:



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V. Product Costs and Period Costs.

A. Manufacturers and merchants must account for inventories of goods that are available for sale. The costs of these inventory items make up the balance of the Inventory account and are reported on the balance sheet as an asset. When the goods are sold, their costs are transferred from the Inventory account into the Cost of Goods Sold account and reported on the income statement as an expense.

1. The cost of the inventory items that manufacturers produce can be difficult to compute. Some costs are clearly a cost of a specific good or product line while others are clearly not, but many costs are very difficult to allocate across product lines. With some it is not even clear whether they should even be classified as ***product costs***, or whether they should be classified as ***period costs***.
2. ***Product costs*** are the costs of manufacturing a product that should properly be recorded as a part of the manufactured inventory account balance. ***A product cost is any cost that is incurred in order to produce the inventory item and make it ready for sale***. For this reason, they are

also called ***inventoriable costs***. Product costs do not appear on the income statement as expense until the inventory is sold. At this time they are no longer an asset (Inventory); they become the ***Cost of Goods Sold***, or ***COGS***, reported on the income statement. Note that *Cost of Goods Sold* was called *Cost of Merchandise Sold* in the previous course when merchandising accounting was covered, but it represents the same thing.

3. ***Period costs*** (reported on the income statement as administrative, selling, and "other" expenses) ***are those incurred during the period in order to operate the business or in other peripheral activities, but not in order to produce the inventory or make it ready for sale***. In other words, period costs are costs incurred in order to *sell* the goods or to administer the business; but not to *produce* the goods or ready them for sale. Period costs are recorded as expense in the period in which they are incurred.
4. The distinction between product and period costs is important, since the expenses reported on the income statement (and thus the amount of net income) and the inventory balance reported on the balance sheet (and the amount of total assets) will be affected by the decision the accountant makes regarding which costs are product costs and which are period costs.

Audio lecture – Product versus Period Costs. Access this presentation by clicking the link below.

Product versus Period Costs

B. Product costs are classified into three types:
   1. ***Materials***. The cost of the materials that go into the product represents one type of product cost.
      a. ***Direct materials*** are the raw materials that go directly into the product. They can, therefore, be accurately measured and their costs can be precisely recorded as part of the cost of manufacturing each unit that is produced.
      b. The cost of ***indirect materials***, such as oil and grease for the machines, cleaning compounds and so on, cannot be measured directly and applied to each unit produced. However, since these materials are used up in the manufacturing process, they do represent product costs. They are classified as *Factory overhead* costs (see item 3 below).
   2. ***Factory Labor*** is the cost of the labor that is used to manufacture a product, and it represents another type of product cost.
      a. ***Direct labor*** costs, the wages of workers who work directly upon the product, are those that go directly into the product and can be

accurately measured and recorded as part of the cost of manufacturing a unit.

b. The cost of ***indirect labor***, such as the wages of maintenance and janitorial personnel, cannot be measured directly and applied to each unit produced. Like indirect materials costs, indirect labor costs are classified as *factory overhead* costs (see below).

3. ***Factory Overhead*** costs are also product costs, but they are comprised of a multitude of *indirect costs* that are incurred in order to manufacture the product. They cannot be traced directly to the units produced and applied accurately to them as the direct costs can.
   a. Examples include factory utilities costs, factory supplies used, depreciation of plant assets, production supervisor salaries, property taxes on the factory, expired insurance and on and on.
   b. Remember that indirect materials and indirect labor costs are also classified and recorded as overhead costs.
   c. Factory overhead is also called *indirect cost, manufacturing overhead*, and *factory burden*. They all have the same meaning.

C. Several terms describing different types of costs are used in management accounting. The four below are the most crucial for you to understand.

1. ***Fixed costs*** (such as depreciation, property taxes, insurance, etc.) are "fixed" in amount and do not change irregardless of how many or how few units are produced in a period. Over a long period of time, though, fixed costs can change since the company would be able to increase the size of its factory building, buy more machinery, and so on. Therefore, we must specify a time period when we are discussing fixed costs and say that (1) over the long term there really are no fixed costs (since the company has time to change its plant size), but (2) within the ***relevant range of operations*** many costs are fixed. The relevant range is the range of production the company can practically achieve if its present plant size is kept fixed.
2. ***Variable costs*** (direct labor, direct materials, and many of the overhead costs) do change as the number of units produced changes. Variable costs are costs that change *directly* (i.e., in the same "direction" – as production increases so do the costs; or if production decreases the costs do, too) and *in proportion* to the number of units produced (which means that a 10% increase [or decrease] in production produces a 10% increase [or decrease] in cost).
3. ***Direct costs*** (direct materials and direct labor) are those can be traced *directly* to each unit produced. For example, the amount of direct labor time and the quantity of direct materials that are tied up in a unit of production can be measured very accurately. Since the labor rate and the price of the materials are known, the materials cost and labor cost per unit of production can be calculated directly and accurately.
4. ***Indirect costs*** (the overhead costs) cannot be applied in any direct way to

the units produced. Consider, for example, the cost of lighting the plant. It is not possible to measure the "quantity" of light that was used to manufacture a particular unit during the period. Therefore, the lighting cost cannot be applied to the units produced in any direct, precise way. This means that it, along with all the other indirect overhead costs, can only be *allocated* to production in some logical, systematic (but relatively imprecise) way.

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VI. Allocating Factory Overhead Costs.

A. Manufacturers are faced with the problem of charging the different units produced in a period with the proper amount of labor, materials and overhead costs. Applying the direct costs to production usually presents few problems, but applying the indirect overhead costs present several.

B. ***Absorption costing*** is the term applied to the process of applying indirect overhead costs *in addition to* direct labor and materials costs to the units produced.
   1. An alternative approach, the *variable costing* method, applies ***only*** the direct labor and materials costs to the units produced, and it treats indirect factory overhead cost as a period expense. Variable costing is examined in Module 4.
   2. GAAP requires that manufacturers utilize an absorption costing approach for public reporting purposes.

C. In order to apply the absorption costing approach it is necessary to develop a ***predetermined overhead application rate*** which will be used to ***apply*** the indirect overhead costs to the units produced.
   1. Direct materials and labor costs can be directly applied to the units with precision since the number of labor hours and amount of materials used to produce the product can be directly measured. The use of labor ***time tickets*** (worker's "punch in" when working on a particular job and "punch out" when leaving to work on another), ***materials requisition forms*** and ***bills of materials*** (that record materials used on individual jobs) provide the needed information about the direct labor hours and materials required to complete a production job.
   2. The indirect overhead costs (heating and lighting, depreciation, insurance, etc) cannot be accounted for on a job-by-job basis. These costs must be allocated to production on some logical basis, such as the number of labor hours used to produce the unit, the machine hours, or some other measure. This is called the ***activity base*** (or *allocation base*) for the overhead, or the overhead "***cost driver***." If the activity base chosen is not related very

closely to the cost (i.e., it does not really "drive the cost"), then overhead will be misapplied and the resulting cost calculated for a given item will either be overstated or understated.

Instructor's Lecture Note:
Because manufacturing companies exist in a very competitive environment, it is crucial for them to accurately determine their product costs. A product's selling price is determined by applying a markup to its cost. Therefore, if a product's cost is overstated, the company will establish a selling price that is higher than it needs to be. The company will lose sales to its competitors, and this could eventually result in the company's bankruptcy. If costs are under-stated, the selling price will be set too low to produce the desired level of income from the sale. In fact, if the error is great enough, the company might even establish a selling price that is below the actual cost of production, resulting in losses!

2. As noted above, the activity base should be something that is directly related to overhead cost, and it might be any number of things. Once chosen, it will be used to calculate the overhead application rate. For example, if the ***activity base*** chosen is direct labor hours, the overhead application rate will be determined as:

$$\textit{Overhead Application Rate} = \frac{\textit{Estimated Overhead in Future Period}}{\textit{Estimated Direct Labor Hours in Future Period}}$$

3. The result of this calculation will be an application rate of so many dollars of overhead cost per hour of direct labor time. As production occurs, the units manufactured can be charged for the actual direct labor and direct materials costs incurred to produce them. These costs can usually be traced directly to the units produced and applied to them fairly accurately. But the units must also charged for the estimated overhead costs (i.e., the *indirect costs*) that were incurred when they were produced. The indirect overhead cost applied to them will be equal to the number of direct labor hours used to produce the units times the overhead application rate.

Overhead Applied = Overhead Application Rate x Number of Direct Labor Hours

   a. This overhead application rate is "predetermined" at the beginning of the period because it must be used *during* the period to account for production. If we did not have to use it during the period (that is, if we were not using a perpetual inventory system), we could wait until the period's end and divide actual costs incurred by actual hours used. In this case there would be no estimation error in the rate. However, since the rate must be "predetermined" at the beginning of the period, error in the estimate is inevitable.

b. As explained above, cost information is used to make pricing and production decisions, so good estimates are extremely important and directly contribute to business success. As a result, companies often use an approach called "***Activity-Based Costing,***" breaking their total overhead cost down into several categories and using a different cost driver for each in order to reduce application errors. We will examine Activity-Based-Costing in Module 10.

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VII. Perpetual Inventory Systems.

A. When it is time for manufacturers to prepare internal reports and financial statements; the materials, labor and overhead costs must be applied to production in order to determine product unit cost. This is necessary in order to cost the ending inventories and calculate the cost of goods sold (*COGS*). The process of determining the cost of goods sold is the same for merchants and manufacturers, and both may make use of either a periodic or a perpetual inventory system. The perpetual inventory system for merchants is reviewed and illustrated below. We will then illustrate the use of a perpetual inventory system for a manufacturer.

A. Review of Merchandising Accounting, Perpetual Inventory Systems:
Recall from your earlier coursework that under *perpetual* inventory systems the inventory account is debited when purchases occur:

Inventory	$X	
Cash		$X

To record purchase of inventory items.

When sales occur, Cost of Goods Sold is debited and the Inventory account is credited:

Cash	$X	
Sales		$X

To record sales revenue.

COGS	$X	
Inventory		$X

To record the cost of the goods.

At the end of the period, the income statement may be prepared by simply listing the account balance for Cost of Goods Sold on the face of the statement:

Sales	$X
Cost of Goods Sold	(X)
Gross Profit	$X
Operating Expenses	(X)
Net Income	X

B. Introduction to Manufacturing Accounting, Perpetual Inventory System

The following section presents the journal entries used by manufacturers to account for the manufacture of products and their sale. Manufacturers, obviously, don't purchase the inventory items they sell, they manufacture them. Materials are purchased, but then the manufacturer goes through all the steps required to turn the raw materials into a finished product. Therefore, manufacturers record debits to their inventory accounts when (1) materials are purchased and then (2) when product costs are recorded during the manufacturing process

1. A company using a perpetual inventory system will record the purchase of materials directly in a ***Materials Inventory*** account:

Materials Inventory	$X	
Accounts Payable		$X

To record purchase of direct materials.

When materials are used in production, it is necessary to transfer their cost into a different inventory account, one used for production that has been started but is not yet finished. This inventory account is called ***Work-in-Process.*** Therefore, when materials are used in production, the *Materials Inventory* account is credited and the *Work-in-Process Inventory* account is debited:

Work-in-Process Inventory	$X	
Materials Inventory		$X

To record transfer of materials into production.

2. As labor costs are incurred, the *Work-in-Process Inventory* account is again debited for direct labor costs:

Work-in-Process Inventory	$X	
Wages Payable		$X

To record direct labor cost incurred.

3. Factory overhead costs are product costs and must also be debited to the inventory accounts. If it were possible to measure these costs directly in each unit produced, they could be recorded just as the materials and labor costs were recorded above. That is, we would credit the appropriate accounts, and then debit Work-In-Process Inventory. For now, let's pretend that this is what is done. In the next module, we will return to this step and illustrate the use of a *predetermined overhead rate* to *apply* an *estimated* overhead amount to the production, but if we could somehow

determine just how much overhead cost was incurred in producing these units we could simply record the actual overhead costs directly in Work-in-Process as follows:

Work-in-Process Inventory	$X	
Supplies		$X
Prepaid Factory Rent		$X
Utilities Payable		$X
Accumulated Depreciation		$X
Cash		$X

To record actual overhead costs incurred.

4. When goods are finished, they are no longer "in process." They are now ready to deliver to the customer. Therefore, their costs are removed from Work-in-Process inventory account and placed in a different inventory account. The account used to carry these finished items is called ***Finished Goods Inventory***. The entry to record the transfer of goods from Work-in-Process Inventory and into Finished Goods Inventory is:

Finished Goods Inventory	$X	
Work-in-Process Inventory		$X

To record transfer of goods to finished goods inventory.

5. As goods are sold, their costs are removed from the *Finished Goods Inventory* account and placed in the ***Cost of Goods Sold*** account. Sales revenue is also recorded. (Note that except for the title of the inventory account, the same set of entries was made for the merchant's sale of goods in part I above).

Cash	$X	
Sales		$X

To record sales revenue.

Cost of Goods Sold	$X	
Finished Goods Inventory		$X

To record the cost of the goods.

6. Operating expenses and other period costs are recorded in the normal way; for example:

Office Salaries Expense (etc.)	$X	
Wages Payable (etc.)		$X

To record period expense.

7. At the end of the period, the income statement is easily prepared since the cost of goods sold has been recorded directly in its own account. It would be identical to

the statement prepared above for a merchant operating a perpetual inventory system:

Sales	$X
Cost of Goods Sold	(X)
Gross Profit	$X
Operating Expenses	(X)
Net Income	$X

8. The inventory account balances are all current and correct, and all that remains to be done before beginning the next period is to close the Sales, the Cost of Goods Sold, and the other expense account balances. Note that these same closing entries would be made by merchandising companies using a perpetual system:

Sales	$X	
Income Summary		$X
Income Summary	$X	
Cost of Goods Sold		$X
Operating Expenses		$X
Income Summary	$X	
Retained Earnings		$X

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VIII. Review of Manufacturing Accounting

A. Management accountants are responsible for, among other things, *costing* the company's inventory of manufactured goods. When these goods are sold during the period their cost becomes the *Cost of Goods Sold* balance reported on the income statement. Until then, these costs appear on the balance sheet as inventory balances (assets).

B. It is the *product costs* (direct materials, direct labor, and factory overhead) that make up the cost of the company's inventory (reported on the balance sheet). Later, when the goods are sold, their costs flow into Cost of Goods Sold (shown on the income statement).

C. A manufacturer's inventory accounts are of three types: Materials Inventory, Work-in-Process Inventory, and Finished Goods Inventory.

D. The cost of the goods that are completed during the period is transferred from Work-in-Process into Finished Goods Inventory. The ending balance of Work-in-Process represents the costs incurred to partially complete the goods still in production. The cost of the goods that are sold during the period is transferred from *Finished Goods Inventory* into *Cost of Goods Sold*. The ending balance of *Finished Goods* represents the costs incurred to complete the goods that have not yet been sold by the end of the period.

A Simplified Illustration Problem

Journal Entries Required in Perpetual Inventory Systems

The following is an illustration of manufacturing accounting journal entries, as they were presented above. The solution to the problem is also presented. You may want to practice by trying to do the problem before reviewing the solution. Note that no similar "simplified" problems are given in the text and that you will not be tested over these particular journal entries. However, it should be worth your time and effort to review this problem carefully since it "sets the stage" for the journal entries required in ***job-order*** and ***process*** cost accounting systems.

Required: M-3 Manufacturing Company begins operations on January 1. Record the following transactions using a perpetual manufacturing inventory system. Prepare the income statement as it would appear after recording the transactions.

a. Began operations by purchasing $10,000 of materials.

b. Issued $5,500 of materials to production. This was composed of $1,000 of indirect materials (lubricants for machinery) and $4,500 of direct materials.

c. Paid factory wages of $50,000. This was composed of $10,000 of indirect labor (janitor's wages) and $40,000 of direct labor applied to the jobs.

d. Units that cost $58,000 were completed and moved into the finished goods warehouse.

e. Goods that cost $34,000 were delivered to the customer who paid $70,000.

f. Actual overhead costs incurred and recorded for the period were as follows:

Expired insurance on factory building	$2,500
Accrued property taxes on building & equipment	1,200
Accrued supervisor salaries	3,000
Accrued utilities	1,300
Depreciation of building and equipment	3,000

g. Paid $5,000 for operating expenses.

h. Posted all entries to the general ledger, and prepared the financial statements. A physical count of the inventories produced valuation figures of $4,500 for Materials, $8,500 for Work-In-Process, and $24,000 for Finished Goods. Journalized and posted the closing entries.

You may click the link below to play a video demonstration that illustrates and discusses the solution to the illustration problem below.

Link to Simplified Illustration Presentation

Solution to Simplified Illustration Problem

a.	Materials	10,000	
	Cash or Accounts Payable		10,000
b.	Work-in-Process	5,500	
	Materials		5,500
c.	Work-in-Process	50,000	
	Cash or Wages Payable		50,000
d.	Finished Goods	58,000	
	Work-in-Process		58,000

Materials	
10,000	5,500
4,500	

Work-in-Process	
5,500	
50,000	
11,000	58,000
8,500	

Finished Goods	
58,000	34,000
24,000	

Cost of Goods Sold	
34,000	
34,000	

e.	Cash or Accounts Receivable	70,000	
	Sales		70,000
	Cost of Goods Sold	34,000	
	Finished Goods		34,000
f.	Work-in-Process	11,000	
	Prepaid Insurance		2,500
	Property Tax Payable		1,200
	Salaries Payable		3,000
	Utilities Payable		1,300
	Accumulated Depreciation		3,000
g.	Operating Expenses	5,000	
	Cash		5,000

Simplified Illustration, Continued

Income Statement	
Sales	70,000
Cost of Goods Sold	(34,000)
Gross Margin	36,000
Operating Expenses	(5,000)
Net Income	31,000

h.	Sales	70,000	
	Income Summary		70,000
	Income Summary	39,000	
	COGS		34,000
	Operating Expenses		5,000
	Income Summary	31,000	
	Retained Earnings		31,000

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