Preparation of an Income Statement for The Serious Reader Company

Prepare a segmented variable costing (contribution margin, behavioral) income statement and analyze the information. This is a very small company and the information may seem simplistic at first glance. Don’t forget that numbers and hands-on practice best illustrate many basic accounting concepts.

The Serious Reader Company is a small online retailer operating out of a garage apartment. The owner buys books at garage sales, thrift shops, library sales, and whenever an opportunity arises. The company classifies all books into five categories based on cost of acquisition and estimated sales price. See below for details about books purchased and sold during the last year (20XX)

|  |  |  |
| --- | --- | --- |
|   | Price Categories |   |
| Unit Sold | A | B | C | D | E |
| Unites Purchased | 4,000 | 1,000 | 500 | 400 | 400 |
| Resale Price | 6,000 | 1,200 | 1,000 | 1,000 | 1,000 |
| Cost | $4.00  | $12.00  | $20.00  | $45.00  | $60.00  |
|   | $0.50  | $4.00  | $10.00  | $20.00  | $20.00  |
|   |   |   |   |   |   |

In addition to purchasing inventory (used books), the company incurs some operating expenses.

|  |
| --- |
| Variable Operating Expenses |
|   |   |   |
| Shipping Per Book | $1.50  |   |
|   |   |   |
| Common Fixed Expenses |
|   |   |   |
| Internet Related Costs | $10,000  |   |
| Travel, etc. | $4,000  |   |
| Advertising | $1,000  |   |
| Overhead | $5,000  |   |
|   |   |   |

**Computations (use Excel)**

* Prepare a segmented variable costing (behavioral) income statement for the company in good format.
* Prepare a second variable costing statement assuming 90% of all the books in each category purchased were actually sold.
* Prepare a third variable costing statement assuming that the price is increased by 50% for all five categories (use original sales information).
* The owner enjoys the used-book business. Any suggestions as how to turn this into a full-time business venture so the owner can quit his other job? Prepare another income statement to support your idea.

**Memo (use Word)**

Interpret the results from the computations and explain how the information is useful. Write a 4- or 5-paragraph memo to the owner of the business. Start with an introduction and end with a recommendation. Each of the four or five paragraphs should have a heading.

**Short essay to comment on the questions below (use Word).** Start with an introduction and end with a summary or conclusion. Use headings. Maximum length of two pages.

* Why do many organizations make the effort to prepare a different type of income statement for internal purposes?
* Variable costing is not just about preparing income statements. Provide at least three scenarios in which understanding how costs behave is useful.

Assignment should include two files:

(1) = An Excel file

(2) = A Word document. The Word document shows the memo first and short essay last.