# K&J BAKERY INC.

**A SIMPLIFIED MANAGEMENT ACCOUNTING PROJECT**

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**INTRODUCTION**

The objective of this project is to provide students with a practical application of some of the key concepts discuss in the managerial accounting course. It can be used as a half-semester long or concept driven project i.e., used along with the concepts/topics as they are introduced throughout the course.

# LEARNING OUTCOMES

Students should be able to:

1. Identify the various costs that are part of a business environment and the three elements of product cost
2. Differentiate between the different costing systems
3. Illustrate business transactions using T-account analysis
4. Prepare the statement of cost of goods manufactured and an income statement
5. Calculate the break-even point in units and dollars, and target sales in units and dollars

# K&J BAKERY INC.

**Business Background**

As she sat in her Accounting I class bored while listening to the lecture on journal entries, Keisha Jones could not imagine being an accountant in the future. As a young girl, she remembered sitting in the kitchen while her mom and aunts baked those delicious Jamaican black cakes. She remembered that the cakes sold very quickly especially at Christmas time and that people were traveling from as far away as Florida to buy them. Her mom learned to bake from her mother, and she wrote down the cake recipes in case Keisha or one of her siblings decided to follow in her footsteps. However, Keisha chose to follow in her dad’s path and so she enrolled in college with plans to become an accountant. Her two older sisters where already studying to be a lawyer and a dentist.

Keisha had an epiphany as she sat in class, she would leave school at the end of the semester to open up a bakery specializing in Jamaican black cakes. Keisha anticipated that most of her business would be based on special order, customized cakes. She anticipated selling cakes for family weekend gatherings, birthday and wedding celebrations, and holiday gathering. She wanted to have a few cakes available in a store to appeal to the drop in customer.

In December 20x0 Keisha followed her plans; she dropped out of college, created a business plan, and incorporated as the K&J Bakery Inc. (K&J). The J is in honor of her mom Jezebel who passed away earlier in the year. Keisha planned to open her business on January 1, 20x1. She would use the $50,000 inheritance from her mom as start up capital and receive a minimal salary of $500 per month for the first year of business. Uncle David, a marketing executive with a national bank, agreed to provide her with marketing support pro-bono.

Keisha found the perfect location for her business. A take-out restaurant on the busy intersection of Jamaica and Hillside Avenues in Queens, NY, became available after a bitter divorce between the owners. The landlord was impressed with Keisha’s vision and agreed to pay for all renovations and charge her $600 per month for rent.

# Cost Classification (Assignment #1)

Her first action plan was to list all the key products or items that she would need to start the business. Keisha’s list1 included a conventional oven, a cash register, baking pans, business licenses, health inspections, flour, sugar, baking soda, raisins, butter, eggs and rum. She also planned on hiring her accounting professor on a part time basis to perform bookkeeping services and her nieces Brianna and Alexis, to help her in the bakery. Aunt Sue Ellen would supervise the girls so that Keisha could focus on developing the business. K&J’s cost drivers are provided in Table 1.

*Required*: Keisha needs your help in classifying the various costs. In order to manage these costs, she wants them identified using the information below. She asked that you use Table 2 for your answers.

* 1. Behavior (fixed or variable)
  2. Traceability (direct or indirect)
  3. Financial reporting (product or period)
  4. If product cost, identify which items are direct materials, direct labor or

manufacturing overhead.

# Costing Systems (Assignment #2)

Keisha discussed the business plan with her accounting professor who agreed to serve as her part time accountant. His first advice was for the business to develop a budget. Since Keisha did not complete Accounting II, she was not aware of the various costing systems that exist in businesses. Her accounting professor told Keisha of the three different types of costing systems that exist in organizations – job order, process costing and activity based costing.

*Required*: Which type of costing system is K&L Bakery most likely to use? Discuss?

# Business Transactions (Assignment #3)

Keisha spent the month of December talking to various suppliers in order to determine her cost structure. She added cost data to the information in Table 1.

K&L Bakery Inc. opened for business on January 1, 20x1 as planned. During the month of January, the business purchased and used 300 pounds of flour, 300 pounds of sugar, 77 dozen eggs and had 8 bad eggs to dispose of during the month2, 30 baking soda boxes, 400 pounds of butter, 200 pounds of raisons, 80 bottles of rum, and the other ingredients (one box of each for a

total of four) all from one supplier on account. Manufacturing overhead is applied to production

1. This is not an exhaustive list and instructors have the option of expanding it
2. The cost of these eggs is immaterial

at 5 dollars per cake. Keisha purchased the oven using the start up capital and paid all salaries. Her nieces worked 300 hours in total for the month. January was a very good month for the bakery since it baked 300 cakes and sold all for cash. The average selling price was $60 per cake. All manufacturing overhead is closed out at month end. The supplier was paid at month end.

*Required:* Document K&J Bakery Inc January transactions using Journals and T-accounts (round all calculations to 2 decimal places) All other costs such as utilities, must be accounted for in the Journals and T- accounts (assume such transactions where applicable, are paid in cash)

# Reporting (Assignment #4)

Since Keisha was not paying much attention to the discussion on journal entries in her one accounting class, she does not understand the T-accounts that you provided. However, she heard through her accountant that there is a manufacturing report that would provide her with the same information as the T-accounts and is more user-friendly. She believes that the report is called the Statement of Cost of Goods Manufactured.

*Required:* Prepare the Statement of Cost of Goods Manufactured for January. Also, prepare an Income Statement for the month of January.

# Breakeven Analysis/Target Sales (Assignment #5)

Although business was off to a good start in January, Keisha realized that she will need to be profitable in order to continue as a viable business. Keisha discussed the subject of profitability with her accountant who suggested that she first needs to determine her breakeven point in both unit sales and dollars. He explained to her that break even is the point where all costs are covered by sales and so, profit is equal to zero. He also suggested that the company should establish a monthly target profitability in order to determine the amount of cakes it would need to sell to achieve this level.

Since Keisha did not know how to perform this calculation and in order to save money, she asked you to calculate the company’s breakeven point and the target sales need to achieve a monthly profit of $500.

*Required*: Calculate K&J Bakery Inc’s breakeven point in both units and sales dollars. Also, calculate the sales needed in order to achieve a monthly profit of $500.

Note: Use four decimal places in converting from total to per unit cost.

# TABLE 1: COST INFORMATION

|  |  |  |
| --- | --- | --- |
| **Item and Ingredients** | **Cost** | **Standard per Cake** |
| Conventional oven | $8,000 (depreciated over 5  years on a SL basis No salvage value) | n/a |
| Refrigerator | $0 (provided by the landlord) |  |
| Baking pans, licenses | $0 (paid for by dad) | n/a |
| Baking flour | $24 per 8 pounds bag | 1 pound |
| Eggs | $2 per dozen | 4 eggs |
| Sugar | $15 per 25 pounds bag | 1 pound |
| Baking soda | $6 per 14 pounds box |  |
| Butter | $6.50 per 4 pounds | 1 pound |
| Raisins | $8 per 2 pounds | ½ pound |
| Others (currants, diced date,  nutmeg, molasses) | -3  $30 for all 4 boxes per month |  |
| Cash Register | $12 per month (rental for 2  years) |  |
| Rum (alcohol) | $12 per bottle | ¼ qtr of bottle |
| Utilities (includes gas, electric and water) | $50 per month |  |
| Mobile phone (business)4 | $50 per month |  |
| Salary- Keisha | $500 per month |  |
| Salary – nieces | $8 per hour | 1 person 1.5 hours per  Cake |
| Salary-aunt | $100 per month |  |
| Accountant | $100 per month |  |
| Estimated MOH | $5.00 per cake |  |

1. Prices are excluded from project since due to materiality and to simplify the exercise.
2. Provided through Boost Mobile

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Table 2** | | | | | | | | | |
| **Cost Classification Chart** | | | | | | | | | |
|  | Fixed | Variable | Direct | Indirect | Product | DM | DL | MOH | Period |
| Oven |  |  |  |  |  |  |  |  |  |
| Cash  Register |  |  |  |  |  |  |  |  |  |
| Baking  pans |  |  |  |  |  |  |  |  |  |
| Business  License |  |  |  |  |  |  |  |  |  |
| Health  Inspections |  |  |  |  |  |  |  |  |  |
| Rent |  |  |  |  |  |  |  |  |  |
| Utilities |  |  |  |  |  |  |  |  |  |
| Mobile Phone |  |  |  |  |  |  |  |  |  |
| Flour |  |  |  |  |  |  |  |  |  |
| Sugar |  |  |  |  |  |  |  |  |  |
| Baking Soda |  |  |  |  |  |  |  |  |  |
| Butter |  |  |  |  |  |  |  |  |  |
| Raisons |  |  |  |  |  |  |  |  |  |
| Eggs |  |  |  |  |  |  |  |  |  |
| Rum |  |  |  |  |  |  |  |  |  |
| Others |  |  |  |  |  |  |  |  |  |
| Accountant |  |  |  |  |  |  |  |  |  |
| Brianna |  |  |  |  |  |  |  |  |  |
| Alexis |  |  |  |  |  |  |  |  |  |
| Keisha |  |  |  |  |  |  |  |  |  |
| Aunt Ellen |  |  |  |  |  |  |  |  |  |