Chapter 4

Lambeth Custom Cabinets (A)

Jack Lambeth, a master cabinet maker, owns and operates a shop where he sells custom-made cabinets. At the beginning of September, his business had no outstanding debt and the following amounts were on his books:

1. Raw materials inventory, $2,150.
2. Supplies inventory, $620.
3. Work-in-process inventory, $5,650.

Job	Materials	Labor	Overhead (50% of Labor)	
A-3	$ 750	$1,100	$ 550	
A-4	900	650	325	
A-5	325	700	350	
Total	$1,975	$2,450	$1,225	$5,650

4. All other assets as of September 1 were $16,890.

During the month, Lambeth's woodworking crew finished jobs A-3, A-4, and A-6 but did not finish A-5. Job A-7 was started but not finished during September. Overhead costs (pertaining primarily to equipment and shop depreciation, cleaning supplies, and insurance) are applied to every job at the end of the month unless the job is finished during the month, in which case overhead is applied when the job is finished.

During September, the following direct materials and direct labor costs were incurred:

Job	Direct Materials	Direct Labor
A-3	$ 280	$ 750
A-4	350	1,300
A-5	180	550
A-6	375	490
A-7	590	370
	~~$1,175~~ 1775	$3,460

Other financial factors of importance pertaining to September were:

a. $1,675 of raw materials were purchased during the month.

b. Supplies of $580 were purchased while $490 were used and thus transferred to the manufacturing overhead account.

c. Total increases to the labor general ledger account were $5,460. (Apparenty there was $2,000 indirect labor charged.)

d. General and administrative expenses for the month were $3,420.

c. Collections received from customers on jobs A-3, A-4, and A-6 amounted to $6,125, $8,600, and $1,750, respectively, for a total of $16,475.

f. At the end of the month, Lambeth Custom Cabinets had no outstanding debts.

While Jack was reviewing the September data he became very concerned about the manufacturing overhead variance (MOV). Since Jack never wanted to lay off an employee, the MOV was always large in months when business was slow. (Jack assigned unoccupied workers to general clean-up and repair work and charged their wages to indirect labor.) Of course, Lambeth realized why the MOV was so large. What he worried about, however, was Mrs. Carter.

Mrs. Carter, a neighbor, had stopped in the shop one day in early September to get a price on some cabinets she wanted built. Jack's son, Jack Jr., spoke with her. Jack Jr. was working in the shop while on summer vacation between his first and second year of graduate business school. Jack Jr. studied the plans that Mrs. Carter had and estimated the cost to build her cabinets at $1,625. His job estimation sheet showed:

Lumber	$590
Finishing materials	75
Direct labor cost	640
Overhead	320
	$1,625

When Jack Jr. quoted a price of $1,900 ($1,625 cost $275 profit) to Mrs. Carter, she said that she could get the same thing built by Walworth Custom Kitchens for $1,500. Furthermore, she informed Jack Jr. that, "I would throw the dumb economics books away before I would pay a penny more than $1,500 for book cabinets to store them."

Jack Jr. simply told her that his best price would be $1,900. He explained all about labor, materials, profit, overhead, and competitive capitalism. In addition, he told Mrs. Carter that Walworth couldn't make money on a $1,500 price and if Walworth was really willing to build the shelves for $1,500 she would be stealing from Mr. Walworth!

Mrs. Carter was very angry when she left. Jack Jr. later told his father the whole story and laughed as he said, "Heck, we can't build stuff that costs $1,625 and sell it at price of $1,600, let alone $1,500, can we?" At that time Lambeth didn't think much about the incident but he began to wonder whether Jack Jr. had learned anything at graduate business school. Lambeth became especially concerned when he saw Bob Walworth, who said, "Mrs. Carter saved me last month." It seems that Walworth had just delivered Mrs. Carter's new cabinets for which she paid $1,500. Jack Lambeth wondered who was right—Jack Jr. or Walworth?

Name: _____ Date: _____

Case Requirements
Lambeth Custom Cabinets

1. Prepare journal entries for the transaction for September.
2. Record the beginning balances in the General Ledger. Post the September transaction from #1 into the General Ledger.
3. Prepare a Balance Sheet and Income Statement for September 30th.
4. Prepare a Variable Costing Income Statement for September 30th.
5. Based on what you know about the cost structure of Lambeth Custom Cabinets, could Lambeth make a profit and/or a positive contribution margin on Mrs. Carter's order at a selling price of $1,500?

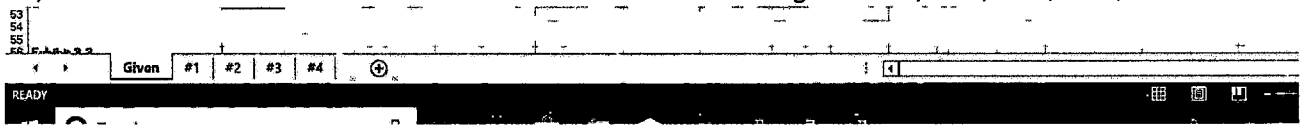
Hint: Use Excel to complete requirements 1–4.

Chapter 4: Lambeth Custom Cabinets – Additional Guidelines Instructions

ANY NUMBERS WILL NEED TO BE ENTERED IN SEPARATE CELLS IN ORDER TO PERFORM CALCULATIONS

When the assignment is complete, you should have five Excel sheets and a Word document. One sheet will be your given data and there will be one tab for case requirements 1-4. You will be writing a memo in a Word Document. This information should be used alongside the requirements to figure out how to format your answers for each problem.

- First, create five worksheets in Excel and name them as the following: "Given", "#1", "#2", "#3", and "#4"



- In the "Given" worksheet, make sure to enter the pertinent information and data from the case. You should replicate any of the numbers that were given and the important tables.
  - It would be helpful to create your own table for the Job Cards to keep track of the WIP. You will reference this data when answering the case requirements. See below for the columns needed for the Job cards

Job Cards:

Job #	Materials	Labor	OH	Total	Tran FG	WIP Bal

- For the case requirement tabs, **make sure to clearly label your work, any tables created, and your final answer!**

- In the "#1" worksheet, prepare the journal entries for September. They should be entered in the following format:

	Debit	Credit
Example of a Debit Account	xx	
Example of a Credit Account		xx

- In the "#2" worksheet, record the beginning balances for each account. Use the journal entries from #1 to post the September transactions onto the ledger. They should be entered in the following format:

General Ledger Account Balances:

Account Name	Beginning Balance	Debit	Credit	Ending Bal D / -C
Cash	100	5		105
Cash and Other Assets	105	10		115
	115		30	85

- In the "#3" worksheet, prepare a Balance Sheet and Income Statement for the month-end of September. Be sure to include the headings for each statement.

- In the "#4" worksheet, prepare a Variable Costing Income Statement (sometimes called the Contribution Margin Income Statement) for the month-end of September.

- For the 5th case requirement, please write a memo to Mr. Lambeth. You must answer whether he could make a profit and/or positive contribution margin on selling Mrs. Carter's order at the stated amount. This memo should be typed in Microsoft Word and be between three to four pages.

Once your Excel file (5 tabs) and Microsoft Word Memo are complete, submit them to csucost50@gmail.com at the same time.

Please feel free to reach out to me for further clarification or discussion on any of these additional guidelines.

Daniel Kaminsky