

Georgia Orchards produced a good crop of peaches this year. After preparing the following income statement, the company believes it should have given its No. 3 peaches to charity and saved its efforts.

Problem 24-5A^B
Allocation of joint costs

C3



GEORGIA ORCHARDS				
Income Statement				
For Year Ended December 31, 2015				
	No. 1	No. 2	No. 3	Combined

Sales (by grade)				
No. 1: 300,000 lbs. @ \$1.50/lb	\$450,000			
No. 2: 300,000 lbs. @ \$1.00/lb		\$300,000		
No. 3: 750,000 lbs. @ \$0.25/lb			\$ 187,500	
Total sales				\$937,500
Costs				
Tree pruning and care @ \$0.30/lb	90,000	90,000	225,000	405,000
Picking, sorting, and grading @ \$0.15/lb	45,000	45,000	112,500	202,500
Delivery costs	15,000	15,000	37,500	67,500
Total costs	150,000	150,000	375,000	675,000
Net income (loss)	\$300,000	\$150,000	\$(187,500)	\$262,500

In preparing this statement, the company allocated joint costs among the grades on a physical basis as an equal amount per pound. The company's delivery cost records show that \$30,000 of the \$67,500 relates to crating the No. 1 and No. 2 peaches and hauling them to the buyer. The remaining \$37,500 of delivery costs is for crating the No. 3 peaches and hauling them to the cannery.

Required

1. Prepare reports showing cost allocations on a sales value basis to the three grades of peaches. Separate the delivery costs into the amounts directly identifiable with each grade. Then allocate any shared delivery costs on the basis of the relative sales value of each grade.
2. Using your answers to part 1, prepare an income statement using the joint costs allocated on a sales value basis.

Check (1) \$129,600 tree pruning and care costs allocated to No. 2

(2) Net income from No. 1 & No. 2 peaches, \$140,400 & \$93,600

Analysis Component

3. Do you think delivery costs fit the definition of a joint cost? Explain.