

Skyler Company was organized on November 1 of the previous year. After seven months of start-up losses, management had expected to earn a profit during June, the most recent month. Management was disappointed; however, when the income statement for June also showed a loss, June's income statement follows:

**Skyler Company  
Income Statement  
For the month ended June 30, XXXX**

Sales		\$600,000
Less operating expenses:		
Selling and administrative salaries	\$35,000	
Rent on facilities	40,000	
Purchases of raw materials	190,000	
Insurance	8,000	
Depreciation, sales equipment	10,000	
Utilities costs	50,000	
Indirect labor	108,000	
Direct labor	90,000	
Depreciation, factory equipment	12,000	
Maintenance, factory	7,000	
Advertising	<u>80,000</u>	<u>630,000</u>
Net Operating Loss		<u>\$(30,000)</u>

After seeing the \$30,000 loss for June, Skyler's president stated, "I was sure we'd be profitable within six months, but after eight months we're still spilling red ink. Maybe it is time for us to throw in the towel and accept one of those offers we have had for the company. To make matters worse, I just heard that Linda won't be back from her surgery for at least six more weeks."

Linda is the company's controller; in her absence, the statement above was prepared by a new assistant who has had little experience in manufacturing operations. Additional information about the company follows:

- a. Only 80% of the rent on facilities applies to factory operations; the remainder applies to selling and administrative activities.
- b. Inventory balances at the beginning and end of the month were as follows:

	<b>June 1</b>	<b>June 30</b>
Raw materials	\$17,000	\$42,000
Work in process	70,000	85,000
Finished goods	20,000	60,000

- c. Some 75% of the insurance and 90% of the utilities cost apply to factory operations; the remaining amounts apply to selling and administrative activities.

The president has asked you to check over the above income statement and make a recommendation as to whether the company should continue operations.

**Required:**

1. As one step in gathering data for a recommendation to the president, prepare a schedule of cost of goods manufactured for June.
2. As a second step, prepare a new income statement for the month.
3. Based on your statements prepared in (1) and (2) above, would you recommend that the company continue operations?