$$PP_{\$/t} = \left(NHFR_{\$/t} + RR\right) - SV_{\$/t}$$

CalRecycle

Department of Resources Recycling and Recovery

$$HF_{\$/c} = HFR_{\$/c} - NHFR_{\$/c}$$

Processing Fee/Handling Fee Cost Survey

	NHFR	HFR
$/t	4	N/A
$/c	1	

Training Manual
Volume I of III

Participant Manual

July 25, 2011

$$n = \frac{\left(\sum N_i S_i\right)^2}{D + \sum N_i S_i^2}$$

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Glossary

Accrual basis – recognizes the impact of transactions on the financial statements in the time periods when revenues and expenses occur

All Materials Indirect (AMI) – costs which are determined to be attributable to both redeemable beverage containers and non-beverage container materials, but not to any one material

All other labor (AOL) – employee time working in the yard performing non-supervisory support and/or non-material handling functions and activities (e.g., general yard maintenance, directing traffic, etc.), and employee time not working in the yard performing clerical, supervisory support, and management level functions and activities

Assets – items of value owned by a firm

Auditing – consists of an independent examination of the accounting records and other evidence relating to a business to support the expression of an impartial expert opinion about the reliability of the financial statements

Balance sheet – a financial statement which shows the financial position of a business entity by summarizing the assets, liabilities, and owner's equity at a specific date

Baler – a machine used to densify materials into a cube (bale) to expedite transport

Beneficiated glass – furnace ready glass. Cullet shall be deemed furnace ready when it has been cleansed, is free of non-glass contaminants, and has been crushed or otherwise processed in such a manner as to be acceptable without further processing by the purchasing glass container manufacturer

Beneficiating processor – any person or entity certified by the Department of Conservation as a processor who also beneficiates purchased cullet so that it is furnace ready for glass container manufacturers, consistent with prevailing standards in the manufacturing industry.

Beverage container – the individual, separate bottle, can, jar, carton, or other receptacle, however denominated, in which a beverage is sold, and which is constructed of metal, glass, or plastic or other material, or any combination of these materials. "Beverage container" does not include cups or other similar open or loosely sealed receptacles.

Beverage Container Indirect (BCI) – Costs which are determined to be attributable to more than one of the redeemable beverage container types (e.g., CRV aluminum, CRV glass, CRV plastic), but which could not be directly allocated to a specific beverage container material type

Beverage manufacturer – any person who bottles, cans, or otherwise fills beverage containers, or imports filled beverage containers, for sale to distributors, dealers, or consumers.

Bi-metal container – a beverage container which consists of one or more metals and which is composed primarily of steel

Cancellation – the act of removing the redemption value of an empty beverage container

Cash basis – recognizes the impact of transactions on the financial statements only when cash is received or disbursed

Certificate – the official document issued by the Division which identifies an operator of a recycling center, nonprofit dropoff program, dropoff or collection program, or community service program or processing facility as meeting the requirement for certification by the Division

Certified – an operator of a recycling center, nonprofit dropoff program, dropoff or collection program, or community service program or processing facility has met the minimum requirements established by the Division to receive a Certificate

Commingled – a mix of empty beverage containers and other containers of the same material type. Any broken glass empty beverage container(s) shall be deemed commingled.

Commingled rate – the ratio of empty beverage containers to all other containers of the same material type, as determined by the Department of Conservation

Community service program – a program, certified by the Division, which does not pay a refund value and accepts or collects empty beverage containers at a specific location or locations and meets one of the following criteria: (A) The program is organized under Section 501(c) or 501(d) of the Internal Revenue Code [26 U.S.C. 501(c) and 501(d)], or (B) The program is a charitable group organized under Section 23701 of the California Revenue and Taxation Code, or, (C) The program is operated by, or caused to be operated by, a city, county or other public agency.

Comparative income statement – a summary of vertical analyses for two or more years that permits comparison of income or balance sheet items from one year to another

Controller – the chief accounting officer of a business

Cost of goods sold – an entity's original acquisition cost of inventory that was sold to customers during a reporting period

CRV – California Refund Value, an amount paid by a distributor of beverage containers covered by the Act to the DOC for every beverage container, other than a refillable beverage container, sold or transferred to a dealer (less one percent for the distributor's administrative costs). See also Refund value.

Curbside program – a program operated by, or pursuant to a contract with, a city, county, or other public agency to pick up empty beverage containers from individual and/or multiple family residences. The program accepts empty beverage containers from consumers with the intent to recycle them, but does not pay the refund value

Current assets – cash, or items that could be readily converted into cash within a short period of time, usually a year

Current liabilities – debts a firm is obligated to pay within a year

Dealer – a retail establishment which offers the sale of beverages in beverage containers to consumers

Densification – the process of compressing material for the purpose of increasing the weight-to-volume ratio

Depreciation – the systematic allocation of the acquisition (original) cost of an asset to the expense accounts during periods that benefit from the use of the asset

Direct costs – costs which can be directly attributable to a specific CRV material type (such as a glass bin or aluminum can crusher) or to other materials or business (such as a newspaper baler or tow truck)

Direct yard labor (DYL) – employee time spent in the yard performing material handling-related activities. At a single certified site, these activities include receiving, sorting, inspecting, weighing, counting, making payment, emptying bins, baling, crushing, blowing, shredding, storing, loading for transport, and associated routine maintenance and clean-up. At dual certified sites, recycler functions/activities include receiving, sorting, inspecting, weighing, counting, making payment, setting material aside for temporary storage after weighing, emptying bins, and associated routine maintenance and clean-up.

Disposal cost – the transportation cost for hauling post-filled beverage container types to a state-permitted disposal site (landfill, incinerator, or other type of state-permitted site), plus the specified disposal fee

Distributor – every person who engages in the sale of beverages in beverage containers to a dealer in this state, including any manufacturer who engages in these sales. "Distributor" includes any person who imports beverages from outside of this state for sale to dealers or consumers in this state.

Dropoff or collection program – accepts or collects empty beverage containers from consumers with the intention to recycle them, and includes any waste reduction facility that separates beverage containers from the waste stream with the intent to recycle them. "Dropoff or collection program" does not include a certified recycling center, nonprofit dropoff program, or curbside program. This recycling program does not pay refund value. Dropoff or collection program also means a program which separates recyclables from mixed municipal waste. Dropoff or collection program does not mean a program which accepts or collects recyclable materials which have already been separated from mixed municipal waste.

DR-6 – Recycler Shipping Report, a report submitted by recyclers to processors and the DOC that indicates, among other information, the total weight of CRV materials received from each certified program

DR-7 – Processor Invoice Report, a report submitted monthly to the DOC that summarizes the DR-6 reports

Dual certification – when an entity is certified as both a recycler and processor they are defined as being dual certified. The costs for dual certified entities will be obtained for both components (recycler and processor)

Financial statements – reports which summarize the financial position and operating results of a business (balance sheet and income statement)

Fiscal year – any 12 month accounting period adopted by a business

Fixed assets – another term for long-term or permanent assets; those items a firm owns and plans to use for more than one year

Generally Accepted Accounting Principles (GAAP) – a technical term including both broad concepts or guidelines and detailed practices. It includes all conventions, rules, and procedures that together make up accepted accounting practice at a given time

Grandfathered – is a term which refers to recycling centers that meet the requirements of section 2500(c) of subchapter 6 of these regulations or nonprofit dropoff programs that meets the requirements of section 2510(a)(2) of subchapter 6 of these regulations

Gross margin – see Gross Profit

Gross profit – the difference between the amount received from customers for goods (net sales) and what the firm paid for the goods (costs)

Gross sales – the total amount of money a firm takes in for the goods or services it sells; this figure is computed before returns are subtracted

Handling fee – an amount paid to an operator of a supermarket site, a rural region recycler, or a nonprofit convenience zone recycler that is located in a convenience zone, for every beverage container redeemed by the operator. The handling fee is defined in PRC Section 14513.4.

Impute – determine an actual cost of a site from a documented source. If an actual cost is not identified on the source of financial information for the entity being surveyed, the cost should be imputed, or determined from another source.

Income statement – a report used to evaluate the performance of a business by matching its revenue and related expenses for a particular accounting period

Indirect costs – costs which cannot be directly attributable to a single material type, or, in the case of cost surveys, cannot be directly attributable to non-CRV materials or business. Examples include taxes, insurance, supplies, administrative, utilities, and interest payments.

Interest – the cost of using money; the rental charge for cash

Inventory – the value of all goods on hand for sale

Liabilities – the debts or expenses that must be paid by a firm

Long-term liabilities – those debts that a firm expects to continue for more than one year

Modified Accelerated Cost Recovery System (MACRS) – a depreciation method that provides accelerated depreciation by (1) using depreciation periods shorter than useful lives, and (2) assigning higher depreciation percentages in the earlier years

Net worth – the value of the business once all debts (liabilities) have been subtracted from the value of assets; also known as owner's equity

Operating expenses – the everyday expenses, other than the cost of goods, involved in operating a firm; also known as overhead

Other business – direct labor and management of operating a sort line or activity completely unrelated to recycling. This is used where expenses for conducting these types of activities are included in the financial information obtained for the cost survey.

Owner's draws – amounts of cash or other assets removed from the business by the owner

Owner's equity – see Net Worth

Processing fee – the amount paid by beverage manufacturers to the Department of Conservation when the DOC determines that the scrap value being offered by container manufacturers or beverage manufacturers is less than the cost of recycling each type of container material

Processing payment – the amount paid by the Department of Conservation to processors, dropoff or collection programs, curbside programs, and recycling centers when the department determines that the scrap value being offered by container manufacturers, beverage manufacturers, or willing purchasers for a particular container material is insufficient to insure the economic recovery of the container type at the minimum number of recycling centers or locations required pursuant to Section 14571

Processor – any person, including a scrap dealer, certified by the Department of Conservation, who purchases empty aluminum, glass, plastic, bi-metal, or any other beverage containers, including any one or more of those beverage containers, which have a refund value established pursuant to the Beverage Container Recycling and Litter Reduction Act, from recycling centers in this state for recycling, or, if the container is not recyclable, not for recycling, and who cancels, or who certifies to the department in a form prescribed by the department the cancellation of, the refund value of these empty beverage containers by processing empty beverage containers, in any manner which the department may prescribe

Property, plant, and equipment – Tangible assets that: (1) have an estimated useful life of two or more years, (2) are not intended for sale in the ordinary course of business, and (3) are intended to be used or available for use by the entity. (Definition from Federal Accounting Standards Advisory Board (FASAB), Accounting For Property, Plant, and Equipment, Statement of Federal Financial Accounting Standards No. 6, June 1996, GPO # 041-001-00462-9.)

Recycler – a recycling center, dropoff or collection program, or curbside program

Recycling center – an operation which is certified by the Department of Conservation and which accepts from consumers, and pays or provides the refund value pursuant to Public Resources Code Section 14572, for empty beverage containers intended to be recycled

Redeem – to return an empty beverage container that is identified with "CA Redemption Value," "California Redemption Value," "CA Cash Refund," or "California Cash Refund" to a certified recycling or processing facility and receive refund value for the container

Redeemable beverage container – a container identified with "CA Redemption Value," "California Redemption Value," "CA Cash Refund," or "California Cash Refund" which has an established refund value

Redemption and redeem – the return to a recycling center or location of an empty beverage container for a refund of at least the refund value

Redemption payment – the minimum amount paid by a distributor to the Department of Conservation for every beverage container sold or transferred to a dealer

Refund value – the minimum refundable value established for each type of beverage container pursuant to Section 14560 which is paid by the following: (a) A certified recycling center to the consumer or dropoff or collection center for each beverage container redeemed by the consumer or dropoff or collection center; (b) A processor to a certified recycling center, dropoff or collection program, curbside program, or nonprofit dropoff program for each beverage container received from the certified recycling center, dropoff or collection

program, curbside program, or nonprofit dropoff program; (c) The department to a processor, for every beverage container received by the processor from a certified recycling center, curbside program, dropoff or collection program, or nonprofit dropoff program.

Roll off bins – large containers on wheels that can be rolled on or off a trailer for transport

Scrap value – the price paid for container material types subject to Public Resources Code Division 12.1 (The California Beverage Container Recycling and Litter Reduction Act), after shipping and handling costs are deducted.

Shipping report – is the documentation of the receipt of material by a processor, or by a recycling center or certified nonprofit dropoff program from another recycling center, drop or collection program, or community service program, curbside program, or certified nonprofit dropoff program. The shipping report is the basis for payment by the Division.

Short-term liabilities – see Current Liabilities

Straight line depreciation – a depreciation method that spreads the depreciable value evenly over the useful life of an asset

Superemployee – a group of employees who perform substantially the same duties at a recycling center selected for the processing fee cost survey. Entering one superemployee on the **Labor Input Sheet** of the cost survey model reduces time spent during the on-site labor hour interviews and reduces data entry effort. Generally, a superemployee should only be used to group all employees that perform non-CRV materials or other business activities.

Unallocated labor – employee time spent performing an unknown activity

Unlocated difference – the difference between wages shown on the financial information and wages entered on the **Labor Input Sheet** of the automated cost survey model. Wages entered on the **Labor Input Sheet** are: (1) payroll register, W-2s, or DE-3 wages (e.g., benefits), and (2) imputed wages (e.g., for a missing month of W-2s or employees paid cash) that also must be entered on the **Cost Input Sheet** as a Category 1 cost. The survey team must ensure the ULD does not exceed plus or minus five percent of the financial statement wages. The calculation of the ULD is as follows:

	Calculation	Source (cost survey model worksheet name)
	Labor costs from financial statements	**Cost Input Sheet**
-	Labor wages	**Labor Input Sheet**
-	Category 1B labor (non-direct wage labor) from financial statements	**Cost Input Sheet**, cost category 1B
=	Unlocated difference (ULD).	

Module 1
Program Overview

Objectives:

- Review the purpose and calculation of processing fees and handling fees
- Describe the need to perform allowable cost surveys
- Provide adequate background on the allowable cost survey approach

Key Topics:

- History
- Certified recyclers (RCs/RVs) and certified processors (PRs)
- Measuring costs of recycling
- Role of allowable cost surveys
- Selecting sites to be surveyed
- Measuring scrap value
- Training curriculum contents

Curriculum Materials:

Reading List/Handouts:

1. *Program Background* (NewPoint Group, March 2011)
   – provided in training manual Volume II – Supplemental Materials
2. California Beverage Container Recycling & Litter Reduction Act (Revised October 2010)
   – provided in training manual Volume II – Supplemental Materials
3. Relevant Regulations
   - CCR Title 14, Division 2, Chapter 5 (Subchapter 12, DOR Requirements)
   - CCR Title 14, Division 2, Chapter 5 (Subchapter 2, General Requirements)
   - CCR Title 14, Division 2, Chapter 5 (December 2006 Emergency Regulations)

   – provided in training manual Volume II – Supplemental Materials

Work Assignments:

1. Read assigned reports
2. Read applicable legislation and regulations
3. Complete the processing payment quiz
4. Review training curriculum
5. Perform processing payment calculation exercises

Key Topics

History

The Beverage Container Recycling and Litter Reduction Act (Act) was created by the Legislature in 1986 (Chapter 1290, Statutes of 1986). The enabling legislation, Assembly Bill 2020, was crafted to establish a coherent, comprehensive Beverage Container Recycling Program (Program) aimed at making beverage container recycling integral to the California economy. The Program treats recycling as a market proposition in which the basic premise is that the unnecessary disposal of beverage containers, and the resulting waste of virgin resources, represents market inefficiencies and a misallocation of limited resources.

Traditional bottle bills require consumers to return containers to stores. In California, AB 2020 provides a network of recycling locations for the convenience of consumers and retailers.

What distinguishes the California recycling program from bottle-deposit programs established in other states is the collection and redistribution of processing fees and redemption values as a means of stimulating the market for used beverage containers. The challenge facing the Program is to create and maintain market conditions in which the incentives to recycle are sufficient to promote maximum efficiency in the reuse of beverage containers.

While the Beverage Recycling Program has withstood the test of time, this innovative and widely recognized program is constantly being examined and challenged by industry, as well as changed by the Legislature. Volume II of the Training Manual, Supplemental Materials Manual, contains additional information about the program. In that volume, the *Program Background* document discusses the background of the program, including major legislative changes to AB 2020.

Additional information about the history of AB 2020 and processing fees is provided in Volume II – Supplemental Materials, in the document titled: *Program Background*.

Technically, the DOC uses two terms: processing fee and processing payment. The processing payment is the difference between the actual costs of recycling (with financial return) and the scrap value (shown above). The processing payment is paid to recyclers. The processing fee is a fraction of the processing payment, and is paid by beverage manufacturers to help cover the cost of processing payments. For simplicity, we use the term processing fee to refer to both the processing fee and processing payment.

AB 2020 also provides for a **processing fee** on individual container types. If costs to recycle a particular container type exceed its scrap value, the Department of Resources Recycling and Recovery (Cal Recycle) is authorized to set a processing fee on that particular container type. Because the law requires certified recycling centers to accept all ten container types, the Legislature designed the processing fee to enable certified recyclers (and, prior to 1993, processors) to recover allowable operating costs and earn a reasonable financial return. The processing fee is calculated as follows:

	Actual Costs of Recycling
+	Financial Return
-	Scrap Value
=	Processing Fee (if > $0)

CalRecycle obtains labor and operating costs and labor hours from certified recyclers in California to determine the actual costs of recycling. CalRecycle also conducts surveys to determine scrap values being paid by processors. Results of these surveys are used to calculate a processing fee for the following 10 CRV material types:

- Aluminum
- Glass
- Plastic:
  - #1 PET (polyethylene terephthalate)
  - #2 HDPE (high density polyethylene)
  - #3 PVC (polyvinyl chloride)
  - #4 LDPE (low density polyethylene)
  - #5 PP (polypropylene)
  - #6 PS (polystyrene)
  - #7 Other
- Bi-metal.

Results of the cost surveys also are used to calculate a handling fee for each CRV beverage container redeemed. The handling fee is per container, regardless of the material type.

Methods to measure costs of recycling and scrap value have changed in response to new legislation and revised regulations. The following bills making significant changes in processing fees have passed since enactment of AB 2020:

- AB 1490 (Sher, 1990)
- AB 2212 (Sher, 1991)
- AB 87 (Sher, 1992)
- SB 1178 (O'Connell, 1995)
- SB 332 (Sher, 1999)
- AB 1244 (Olberg, 1999)
- AB 28 (Jackson, 2003)
- AB 3056 (Committee on Natural Resources, 2006)
- AB 1357 (Padilla, 2008)
- SB 63 (Strickland, 2009)
- ABX87 (Evans/Committee on Budget, 2010).

Current statutes provide for the next calculation of processing fees to be effective on and after January 1, 2012. Scrap values for material currently in the program are based on the average scrap values paid to recycling centers by processors. The calculation effective January 1, 2012, will be based on cost surveys conducted during the 2011 calendar year for costs incurred during calendar year 2010, and excludes those recyclers that receive handling fees. Cost surveys will be conducted every second year thereafter. Beverage manufacturers pay a base, per-container processing fee equal to at most 65 percent of the per container processing payment. If there are sufficient funds in the individual material processing fee accounts, the bills require the Department to reduce the processing fee paid by beverage manufacturers.

Current statutes now requires CalRecycle to conduct a survey of recycling centers that receive handling fees at the same time as the processing fee cost survey. The first handling fee calculation was effective July 1, 2008, and was based on cost surveys conducted during the 2007 calendar year for costs incurred during calendar year 2006. The second handling fee calculation was effective July 1, 2010, and was based on cost surveys

conducted during the 2009 calendar year for costs incurred during calendar year 2008. The third handling fee calculation will be effective July 1, 2012, and will be based on cost surveys conducted during the 2011 calendar year for costs incurred during calendar year 2010. The Department shall determine the amount of the handling fee to be paid for each empty beverage container by subtracting the amount of the statewide weighted average cost per container to redeem empty beverage containers by recycling centers that do not receive handling fees from the amount of the statewide weighted average cost per container for recycling centers that do receive handling fees, as follows:

Cost per container from sites that do receive handling fees (HF sites)
– cost per container from sites that do not receive handling fees (PF sites)

= Handling fee payment per container

Certified Recyclers (RCs/RVs) and Certified Processors (PRs)

A recycling center, or certified recycler, is an operation that accepts empty beverage containers from customers and pays a refund value (known as California Refund Value or CRV). Certified recyclers are required by law to accept, and pay at least the refund value for, all empty CRV beverage containers, regardless of type.[1] They are certified through a formal application process with CalRecycle. The "reverse vending" (RV) site uses technology and equipment that allows a consumer to automatically receive the CRV (typically as script that can be cashed at the supermarket hosting the equipment) when a container is placed in the machine.

A processor is an entity that purchases from more than one recycling center (and other recycling programs) empty aluminum, glass, plastic, bi-metal, and any other beverage containers with a refund value. Processors are responsible for removing the refund value, or "canceling" empty beverage containers. They, in turn, sell cancelled beverage container materials to an end-user (e.g., beverage container manufacturers or alternative markets locally or internationally). Similar to recycling centers, CalRecycle formally certifies processors.

Role of Allowable Cost Surveys

Current statutes require CalRecycle to perform on-site allowable cost surveys of a statistically significant random sample of only certified recycling centers. When conducting surveys, the main objective is to gather enough operating, financial, and labor data to estimate a site's actual cost of recycling. An automated allowable cost survey model has been developed to assist in estimating each site's cost of recycling.

Costs and tonnage of all sites surveyed are aggregated by CRV material type into a weighted average cost of recycling. Total costs across all sites are divided by total tonnage at all sites to calculate the cost per ton used in the equation for processing fees. Total costs across all sites are divided by total containers at all sites to calculate the cost per container used in the equation for handling fees.

Selecting Sites to be Surveyed

The law requires CalRecycle to estimate costs for recycling each material type, based on a statistically significant sample of certified recycling centers. By regulation, the sample must be representative with at least an 85 percent confidence level for estimating cost per ton. Sample sizes are calculated to allow no more than a 10 percent error factor.

[1] With the exception of "grandfathered" recyclers. These recyclers were in existence on January 1, 1986. They are exempt from collecting empty CRV beverage container types that they decided not to accept as of January 1, 1986.

Prior to conducting allowable cost surveys, CalRecycle determines the number of recyclers needed to meet sample requirements for calculating costs for processing fee calculation and the handling fee calculation. The random sample of processing fee sites is selected from the approximately 800 certified recycling centers in California. The random sample of handling fee sites is selected from approximately 1,100 certified recycling centers in California.

Measuring Scrap Value

In the past, the CalRecycle conducted surveys of all processors in the state, and requested the scrap price paid to each processor (i.e., on sales), and the tonnage purchased, for glass, plastic and bi-metal beverage containers. Aluminum scrap value was obtained from industry publications. Changes made by the legislature have resulted in statutes today that require CalRecycle to measure the scrap value as the amount paid by processors for purchases from certified recycling centers.

Unless changes are made to the law, this method of determining scrap value, based on processor sales, will be used by CalRecycle to determine January 1, 2012, processing fees. Currently, scrap value is based on processor purchases. CalRecycle measures scrap values in a separate scrap value survey.

Training Curriculum Contents

An outline of the training curriculum is provided in the table of contents for this *Training Manual*. The curriculum is organized into five areas:

- Introduction and Approach
- Site Management and Operations
- Cost Measurement
- Labor Hour Allocation
- Quality Control Reviews.

Sixteen training modules are designed to cover these five areas. Modules are structured to be reviewed sequentially. An outline of each module is provided at the beginning of the module. Each module is organized as follows:

- Objectives
- Key Topics
- Reading List and Handouts
- Case Studies
- Work Assignments.

A narrative of key topics is contained in each module. A detailed schedule of specific activities for completing each module also is provided. Required readings and handouts which cover technical and accounting subjects of each module are included in this binder (except for processing fee reports and internal research reports, which are available from CalRecycle).

Work assignments also are provided in each module to reinforce techniques and skills learned during the module. One example of a work assignment is a role playing exercise. During these exercises, trainees might assume roles as members of the survey team, or as site management, in the context of conducting portions of a cost survey. Other assignments include self study exercises, question and answers sessions, and quizzes.

Schedule

Estimated module time:	**3.5 Hours**	
Outline of Module	**Technique**	**Training Time** ***(including self study) (min.)***
1. Introduce training, participants, logistics, and administrative issues	Lecture	30
2. Introduce beverage container recycling program	Lecture	30
3. Introduce module	Lecture	45
4. Do work assignment #1 – Read assigned report	Reading	40
5. Do work assignment #2 – Read applicable legislation and regulations	Reading	5
6. Do work assignment #3 – Complete the processing payment quiz	Quiz	10
7. Review processing fee questions and answers	Class Discussion	15
8. Do work assignment #4 – Review training curriculum	Lecture	15
9. Do work assignment #5 – Perform processing payment calculation exercises	Work Assignment	5
10. Review results with participants and check answers	Self Review	20
	Totals	**215**

Readings and Handouts

(provided in training manual Volume II – Supplemental Materials Manual)

1. *Program Background* (NewPoint Group, January 2009)
2. PRC Section 14575 (Operative October 2008)
3. Relevant Regulations
   - CCR Title 14, Division 2, Chapter 5 (Subchapter 12, DOR Requirements)
   - CCR Title 14, Division 2, Chapter 5 (Subchapter 2, General Requirements)
   - CCR Title 14, Division 2, Chapter 5 (December 2006 Emergency Regulations)

Work Assignments

1. Read assigned report
2. Read applicable legislation and regulations
3. Complete the processing payment quiz
4. Review training curriculum
5. Perform processing payment calculation exercises

Work Assignment 1

Read Assigned Report

Read the following report that is provided in the training manual Volume II – Supplemental Materials Manual. This will serve to introduce processing fees and handling fees and to describe how allowable cost surveys have been performed in the past.

- *Program Background* (NewPoint Group, March 2011)

Work Assignment 2

Read Applicable Legislation and Regulations

Examine Public Resources Code 14575 provided in Volume II, Supplemental Materials, to understand the legal requirements for determining processing fees. You also should review the California Code of Regulations Title 14, Division 2, Chapter 5, titled "DOR Requirements", "General Requirements", and "December 2006 Emergency Regulations." These regulations detail the CalRecycle study requirements for calculation of commingled rates, scrap value, allowable costs of recycling, processing fee payments, handling fees, and inspection authority

- PRC Section 14575 (Operative October 2008)
- CCR Title 14, Division 2, Chapter 5 (Handout 3)

Processing Payment Quiz

Choose the best answer to the following questions:

1. Processing payments are all of the following, except:
   a. Designed for recycling centers to recover all their operating costs, including a reasonable financial return
   b. Equal to the cost of recycling, including financial return, less scrap value
   c. Based on the goal that beverage containers should pay their own costs of recycling
   d. Directly paid from the State to recycling centers
   e. Designed to hold container manufacturers responsible for internalizing the recycling costs of their containers

2. Processing fees are paid into the California Beverage Container Recycling Fund by:
   a. Beverage manufacturers
   b. Distributors and processors
   c. Container manufacturers and distributors
   d. Beverage manufacturers and distributors
   e. Processors and recyclers

3. Which one of the following is not a CRV beverage container type covered by the program?
   a. Glass
   b. Bi-metal
   c. Aluminum
   d. Paper
   e. Plastic

4. Which one of the following is not a program certified by CalRecycle?
   a. Community Service Program
   b. Convenience Zone
   c. Curbside Program
   d. Processor
   e. Recycling Center

5. Which of the following statements are false?
   a. The CRV paid by consumers for beverage containers less than 24 ounces is $0.05 per container
   b. There are approximately 700 certified recycling centers in the State that do not receive a handling fee
   c. Assembly bill 2020 established the program in 1986
   d. Current law requires CalRecycle to survey recycling centers every two years to determine the average allowable costs per container type
   e. After completing the cost surveys, cost survey data is added together for all material types to obtain an overall single Statewide cost per ton

6. Which one of the following statements is false about plastics recycling?
   a. The recycler's plastic cost per ton has varied from under $300 per ton to above $1,000 per ton since program inception
   b. Type #3 through #7 plastics cost per ton was measured by CalRecycle in the prior cost survey
   c. Type #1 and #2 plastics represent a majority of the containers recycled
   d. Type #3 through #7 plastics are often highly sought after by processors and ultimately end users as a result of their limited supplies
   e. Plastic containers are also referred to by their resin types, while aluminum and glass are referred to as material types

7. Recyclers have not received a processing fee for aluminum beverage containers because:
   a. Aluminum does not cost very much to recycle
   b. Aluminum scrap value always exceeds the cost of recycling plus a reasonable financial return
   c. Unlike other beverage containers, aluminum containers are almost always redeemed at recycling centers
   d. Aluminum beverage containers were grandfathered into the program
   e. Aluminum processing fees are so small that the industry has always elected to pay an avoided scrap value

8. Allowable cost surveys of certified recycling centers represent:
   a. A statistically significant sample of the recycling centers in the State
   b. An annual exercise completed by CalRecycle
   c. Data which, coupled with processor cost surveys, is used to determine the overall Statewide cost per ton by beverage container
   d. Data which, coupled with scrap value surveys, is used to determine the overall Statewide cost per ton by beverage container
   e. Data which is used to determine a site specific cost per ton and ultimately a site specific processing fee

9. Which of the following is true about the scrap value determination?
   a. The scrap value is based on purchases by recyclers
   b. The scrap value is based on purchases by processors and recyclers
   c. Like the cost of recycling survey, CalRecycle also conducts scrap value surveys
   d. The scrap value is based entirely on data electronically reported to CalRecycle
   e. Scrap value amounts are reduced by the cost of recycling

10. The beverage container recycling program in California was intended to create:
    a. An average container recycling rate of over 50 percent by the year 2000
    b. Relative stability in the processing payments over time
    c. A financial inducement for consumers to recycle their beverage containers
    d. An incentive-based system to encourage manufacturers use glass beverage containers
    e. A special processing fee to ensure that most certified recyclers would not go out of business

11. Which of the following is false about recycling centers?
    a. A recycling center may collect CRV and non-CRV beverage containers
    b. Not all recycling centers must be certified by the State
    c. A recycling center can be referred to as a dropoff program
    d. Some certified recycling centers are collocated with a processor, called a dual site
    e. Recycling centers can be referred to as "buyback centers"

12. Which of the following is false about processors?
    a. A processor may buy material from recycling centers, collection/dropoff programs, community service programs, other processors, and curbside programs
    b. Processors sell cancelled beverage containers to end-users for a scrap value
    c. A beneficiating processor prepares glass so that it is furnace ready for glass manufacturers
    d. A processor may elect to pay the processing fee to a recycler based on the market conditions
    e. For purposes of a cost survey, a recycler has different allowable costs than those for a processor

True or False

1. Processing payments are the difference between the cost of recycling and the scrap value
2. Avoided scrap payments are scrap value payments made by an industry that are at least equal to the estimated costs of recycling in order to avoid paying the processing fee
3. A recycling center's financial statements are exempt from public disclosure
4. Processors pay processing payments to registered curbside program operators
5. Processors pay processing payments on CRV beverage container types
6. Wine bottles are a CRV beverage container covered by the program
7. Milk containers are a CRV beverage container covered by the program
8. Plastic CRV beverage containers for products that are 100 percent fruit juice, and greater than 46 ounces, are not covered by the program
9. Certified recycling centers must pay CRV to customers on all beverage containers covered by the program
10. A processor removes the refund value of the empty beverage container so that it cannot be redeemed twice
11. Recyclers can receive processing payments from other recyclers
12. Some certified recyclers will make money on the processing payment paid to them for a particular material or resin type if their site's cost of recycling is below the cost of recycling used for the processing fee calculation
13. The commingled rate for a given material type is equal to the number of CRV beverage containers divided by the total number of CRV and non-CRV beverage containers
14. The commingled rate for a given material type is equal to the total number of redeemed beverage containers divided by the total number of received beverage containers
15. A recycling center may pay a customer both the CRV and a scrap value for a redeemed beverage container covered by the program
16. With permission from CalRecycle, a recycler may elect to dispose of a CRV beverage container
17. A recycling center must pay CRV on all out-of-State beverage containers
18. Some recycling centers selected for this survey are located within the Division's convenience zones and also receive a handling fee
19. Processing payments vary by material type, depending on the cost of recycling and the scrap value
20. Plastic beverage container resin types are labeled with the resin number inside a triangle

Work Assignment 4

Review Training Curriculum

Trainees should familiarize themselves with the organization and contents of the training manual.

Processing Payment Calculation Exercises

Choose the best answer to the following questions. Note that figures shown in these questions do not represent actual processing fee results.

1. Use the following data to determine what the reasonable financial return for glass recycling centers was:

Total Recycling Center Cost of Recycling:	$82.45/ton
Total Processing Payment:	$83.68/ton
Average Scrap Value:	$3.25/ton

   a. 7.12 %
   b. 6.73%
   c. 5.43%
   d. 5.00%
   e. 7.93%

2. Use the following data to determine what the reasonable financial return for PETE #1 recycling centers was:

Recycling Center Cost of Recycling:	$493.31/ton
Processing Payment:	$226.39/ton
Average Scrap Value:	$301.45/ton

   a. 8.00%
   b. 7.00%
   c. 6.00%
   d. 5.00%
   e. The market appears to be paying an avoided scrap value, so no financial return would be calculated.

3. From the data provided below, determine processing payment for HDPE #2:

Recycling Center Cost of Recycling:	$671.73/ton
Financial Return	6.0%
Average Scrap Value:	$402.65/ton

   a. $228.78/ton
   b. $309.38/ton
   c. $244.92/ton
   d. $0/ton
   e. Cannot determine from the above information

4. From the data provided below, determine processing payment for PVC #4:

Recycling Center Cost of Recycling:	$1,583.72/ton
Financial Return	7.0%
Average Scrap Value:	$10.83/ton

   a. $1,462.03/ton
   b. $1,683.75/ton
   c. $1,572.13/ton
   d. $1,462.79/ton
   e. $264.75/ton

5. From the data provided below, determine processing payment for aluminum:

Recycling Center Cost of Recycling:	$465.90/ton
Financial Return	6.0%
Average Scrap Value:	$493.85/ton

   a. $42.17/ton
   b. $84.34/ton
   c. $86.15/ton
   d. $43.07/ton
   e. The market appears to be paying a scrap value, and is larger than the cost plus financial return, so no processing payment

Module 2
Fundamentals of a Cost Survey

Objective:

- Understand the objectives and general procedures for planning, conducting, and completing an on-site cost survey

Key Topics:

- Pre-site Visit Procedures
  - Obtain site information and assemble site file (verify that contact name, address, telephone and facsimile number, site certification number(s) are correct). Obtain automated cost survey model for the site that contains the redeemed weight and site-specific commingled rate from CalRecycle.
  - Review and carry site notification letter sent in group mailing
  - Confirm date and time of visit and obtain directions to site
- On-site Visit Procedures
  - Walk-though site and document site activities for the S*ite Memorandum*
  - Review financial documentation and identify costs through interviews
  - Obtain labor wage and hour information and conduct labor interviews
  - Enter labor hour data onto hard copies and, if time allows, into the automated cost survey model
  - Review results for accuracy and reasonableness
  - Obtain signed affidavit
- Post-site Visit Procedures
  - Enter financial and labor information into cost model
  - Prepare and print *Site Memorandum* and other site forms
  - Print automated cost survey model output
  - Assemble site file
  - Perform home office audit review

Curriculum Materials:

Reading List/Handouts:

1. Sample notification letter
2. *Cost Survey Site Procedures*

Work Assignments:

1. Review site files completed during the prior statewide cost survey
2. Answer questions testing site survey procedure knowledge

Key Topics

A team of two field auditors generally constitute a survey team that will visit each selected recycling center. The two phases of a cost survey are:

- **Pre-site visit data review and appointment confirmation**. During this phase, the survey team will obtain the cost model containing pre-loaded information about the site, and confirm their appointment with site management.
- **On-site cost survey and labor interviews**. During this phase, the survey team tours the site, interviews site management to clarify financial information, and interviews site management to allocate each employee's time to CRV and non-CRV activities. Information from the walkthrough is used in completing the *Site Memorandum*.

Pre-Site Visit Procedures

Before conducting the on-site cost survey, the survey team should review any available information about that site, including:

- Recycling volumes
- Previously completed cost survey site files
- Financial and payroll information submitted in advance of the site visit (this is not a requirement, so this information will probably not be available in advance of the site visit).

The team also should ensure that it has the automated cost model for the site that contains the site's identifying information and 2010 CRV redeemed volumes

Prior site knowledge allows an interviewer to ask questions related to a site's operations, which facilitates gathering more information.

Staff should note any trends or relationships observed from this review, such as the relative size of the site (by material), and whether this site was a low, medium, or high cost site in the last survey. If they were not in the prior survey, use the current volumes to interpolate, using last year's information, whether it is low medium, or high volume.

Finally, prior to a site visit, the survey team should ensure that the automated cost survey model for the assigned site is on the staff's laptop computer.

CalRecycle must send a notification letter completed by CalRecycle to each site surveyed. Notification letters should be mailed at least one month in advance of the beginning of the pre-site visit contact in order to provide sufficient preparation time for site management. A notification letter should identify the reasons why allowable cost surveys are performed, and indicate when the survey will be conducted. Additionally, the letter should describe which financial and payroll records are required to complete the cost survey. Finally, a description of the type of interviews that will be conducted should be included.

Prior to the visit, the survey team should confirm each site visit with site management by either telephone or facsimile. The team should arrange a specific date, time, and location to meet a contact for the site. Further, the team should obtain accurate directions to the site.

On-Site Visit Procedures

Touring the facility and site

At the site, the survey team should:

- Introduce all survey team members to site management and exchange business cards. One of the interviewers should provide a brief overview of processing fees and handling fees, and describe the purpose of cost surveys. The team also should attempt to answer any preliminary questions site management may have regarding the allowable cost survey process. During this introductory meeting, the team should attempt to obtain a general understanding of the nature of the business.
- Conduct a site walkthrough with site management to inquire about the site's operations and both team members should take notes. The team should be accompanied by site management during the walkthrough, inquire about the site's operations.

During the walk through of the yard and general offices, and using checklists for each material type, the survey team should:

- Confirm what everyone does
- Observe operation of the recycling and processing functions
  - How do they buy/weigh material?
  - How/where do they pay for the material?
  - Look at the equipment – is it depreciable? Equipment purchases made during the cost year should be noted. Old equipment is often fully depreciated.
  - Are customers or staff sorting materials?
- Determine if anyone is performing inappropriate tasks (e.g., tasks for another business not related to beverage container recycling)
- Determine what entity ships IN and OUT – the recycler/processor or others?

The following are questions that should be asked during the walkthrough. These answers should be compared to confirm if they conform to other data. All of these questions must be answered in the *Site Memorandum*.

- How long has site been in existence? Does this conform to our data?
- How many employees?
- Types of materials purchased? Does this conform to our data?
- Changes since last year?
- Shipping/Freight – do you operate your own equipment or does someone else haul your material?
- Do you pay transportation charges?
- Does the buyer of your material pay for the transportation?
- Is there a SVD (scrap value deduction) or are you paid less per pound?
- From whom does the recycling center purchase material, consumers vs. other recyclers? You do not need specific names but how many?
- To whom does the recycling center sell material?
- Do you have any equipment that is not used for all materials? Identify any equipment that is not used for all material types or other business(es) on the *Site Equipment List*.

- Is your equipment/vehicle fleet owned or leased? If leased, is the lease from a third party or a related parent or subsidiary company?

During the walk through staff should:

- Complete the following forms during the visit (each of which is a MS Word template):
  - *Site Equipment List* (an MS Word template, *Site Equipment List Template.dot*)
  - *Site Memorandum* (an MS Word template, *Site Memorandum Template.dot*), sections A and B.

Determining Site Costs

Following the site walkthrough, the survey team should review the site's financial information to identify costs, and should request copies of all appropriate financial documentation. A team member should interview site management to understand the site's financial data. Specifically, the interviewer should categorize costs into allowable cost categories, and identify all direct costs associated with the business. The interviewer should use the automated cost survey model to input results of the interview. The survey team should key enter in the cost model the financial information provided by site management.

- If not already obtained and key entered prior to the on-site visit:
  - Request copies of all appropriate financial documentation, review the site's financial information to identify costs, and categorize costs into allowable costs categories
  - Obtain employee wages and hours for any employee who worked at the site during the year for which costs are being measured.

Determining Labor Hour Allocation

During a separate interview with site management, the survey team should obtain employee wages and hours for any employee who worked at the site during the year for which costs are being measured. The critical component of the on-site survey is to determine the portion of time each employee spends on CRV and non-CRV activities. This is done by asking site management what each employee did during the year, and recording the answers on the labor worksheet. These labor interviews can be conducted simultaneously with the financial review interviews, provided that another manager or supervisor at the site can provide the necessary information on each employee's time.

Post-Site Visit Procedures

Following the site visit, the survey team should enter all financial and labor information into the cost model, and review the results. The survey team should print a copy of the automated cost survey model output. A site file then should be fully assembled, indexed, and completed (described in Module 3).

Finally, senior cost survey staff should perform a home office audit review of the site file for completeness and reasonableness (described in Module 16). The purpose of this review is to 'double check' that procedures were followed, assess if the automated cost survey model was correctly completed, and evaluate the reasonableness of the cost per ton for each CRV material and per container.

Schedule

Estimated module time:	**2 Hours**	
Outline of Module	**Technique**	**Training Time *(including self study) (min.)***
1. Review fundamentals of a cost survey	Lecture	30
2. Do work assignment #1 – Review site files completed during the prior statewide cost survey	Self Study/Reading	60
3. Do work assignment #2 – Answer questions testing site survey procedure knowledge	Work Assignment	20
4. Review results with other participants	Self Review	10
	Totals	**120**

Readings and Handouts

1. Sample notification letter
2. *Cost Survey Site Procedures*

Natural Resources Agency Edmund G. Brown, Jr, Governor

CalRecycle DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

801 K STREET, MS 19-01, SACRAMENTO, CALIFORNIA 95814• (916) 322-4027 • WWW.CALRECYCLE.CA.GOV

July 18, 2011

(OPERATOR NAME)
(ORGANIZATION NAME)
(ADDRESS)
(CITY STATE ZIP)

Dear (OPERATOR NAME):

Subject: **Processing Fee and Handling Fee Cost Surveys**

Your business has been randomly selected to participate in the cost survey to determine the January 1, 2012 Processing Fees and Processing Payments. A representative from the Department of Resources Recycling and Recovery (CalRecycle) will contact you within the next month to arrange a date and time for visiting your site and collecting the necessary cost and labor information. The cost survey will be for the following recycling center(s):

(FACILITY NAME – CERT ID)

* * * * *

This year, the processing fee and handling fee cost surveys are starting several months later than in prior years. Because of this late start date, CalRecycle has a very short time-period in which to conduct the approximately 300 recycling center surveys. As a result, we respectfully request that you accommodate CalRecycle representatives when they contact you to schedule a site visit, and that you provide all the requested financial and labor information at the time of the site visit.

The survey process will typically consist of a site visit by one or two CalRecycle representatives. They will require access to information regarding your employees' work activities, your payroll, and all costs for the twelve months ending on December 31, 2010. CalRecycle representatives also will conduct interviews of site managers, or any other site personnel, regarding the work functions and activities performed by each of your employees during calendar year 2010.

Collecting and organizing the required financial and labor information for CalRecycle prior to the site visit will reduce the time CalRecycle representatives spend at your site and reduce the need for representatives to contact you after the site visit. When you are contacted to schedule the site visit, a CalRecycle representative will request selected financial information needed for the site visit. To aid you in determining which records are more appropriate for our use, CalRecycle representatives will be asking for the following information in priority order:

ORIGINAL PRINTED ON 100% POST-CONSUMER CONTENT, PROCESSED CHLORINE FREE PAPER

(OPERATOR NAME)
July 18, 2011
Page 2

Business financial statements, including a depreciation schedule:

- Audited financial statements (including income statements with revenues and expenses), or
- Reviewed financial statements, or
- Tax returns with supporting ledgers and schedules, or
- Compiled financial statements, or
- Trial balances with supporting ledgers and schedules.

A schedule of hours and wages (including regular and overtime hours) for each employee:

- W-2s with supporting hours, or
- EDD Form DE-3s for each quarter in 2010 with supporting hours, or
- Any other records that show hours and wages.

The Processing Fee and Handling Fee are calculated from the statewide average costs of recycling beverage containers, which are determined from this cost survey of a statistically significant sample of certified recycling centers. To reflect changes in the costs of operating a recycling center, the costs of recycling used to calculate the Processing Fee and Handling Fee are updated every two years. CalRecycle will begin cost surveys of 2010 costs of recycling for certified recycling centers on August 8, 2011.

In order to obtain accurate cost information to determine the Processing Fee and Handing Fee, Section 2125, Chapter 5, Division 2, Title 14, of the California Code of Regulations (CCR) establishes the inspection authority of CalRecycle whereby a certified operator shall provide access to the operator's facility or program for representatives of CalRecycle to obtain allowable cost survey data pursuant to Sections 14575 and 14585 of the Public Resources Code (PRC). Failure to provide information for the cost surveys shall result in Revocation of a Certification, or Suspension of a Certification and imposition of Civil Penalties, pursuant to PRC Section 14591.1 and CCR Section 2125. Information obtained during the cost surveys is considered proprietary and is kept completely confidential pursuant to CCR Section 2945.

Your cooperation on these cost surveys is greatly appreciated. To minimize the survey time, please ensure that all pertinent information is available for CalRecycle representatives on your survey date. If you have any questions regarding the cost survey process, please contact Mr. Hieu Le, of CalRecycle, at (916) 323-1493, or Dr. Jim Gibson, of NewPoint Group, at (916) 442-0189.

* * * * *

Si querria una tradicion en espaňol de esta carta, pro favor llmar Senora Xinh Lorente (916) 812-4012.

Sincerely,

Mike Miller, Manager
Operations Program
Audits and Data Analysis Division

COST SURVEY SITE PROCEDURES

RC: _____ **PR:** _____ **Name:** _____
Site Visit Date: _____

	Initials	Date
ON-SITE		
GENERAL		
1. Conduct introductions, exchange business cards, and provide brief background of cost surveys		
2. Tour the facility and document observations, customer transactions, material flows, and sales to processors, and complete the *Site Equipment List*		
3. Note any changes in the operation from the previous calendar year		
4. Confirm contact person(s), including name title, address, voice, and FAX telephone numbers, and email		
FINANCIAL		
5. Obtain and review financial documentation with site manager, including depreciation schedule		
6. Identify direct costs for material type or BCI, where possible		
7. Determine use of fixed assets (e.g., balers, trucks) for CRV materials, including mileage to/from processor		
LABOR		
8. Obtain and review labor hours and wages information (payroll register or equivalent)		
9. Conduct labor allocation interviews with site management using labor allocation worksheet		
10. Reconcile labor costs reported on financial statements to labor costs reported on payroll documentation		
PRIOR TO DEPARTURE		
11. Ensure that all operational, financial, and labor information has been obtained		
12. Confirm a date and method to obtain the information, if financial and labor information is incomplete		
13. Obtain signed affidavit		
OFF-SITE		
FINANCIAL		
14. Input costs from financial statements		
15. Determine allowable costs from cost category directory		
LABOR		
16. Enter labor information on the **Labor Input Sheet** of the automated cost survey model		
SITE MEMORANDUM		
17. Complete Sections A, B, and E using notes and checklists from site tour		
18. Document source of labor/payroll information (location, type, dates, and nature of source) (Section C)		
19. Document source of financial information (location, type, dates, and nature of source) (Section D)		
20. Document problems encountered and solutions provided (Section F). ANY DOCUMENTED PROBLEM **MUST** HAVE A DOCUMENTED SOLUTION.		
SITE DOCUMENTATION		
21. Incorporate any supporting labor and financial calculations and/or assumptions as one or more new worksheets in the cost model		
22. Prepare, review, and finalize site file, with all required workpaper cross-references and tickmarks		
23. Ensure that cost model, *Site Memorandum*, *Equipment List* have been backed up to the backup location established for all site surveys		

COST SURVEY SITE PROCEDURES	Reviewed by: Date:	Prepared by: Date:	Index # **A.1**

Work Assignments

1. Review site files completed during the prior statewide cost survey
2. Answer questions regarding site survey procedure knowledge

Work Assignment 2

Answer Questions Regarding Site Survey Procedure Knowledge

True or False

1. ____ The documentation of the site's cost and labor hour interviews can be performed simultaneously.

2. ____ It is best to write down the results of a cost or labor interview and later input these results into the automated model.

3. ____ CalRecycle must mail a notification letter in advance of the site team's visit, informing site management about the cost survey.

4. ____ The survey team must review the results of the survey with site management.

5. ____ Prior to arriving at a site, the survey team should obtain the partially completed file for the site. This site file will include contact information obtained to schedule the site visit. The survey team also may place required information acquired in advance of the visit, including any partially completed site activity description.

6. ____ The first step in the on-site survey is to introduce the survey team and review the purpose of the visit with site management.

7. ____ Site management most likely will be a cashier who runs the buyback center.

8. ____ The survey team should always obtain a signed affidavit from site management.

9. ____ Upon completion of the on-site visit, the survey team should review results of the automated cost survey model, as well as all information obtained from site management, for reasonableness and accuracy.

10.____The home office review is the initial time which the survey team assures that CRV material cost per ton results are reasonable.

11.____The survey team should determine the recycler's scrap value based on the recycler's total tons of each CRV material purchased and total scrap paid for each CRV material.

12.____The *Site Memorandum* is primarily used to record the name, address, and phone number of the contact person, and the total tons of materials recycled at the site.

13.____If problems are encountered at the site that involve how to calculate costs, the survey team should wait until they get back to the CalRecycle office to resolve them with the team leaders.

14.____It is not always necessary to identify every employee who worked at the site during the year for which costs are being measured.

15.____Because cost information is entered into the automated cost survey model, it is not necessary to identify the source financial documents.

16.____Labor interviews with site management are intended to determine the proportion of each employee's time that was spent handling CRV and other materials.

17.____The redemption weight of each CRV material is input into the cost survey model and is used to allocate the indirect costs of the site to each CRV material.

Module 3
Workpaper Techniques

Objective:

- Teach proper workpaper techniques

Key Topics:

- Generating workpapers during the cost survey
- Footnoting
- Creating and indexing a site file
- Cross referencing
- Assembling and labeling a site file
- Performing desk review and sign-off (initial and date)
- Performing home office review and sign-off (initial and date)
- Clearing review notes

Curriculum Materials:

Reading List/Handouts:

1. *Audit Working Papers; Examination of the General Records*
2. *Working Paper Basics*
3. Site index

Work Assignments:

1. Prepare *File Activity Sheet*
2. Review an actual site file and present review to all training participants

Key Topics

Generating Workpapers During the Cost Survey

Workpapers document procedures performed by a survey team during the cost survey and support the results of a cost survey. Workpapers include photocopies of documents provided by a site's management, and additional documentation generated by the survey team. The survey team's workpapers should be completed on the *Site Memorandum,* other required site forms, and the cost model's Excel spreadsheets. Workpaper assembly involves documents provided by site management and those generated by the survey team.

Assembling documents provided by a site's management:

- Documents supporting financial information (e.g., financial statements, depreciation schedules)
- Documents supporting labor wage and hour information (e.g., payroll registers, State DE-3s)
- Other miscellaneous documents (e.g., brochures, and pamphlets)
- One business card.

Generating documents during pre- and on-site visit:

- *Site Memorandum*
- *Site Equipment List*
- Automated cost survey model file and backup media
- Footnotes (included in cost survey model on first page)
- Supporting calculations, forms, schedules
- *Recycler Written Records Laws* survey.

Survey teams must prepare a site file for each site surveyed. This module addresses how workpapers should be organized and indexed into a separate site file. It is necessary for workpapers to be comprehensive and prepared properly.

Most workpapers are obtained from site management, or are generated by the survey team on-site. However, the automated cost survey model output, and other computer generated information (e.g., *Site ID and Volumes Sheet*, and footnotes) are printed in the office after the site visit. DOC staff and other third parties may refer to site files in the future for: (1) subsequent cost surveys, (2) follow-up studies, and (3) litigation support activities.

Footnoting

Footnotes are brief written explanations used to clarify ambiguous or unclear information in the cost survey. They provide support of results or conclusions made by the survey team. Where possible, footnotes should not exceed two sentences. When a footnote cannot fully support a conclusion, interviewers should use the "problems encountered and solutions" section of the *Site Memorandum*.

Footnotes should be used to provide detail concerning imputed costs, non-allowable costs, related party transactions, or employee activities. Further, footnotes should be used to describe how costs are directly assigned by site team to a CRV material. For example, the footnote might explain that:

> "Bob, the owner, indicated that the $40,000 of depreciation for a conveyor system indicated on depreciation schedule is for the materials recovery facility operated at the site."

Interviewers may input footnotes in the direct **Cost Input Sheet** of the automated cost survey model, and on the hard copy printout of the cost model. The interviewer should provide a reference in the footnote to relate the footnote to a location in the model's output (e.g., for the direct **Cost Input Sheet** a cell row and column, and for the **Labor Input Sheet** an employee name).

In many cases, interviewers will need to handwrite a footnote on site management provided hard copies. Handwritten footnotes may be used when a survey team member prepares a separate schedule or calculation sheet. In these cases, tickmarks should be placed in red pencil immediately next to the referenced figures or data. A matching tickmark also should be placed at the beginning of the related footnote. The footnote should be written at the bottom of workpaper that the footnote is referenced from (refer to the reading titled, *Working Paper Basics*, for a further discussion of tickmarks).

Creating and Indexing a Site File

To maintain consistency in organizing site files, a standard indexing procedure is used. All site files should be ordered and labeled the same way. Each section in a site file is indexed with a letter prefix, and sometimes a number suffix (e.g., B. 1.2). Actual completed site files from the prior processing fee cost surveys will be provided during training as examples.

The index used for cost surveys is as follows:

Left Side of Site File		Right Side of Site File	
Code	Content	Code	Content
A	*Cost Survey Site Procedures*	1	Labor Information
B	*Site Memorandum*	2	Financial Statements
C	Processing Fee Model	3	Depreciation Schedule
D	*Site Equipment List*		

Workpapers must be arranged in the site file according to this index. Each sheet should be titled in the bottom center and labeled with an index number in the bottom right hand corner. The output of the automated cost survey model is labeled "Processing Fee Model" and indexed "C".

Each workpaper should support the workpaper it is indexed under, and multiple pages of a workpaper should be labeled consecutively (i.e., 1/3, 2/3, 3/3). For example, a site's two-page financial statement would be indexed at the bottom right corner as 2 1/2 and 2 2/2. For the same site, a three-page depreciation schedule supporting the depreciation expense on the site's financial statements would be labeled 3 1/3, 3 2/3, and 3 3/3. The reader should refer to pages 11-16 in *Working Paper Basics* for a general discussion of indexing.

Both members of the on-site survey team must:

- Assure that each workpaper supports the workpaper it is indexed under, and label multiple pages of a workpaper labeled consecutively (i.e., 1/3, 2/3, 3/3)
- Sign-off on all workpapers by initialing and dating each workpaper in the bottom, right-hand corner of the sheet
- Cross reference any item to reference(s) in other workpapers:
  - Place a corresponding cross-reference on both workpapers each time information is referenced from one workpaper to another workpaper
  - Use the "envelope technique" for cross-references documents depending on the location of a reference to the item being referenced
    - Any reference written to the right or below the number indicates that the amount is going to that summary workpaper
    - Any reference written to the left or above the number indicates that the amount is coming from that summary workpaper
  - Make both references so any reader can follow the flow of workpapers
- Assure information on one workpaper agrees with that on another workpaper:
  - Indicate where numbers or data originated (where the supporting detail is located)
  - Indicate where amounts are summarized in workpapers

A survey team member should sign-off on all workpapers by initialing and dating each workpaper in the bottom right hand corner of the sheet next to the index number. This sign-off confirms all information contained in the workpaper is accurate and complete.

Cross Referencing

Cross referencing is the process of assuring information on one workpaper agrees with that on another workpaper. Cross referencing has two purposes: (1) to indicate where numbers or data originated (i.e., where the supporting detail is located), and (2) to indicate where amounts are summarized in workpapers.

An amount supporting a total located on another workpaper should be cross-referenced between workpapers. This is accomplished by placing the workpaper index next to the cross-referenced amount.

Two rules for cross references are:

- A rule used when cross referencing is that any reference written to the left, or above an amount, indicates the amount is *from* that workpaper.
- Any reference written to the right, or below the number, indicates that the amount is *going to* that summary workpaper.

Each time information is referenced from one workpaper to another workpaper, a corresponding cross-reference must be placed on both workpapers. It is important to make both references so a reviewer can follow the flow of workpapers.

Because most information requiring cross referencing is in the automated model's output, team members will need to cross reference only in some cases. For example, where a separate schedule is developed by the survey team to provide support to reconcile payroll register wages to the financial statement, it should be properly cross referenced to the hours on the model's labor input sheet output. Further, where figures are noted in the *Site Memorandum*, interviewers should cross reference these figures to the model's output sheets. Staff should review pages 10-12 of *Working Paper Basics* (a handout to this module) for additional cross-referencing procedures.

Assembling and Labeling Site File

Each site file should be organized into an audit folder according to the site index. Site files must be labeled with the site's RC number, company name, and the audit year on the outside front cover of the audit folder.

The outside back cover also should be labeled with the company name and certification number(s) in the top left corner to read when the site file is stored in a file cabinet or storage box. This external labeling is typically already done before the survey team receives the site file.

Performing Desk Review and Sign-Off (Initial and Date)

To complete the site file, the survey team should conduct a desk-review of the site file (as described in Module 15). During this review, the survey team verifies procedures were followed, confirms no errors are apparent, and performs a reasonableness check.

To verify procedures were performed, survey team members should complete the *Site Procedures* form (*Site Procedures Template.dot* MS Word template). For each procedure on the form, team members should provide a workpaper reference matching the index of workpapers generated from that procedure. Team members also should sign-off by initialing and dating when the procedure was completed.

Performing Home Office Review and Sign-Off (Initial and Date)

A home office review should be conducted by project management after the survey team has completed the site file. During this review, project management will determine if all procedures were performed correctly, whether the site file is complete, and if cost results are reasonable (as discussed in Module 16). Project management should prepare a sheet noting any problems discovered in this home office review and place it at the front of the site file. Project management should initial and date the note sheet. To clear the project management review notes, the survey team must correct or reconcile each problem.

Clearing Review Notes

The survey team should respond to problems listed on the note sheet prepared in the home office review. When a problem is corrected or reconciled by a survey team member, the survey team member should initial and date on the note sheet that the problem was addressed. The site file should be resubmitted until all notes are cleared, at which point the note sheet is removed and the site file is complete.

Schedule

Estimated module time:	**2.2 Hours**	
Outline of Module	**Technique**	**Training Time** ***(including self study) (min.)***
1. Introduce module	Lecture	20
2. Read *Audit Working Papers* and *Working Paper Basics*	Reading	20
3. Read key topics, handouts	Reading	10
4. Do work assignment #1 – Prepare *File Activity Sheet*	Work Assignment	15
5. Do work assignment #2 – Review an actual site file and present review to all training participants	Work Assignment	45
6. Review results	Q & A	20
	Totals	**130**

Readings and Handouts

1. *Audit Working Papers*; *Examination of the General Records*
2. *Working Paper Basics*
3. Site file index

Chapter 10

Audit Working Papers; Examination of the General Records

Chapter Objectives

After studying this chapter, you should be able to:

- Describe the functions of audit working papers.
- Explain the relationship between the working papers and legal liability of auditors.
- Discuss the factors that affect the auditors' judgment as to the quantity, type, and content of the working papers.
- Describe the types of working papers, and the way they are organized.
- Identify the types of general records that are examined by auditors.
- Explain the major types of laws and regulations with which auditors should be familiar.
- Describe the auditors' review and testing of the client's accounting records.

Working papers are vitally important tools of the auditing profession. In this chapter, we first discuss the basic characteristics of working papers and the roles these papers play in the audit process. We also discuss a variety of general records that auditors examine during their audits.

What Are Audit Working Papers?

Working papers are the connecting link between the client's accounting records and the auditors' report. They document all of the work performed by the auditors and provide the justification for the auditors' report. The third standard of fieldwork states that::

> Sufficient competent evidential matter is to be obtained through inspection observation inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

All of this evidence must be clearly documented in the auditors' working papers.

Some working papers take the form of bank reconciliations or analyses of ledger accounts; others may consist of photocopies of minutes of directors' meetings; still others might be organization charts or flowcharts of the client's internal control structure. Working trial balances, audit programs, internal control questionnaires, letters of representation obtained from the client and from the client's legal counsel, returned confirmation forms-all of these schedules, lists, notes, and documents are part of the auditors' working papers.

Thus, the term ***audit working papers*** is quite comprehensive. Remember that the partner who writes and signs the auditors' report did not personally perform most of the audit procedures. The partner's opinion was developed primarily by reviewing the working papers prepared by the audit staff. Therefore, the working papers must include absolutely all of the information that is ***relevant to expressing an opinion on the fairness of the client's financial statements***.

Most large CPA firms send new staff assistants to special training schools to learn the firm's working paper "techniques." Of course, no one standard set of working papers is suitable for all engagements. As auditors move from one client to another they encounter different business operations and different kinds of accounting records and internal controls. It follows that the auditors must tailor the form and content of their working papers to fit the circumstances of each engagement.

Functions of Working Papers

Audit working papers assist auditors in several major ways: they (a) provide a means of assigning and coordinating audit work; (b) aid seniors, managers, and partners in supervising and reviewing the work; (c) provide the support for the auditors' report: (d) document the auditors' compliance with the generally accepted auditing standards relating to field work: and (e) aid in planning and conducting future audits of the client. In addition, working papers provide information useful in rendering additional professional services, such as preparing income tax returns, making recommendations for improving internal control, and providing management advisory services.

Assigning and Coordinating Audit Work. Most audits area joint effort. Several auditors, perhaps even several different offices of a CPA firm, usually are involved in each engagement. The work of these different auditors is coordinated through the audit working papers. Work may be conveniently delegated by assigning different assistants responsibility for completing different working papers. The senior auditor might fill in the column headings on a working paper and enter one or two sample transactions, requesting that a staff assistant complete the paper. In this manner, a senior can initiate and supervise the work of several assistants simultaneously.

If an audit is to progress efficiently, information often must pass from one auditor to another. For example, assume that Smith prepared the flowcharts of a client's internal control and was then transferred to another job. Jones and Reed are now assigned responsibility for performing tests of the significant control procedures. Obviously Jones and Reed must understand how the client's control procedures operate—information previously obtained by Smith. This information is readily available in the flowchart—the audit working paper in which Smith documented his work.

Often it is not possible to complete all of the work on an account at one time. For example, cash on hand may be counted at the balance sheet date, but confirmations of bank balances may not be received until a week or so later. As each step in the verification of the client's cash balance is completed, a working paper is filed, to be expanded and updated as additional information is obtained. Thus, the audit work on a given account might be started early in the engagement by one assistant and completed later by another.

Supervising and Reviewing the Work of Assistants. As working papers are completed by staff assistants, they are reviewed by the senior running the job. If the senior finds any shortcomings in an assistant's work, the senior will write "review notes" to the assistant explaining how the working

papers should be revised. Once the senior is satisfied with the working paper, it will be passed on to the manager, who will perform a similar review. If the manager has any questions or finds any problems, the working paper is again returned to the audit staff with the manager's review notes. After the manager is satisfied that the working paper documents complete and thorough audit work, the working paper is reviewed by one or more partners. This process of successive levels of review provides assurance that work of the audit staff is carefully reviewed and supervised. As each review is completed, the reviewer "signs off" by initialing the working paper.

Support for the Report. The working papers must contain adequate evidence and documentation to convince the partner on the engagement that it is appropriate for the CPA firm to issue a particular type of opinion on the client's financial statements. The partner knows that some risk always exists that investors may sustain losses and bring a lawsuit against the CPAs alleging an improper audit. Therefore, the partner will want to be certain that the auditors' report is supported and justified by the evidence contained in the working papers.

Compliance with the Three Standards of Field Work. As discussed in Chapter 4, auditors may find themselves liable for losses sustained by financial statement users if the auditors' examination was not performed in accordance with generally accepted auditing standards. The working papers are the principal means by which auditors can demonstrate their compliance with the standards of field work. Thus, the working papers should document adequate planning and proper supervision of assistants (the first standard of field work), a proper understanding of internal control (second standard), and the gathering of sufficient competent evidential matter to afford a reasonable basis for the opinion (third standard).

Planning and Conducting the Next Audit. The working papers from the previous audit of a particular client provide a wealth of information that is useful in planning and conducting the next audit. For example, the prior year's working papers show how much time was required to perform the audit, provide insight into the client's internal control structure, and refresh the auditors' memory of any special problems encountered during the engagement. In addition, some working papers, such as the substantiation of land, bonds payable, or capital stock may be updated from one year to the next with very little effort.

Finally, how do inexperienced staff assistants know how to document the results of the audit procedures they perform? Often they look at the prior year's audit working papers. The procedures performed in the prior year probably were similar to those scheduled for the current year. Furthermore, the prior year's working papers were reviewed and "signed off" by a senior, a manager, and at least one partner, thus providing assurance that they represent satisfactory documentation of the audit work performed.

Some care should be taken in using the working papers of the prior year as a model. The auditor must always be alert to changes in the client's operations or internal control structure that may make last year's approach inappropriate for the current year. In addition, the auditor should always be looking for ways to make the current year's audit more efficient than that of the prior year. Nonetheless, the audit staff usually finds the prior year's working papers to be an invaluable guide in conducting current year's audit.

Confidential Nature of Working Papers

To conduct a satisfactory audit, the auditors must be given unrestricted access to all information about the client's business. Much of this information is confidential, such as the profit margins on individual products, tentative plans for business combinations with other companies, and the salaries of officers and key employees. Officers of the client company would not be willing to make available to the auditors information that is carefully guarded from competitors, employees, and others unless they could rely on the auditors maintaining a professional silence on these matters.

Much of the information gained in confidence by the auditors is recorded in their working papers; consequently, the working papers are confidential in nature. The *Code of Professional Conduct* developed by the AICPA includes the rule that generally prohibits a member in public practice from disclosing any confidential information obtained in the course of a professional engagement except with the consent of the client.

Although the auditor is as careful as an attorney or physician to hold in confidence all information concerning a client, the communication between a client and a CPA is not privileged under the common law. In most states and under federal laws, a CPA firm may legally be required to produce its working papers in a court case and to disclose information regarding a client. In some states, however, statutes have granted a private-leged status to communications between a client and the CPA.

Under normal circumstances, auditors think of confidential information as being information that must not be divulged ***outside*** of the client organization. But the confidential nature of information in the auditors' working papers has another dimension—it often must not be divulged ***within*** the client organization. If, for example, the client does not want certain employees to know the levels of executive salaries, the auditors obviously should not defeat this policy by exposing their working papers to unauthorized client personnel. Also, the working papers may identify particular accounts, branches, or time periods to be tested by the auditors; to permit the client's employees to learn of these in advance would weaken the significance of the tests.

Since audit working papers are highly confidential, they must be safeguarded at all times. Safeguarding working papers usually means keeping them locked in a file cabinet or an audit case during lunch and after working hours.

Ownership of Audit Working Papers

Audit working papers are the ***property of the auditors***, not of the client. At no time does the client have the right to demand access to the auditors' working papers. After the audit, the working papers are retained by the auditors.

Clients may sometimes find it helpful to refer to information from the auditors' working papers from prior years. Auditors usually are willing to provide this information, but the auditors' working papers should not be regarded as a substitute for the client's own accounting records.

Working Papers and Auditors' Liability

The auditors' working papers are the principal record of the extent of the procedures applied and evidence gathered during the audit. If the auditors, after completing an engagement, are charged with negligence, their audit working papers will be a major factor in refuting or substantiating the charge. Working papers, if not properly prepared, are as likely to injure the auditors as to protect them.

If a lawsuit is brought against the auditors, the plaintiffs will go over the auditors' working papers in great detail, looking for contradictions, omissions, or any evidence of carelessness or fraud. This possibility suggests the need for public accounting firms to make their own critical review of the working papers at the end, of each engagement. During this review, the auditors should bear in mind that any contradictory statements, or evidence that is not consistent with the conclusions finally reached, may be used at a later date to support a charge of improper auditing.

Part of the difficulty in avoiding inconsistent and conflicting evidence in working papers is that the papers are prepared in large part by less experienced staff members. When the papers are reviewed by a supervisor or partner, the reviewer will give careful consideration to any questionable points. In studying these points, the reviewer often gives consideration to many other aspects of the audit and of the client's records with which he or she is familiar. These other factors may lead the reviewer to the conclusion that an issue raised in the working papers does not warrant any corrective action. In some instances, the reviewer may conclude that the assistant who prepared the paper has misinterpreted the situation. Years later, if a dispute arises and the working papers are being subjected to critical study by attorneys representing an injured party, these questionable points in the papers may appear in a different light. The reviewer who cleared the issue based on personal knowledge of the client's business may not be available to explain the reasoning involved. This long-range responsibility suggests that the reviewer should insert in the working papers a carefully written *memorandum* explaining the decision.

Differences of Opinion. On occasion, inconsistencies will arise in the working papers because different members of the audit staff—say, a senior and the engagement partner—will reach different conclusions on some complex auditing or accounting issue. In such cases, the disagreeing auditors should discuss the matter to see if they can reach agreement. If they are able to do so, the working papers should be revised to reflect their common opinion. If they are not able to reach agreement, the opinion of the partner-in-charge of the engagement will prevail with respect to the content of the auditors' report. However, all other members of the audit team have the right to document in the working papers ***their disagreement*** with the ultimate decision. In the event that a staff person elects to document his or her disagreement, the partner-in-charge obviously should be extremely thorough in documenting the rationale underlying the firm's ultimate decision.

Types of Working Papers

Since the audit working papers document a variety of information gathered by the auditors, there are innumerable types of papers. However, there are certain general categories into which most working papers may be grouped; these are: (1) audit administrative working papers; (2) working trial balance and lead schedules; (3) adjusting journal entries and reclassification entries; (4) supporting schedules, analyses, reconciliations, and computational working papers; and (S) corroborating documents.

Audit Administrative Working Papers. Auditing is a sophisticated activity requiring planning, supervision, control, and coordination. Certain working papers are specifically designed to aid the auditors in the planning and administration of engagements. These working papers include audit plans and programs, internal control questionnaires and flowcharts, engagement letters, and time budgets. Memoranda of the planning process and significant discussions with client management are also considered administrative working papers.

Working Trial Balance. The working trial balance is a schedule listing the balances of the accounts in the general ledger for the current and previous year, and also providing columns for the auditors' adjustments and reclassifications and for the final amounts that will appear in the financial statements. A working trial balance is the "backbone" of the entire set of audit working papers: it is the key schedule that controls and summarizes all supporting papers. This type of working paper may appear as shown below, or in computer printout form when audit software is used.

Krocus Company Inc
Working Trial Balance
December 31, 1992

TB-1

Working Paper References	Caption	Final Dec. 31, 91	Balance per Ledger Dec. 31, 92	Adjustments Dr. (Cr.)	Adjusted Dec. 31, 92	Reclassifications Dr. (Cr.)	Final Balance Dec. 31, 92
	Assets						
	Current Assets:						
A	Cash	411,413	742,186		742,186		742,186
B	Short-Term Investments		149,413		149,413		149,413
C	Accounts Receivable-Net	2,297,222	2,053,911	(91,096)	1,962,222		1,962,222
D	Inventories	2,701,814	2,942,117	(229,799)	2,712,318		2,712,318

Although most of the column headings are self-explanatory, a brief discussion of the third and fourth columns is appropriate. In the third column, the final adjusted balances from the previous year's audit are listed. Inclusion of the previous year's figures facilitates comparison with the corresponding amounts for the current year and focuses attention upon any unusual changes. Inclusion of the final figures from the prior year's audit also gives assurance that the correct starting figure is used if the auditors verify the year's transactions in a balance sheet account in order to determine the validity of the ending balance.

The fourth column provides for the account balances at the close of the year under audit; these balances usually are taken directly from the general ledger. The balances of the Revenue and Expense accounts should be included, even though these accounts have been closed into the Retained Earnings account prior to the auditors' arrival. Since the auditors ordinarily express an opinion on the income statement as well as the balance sheet, it is imperative that the audit working papers include adequate information on the revenue and expense accounts. The amount to be listed for the Retained Earnings account is the balance at the ***beginning*** of the year under audit. Dividends declared during the year are listed as a separate item, as is the computed net income for the year.

In many audits, the client furnishes the auditors with a working trial balance after all normal end-of-period journal entries have been posted. Before accepting the trial balance for their working papers, the auditors should trace the amounts to the general ledger for evidence that the trial balance is prepared accurately.

Lead Schedules. Separate lead schedules (also called ***grouping sheets*** or summary schedules) are set up to combine similar general ledger accounts, the total of which appears on the working trial balance as a single amount. For example, a lead schedule for Cash might combine the following general ledger accounts: Petty Cash, $500; General bank account, $196,240; Factory Payroll bank account, $500; and Dividend bank account, $1,000. Similar lead schedules would be set up for Accounts Receivable, Inventories, Stockholders' Equity, Net Sales, and for other balance sheet or income statement captions.

Adjusting Journal Entries and Reclassification Entries. During the course of an audit engagement, the auditors may discover various types of misstatements in the client's financial statements and accounting records. These misstatements may be large or small in amount; they may arise from the omission of transactions or from the use of incorrect amounts; or they may result from improper classification or cutoff, or from misinterpretation of transactions. Generally, these misstatements are accidental errors; however, the auditors may discover irregularities in the financial statements or accounting records.

To correct ***material*** errors or irregularities discovered in the financial statements and accounting records, the auditors draft ***adjusting journal entries*** (AJEs), which they recommend for entry in the client's accounting records. In addition, the auditors develop ***reclassification journal entries*** (RJEs) for items that, although correctly recorded in the accounting records, must be reclassified for fair presentation in the client's financial statements. For example, accounts receivable with large credit balances should be ***reclassified*** as a liability in the balance sheet. Reclassification entries affect only the financial statement presentation; therefore, they are ***not recorded*** in the client's accounting records. Reclassification entries appear only on accounting worksheets.

Supporting Schedules. Although all types of working papers may loosely be called schedules, auditors prefer to use this term to describe a listing of the elements or details comprising the balance in an asset or liability account at a specific date. Thus, a list of amounts owed to vendors making up the balance of the Trade Accounts Payable account is properly described as a ***schedule***.

Analysis of a Ledger Account. An analysis of a ledger account is another common type of audit working paper. The purpose of an analysis is to show on one paper ***all changes*** in an asset, liability, equity, revenue, or expense account during the period covered by the audit. If a number of the changes are individually immaterial, they may be recorded as a single item in the analysis working paper. Account analyses are most useful in substantiating those accounts affected by relatively few transactions during the year. Examples include plant asset accounts, long-term debt accounts, capital stock accounts, and retained earnings.

To analyze a ledger account, the auditors first list the beginning balance and indicate the nature of the items comprising this balance. Next, the auditors list and investigate the nature of all debits and credits to the account during the period. These entries, when combined with the beginning balance, produce a figure representing the balance in the account as of the audit date. If any misstatements or omissions of importance are detected during this analysis of the account, the necessary adjusting journal entry approved by the client is entered on the working paper to produce the adjusted balance required for the financial statements.

Reconciliations. Frequently, auditors wish to prove the relationship between amounts obtained from different sources. When they do so, they obtain or prepare working papers known as reconciliations. These reconciliations provide evidence as to the accuracy of one or both of the amounts and are important to the audit of many accounts. including cash, accounts receivable, and inventories.

Computational Working Papers. Another type of supporting working paper is the computational working paper. The auditors' approach to verifying certain types of accounts and other figures is to make an independent computation and compare their results with the amounts shown by the client's records. Examples of amounts that might be verified by computation are interest expense, depreciation, payroll taxes, income taxes, pension liabilities, and earnings per share.

Corroborating Documents. Auditing is not limited to the examination of financial records, and working papers are not confined to schedules and analyses. During the course of an audit, the auditors may gather much purely expository material to substantiate their report. One common example is copies of minutes of directors' and stockholders' meetings. Other examples include copies of articles of incorporation and bylaws; copies of important contracts, bond indentures, and mortgages; memoranda pertaining to examination of records; audit confirmations; and letters of representations from the client and from the client's legal counsel.

Organization of the Working Papers

The auditors usually maintain two files of working papers for each client: (1) current files for every completed examination and (2) a permanent file of relatively unchanging data. The current file (as for the 1993 audit) pertains solely to that year's examination; the permanent file contains such things as copies of the articles of incorporation, which are of continuing audit interest.

The Current Files. The auditors' report for a particular year is supported by the working paper contained in the current files. Many CPA firms have found it useful to organize the current files around the arrangement of the accounts in the client's financial statements. The administrative working papers usually begin the current files, including a draft of the financial statements and the auditors' report. These working papers are followed by the working trial balance and the adjusting and reclassification entries. The remaining portion of the current files consists of working papers supporting the balances and other representations in the client's financial statements. It begins with working papers for each asset account and continues with papers for liabilities, owners' equity accounts, and revenue and expense accounts.

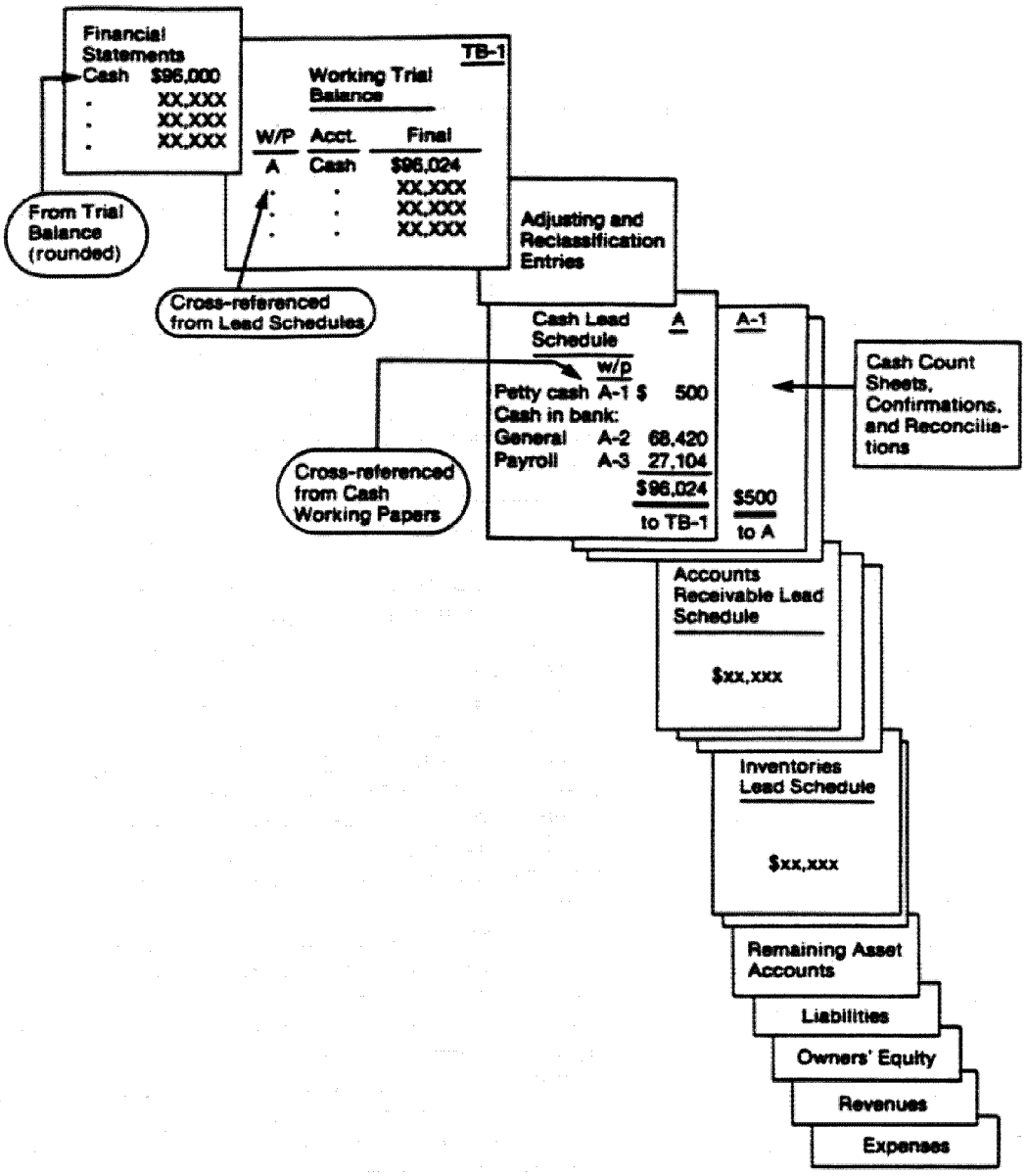
Each working paper in a file is assigned a reference number. and information is tied together through a system of cross-referencing. In this way, a reviewer may trace amounts on the working trial balance back to the supporting working papers. Figure 10-1 illustrates a system of cross-referencing and a typical arrangement of the current files after the administrative working papers.

The Permanent File. The permanent file serves three purposes: (1) to refresh the auditors' memories on items applicable over a period of many years; (2) to provide for new staff members a quick summary of the policies and organization of the client; and (3) to preserve working papers on items that show relatively few or no changes, thus eliminating the necessity for their preparation year after year.

Much of the information contained in the permanent file is gathered during the course of the first audit of a client's records. A considerable portion of the time spent on a first audit is devoted to gathering and appraising background information, such as copies of articles of incorporation and bylaws, leases, patent agreements, pension plans, labor contracts, long-term construction contracts, charts of accounts, and prior years' tax returns.

Analyses of accounts that show few changes over a period of years are also included in the permanent file. These accounts may include land, buildings, accumulated depreciation, long-term investments, long-term liabilities, capital stock, and other owners' equity accounts. The initial investigation of these accounts must often include the transactions of many years. But once these historical analyses have been brought up to date, the work required in subsequent examinations will be limited to a review of the current year's transactions in these accounts. In this respect, the permanent file is a timesaving device because current changes in such accounts need only be added to the permanent papers without reappearing in the current working papers. Adequate cross-referencing in the working papers, of course. should be provided to show where in the permanent file such information is to be found.

Figure 10-1 Organization of the Current Files



Guidelines for Preparation of Working Papers

We will now summarize in a few short paragraphs our basic guidelines for preparing working papers that will meet current professional standards. A separate, properly identified working paper should be prepared for each topic. Proper identification of a working paper is accomplished by a heading that includes the name of the client company, a clear description of the information presented, and the applicable date or the period covered. If the working paper was prepared by the client's staff, it should be labeled "PBC" (prepared by client) and appropriately tested.

Complete and specific identification of documents examined, employees interviewed, and sites visited is essential for good working paper practice. The preparer of a working paper should date and sign or initial the working paper; the signatures or initials of the senior, manager, or partner who reviewed the working paper should also appear on the paper.

Working papers should be appropriately referenced and cross-referenced to the working trial balance or relevant lead schedule. Where reference is necessary between working papers, there must be adequate cross-referencing.

The nature of verification work performed by the auditors should be clearly indicated on each working paper. A review of paid purchase invoices, for example, might be supplemented by inspection of the related purchase orders and receiving documents to substantiate the authenticity of the invoices examined; a description of this verification procedure should be included on the working paper. As audit working papers are prepared, the auditors will use several different symbols to identify specific steps in the work performed. These symbols, or ***tick marks***, provide a very concise means of indicating the auditing procedures applied to particular amounts. Whenever tick marks are employed, they must be accompanied by a legend explaining their meaning.

The working papers should include comments by the auditors indicating their conclusions on each aspect of the work. In other words, the auditors should clearly express the opinion they have formed as a result of having performed the auditing procedures summarized in the working paper. Figure 10-2 illustrates such a conclusion related to the audit of the allowance for uncollectible account, along with other aspects of a properly prepared working paper.

Figure 10-2 Preparation of Working Paper

Working Paper Heading

Reviewer's Initials and Date

Preparer's Initials and Date

Reference

Maine Company, Inc.
Allowance for Uncollectible Accounts
March 31, 19X3

C-5

April 24, 19X3

Balance per ledger, Mar. 31, 19X2 — 22,987.75 ✓

Deduct: Write-offs during fiscal 19X3:
June 16, 19X2 Morgan Stock Co. — 6,571.44
Feb. 12, 19X3 Baker Cabinet Co. — 1,011.60 — 14,633.84

"Tick Mark" Symbols

Add: Provision for year ended Mar. 31, 19X3 based on aged trial balance of trade accounts receivable at Mar. 31, 19X3 — 7,298.91

Balance per ledger, Mar. 31, 19X3 — 6,579.91

Balance per ledger, Mar. 31, 19X3 — 14,947.53 ✓

A.J.E. 1 - to increase allowance based on tests of collectibility and analytical procedures on C-5-1. — 5,151.44 — TB-5-2

Adjusting Entry Cross-referenced to Adjusting Entries Working Papers (below)

Adjusted balance Mar. 31, 19X3 — 20,099.00 — F

Explanation of Audit Work Performed

F Footed
n Examined Controller's authorization for write-off.
✓ Agreed to general ledger.
Based on the results of the tests of collectibility and analytical procedures on C-5, the adjusted balance of the allowance for uncollectible accounts appears to be adequate to value the accounts receivable at net realizable value.

A.J.E.
J.A.F.

Auditors' Conclusion

To C.

Cross-referenced to Accounts Receivable Lead Schedule

Maine Company, Inc.
Adjusting Journal Entries
March 31, 19X3

TB-5-2
V.N.H.
4/26/X3

Working Paper Reference	Account No.	Account Title and Explanation	Dr.	Cr.
		(1)		
C-5	524	Uncollectible Accounts Expense	5151 44	
	126	Allowance for Uncollectible Accounts		5151 44
		To increase the allowance for uncollectible accounts to amount considered necessary based on test work performed.		

Computer-Generated Working Papers

Traditionally working papers have been prepared in pencil on columnar paper. Today, many working papers are prepared on portable personal computers carried by the auditors to the work site. When an adjustment is entered on computer-based working papers, it appears instantly on the appropriate lead schedules, the adjustments schedule, and the working trial balance. The necessary cross-references are automatically entered on each schedule. If the adjustment affects taxable income, the income tax expense account and the tax liability are automatically adjusted using the client's marginal tax rate. In addition, all of the subtotals. column totals, and cross-footings in the working papers are instantly adjusted.

When working papers are maintained manually, all of these entries and changes must be made by hand with a pencil, an eraser, and a calculator. With a personal computer, an adjustment that might take a half hour or more to "push through" manual working papers can be entered in a few seconds. Thus, personal computers have taken much of the "pencil pushing" and the "number crunching" out of working paper preparation.

Illustrative Case

An advertisement for computer software appearing in the *Journal of Accountancy* illustrates the time savings that can be achieved by preparing audit working papers on a personal computer. The advertisement showed time comparisons for preparing various working papers manually and by computer. The following were among the comparisons made:

	Hours	
	Manual	Computer
1. Prepare 30 lead schedules and a working trial balance	9	1
2. Perform initial analytical procedures	8	1/2
3. Prepare accounts receivable confirmation letter reports and analysis of results	20	5
4. Prepare 50 adjusting and reclassifying journal entries and post to lead schedules and working trial balance	4	1/2
5. Prepare comparative balance sheet, income statements. and statement of cash flows worksheet	10	1
6. OOPS! Post two late adjusting journal entries to lead schedules and working trial balance. Update all working papers as required	10	1/2

The Review of Audit Working Papers

Working papers are reviewed at every supervisory level of a CPA firm. Senior auditors review the working papers of staff assistants; managers review all working papers prepared by staff assistants and

by senior auditors; the partner in charge of the engagement reviews the entire set of working papers. Many CPA firms also require a review by a second partner.

What Do the Reviewers Look for? All of the reviewers look to see that the working papers properly document the audit. However, there are differences in the nature of the reviews. The senior's review is the most technical, and it generally is performed promptly after the completion of the individual working paper. Seniors look primarily to see that the staff assistant has performed the audit procedures properly and that the assistant's findings and conclusions are clearly expressed.

The reviews by managers and partners are often performed near the end of the engagement, when the reviewer may examine at one time the entire set of working papers. These reviewers are primarily interested in determining that the audit was performed in accordance with generally accepted auditing standards and that the working papers properly support the auditors' report that will be issued on the financial statements. There are several advantages to reviewing all of the working papers at once. The reviewer can determine that the working papers "tie together"-that is, that amounts are properly carried forward from one working paper to another. As we mentioned earlier in the chapter, these reviewers should look critically for any inconsistencies, omissions, or "loose ends" that might later support a plaintiff's allegations of improper auditing. In addition, the reviewer should consider whether the various immaterial discrepancies that were passed without adjustment might ***cumulatively*** have a material effect upon the financial statements.

The purposes of a ***second partner review*** are to provide assurance that all of the CPA firm's in-house ***quality control policies*** have been complied with, as well as to provide a "second opinion" that the audit was performed in accordance with generally accepted auditing standards. The second partner review, sometimes called a ***cold review***, usually is performed by a partner with no personal or professional ties to the audit client. Multioffice CPA firms sometimes bring in a partner from another office to perform the second partner review.

Not until all of these reviewers have "signed off" on the audit working papers is the CPA firm's name signed to the auditors' report.

EXAMINATION OF THE GENERAL RECORDS

In the early stages of an audit, the independent auditors must become familiar with many aspects of the client's business. For example, the auditors must obtain a knowledge of the client's organization plan, financial structure, physical facilities, products, accounting policies, and internal control structure. However, information about the internal activities of the client is not in itself sufficient. If this information is to be interpreted and evaluated in a proper perspective, the auditors must also understand the business environment in which the client operates. State and federal laws and regulations, pending or threatened litigation, affiliations with other companies, and contracts with suppliers and customers are only a few of the factors in the business environment that may affect the client's internal activities. The auditors can gain considerable information about both the client's business environment and internal operations by examining the client's general records. The term ***general records*** is used to include the following categories.

I. Nonfinancial records.

a. Articles of incorporation and bylaws.
b. Partnership contract.
c. Minutes of directors' and stockholders' meetings.
d. Contracts with customers and suppliers.
e. Contracts with officers and employees, including union agreements and stock option, profit sharing, bonus, and pension plans.
f. Governmental regulations directly affecting the enterprise.
g. Correspondence files.

2. Financial records.
   a. Income tax returns of prior years.
   b. Financial statements and annual reports of prior years.
   c. Registration statements and periodic reports filed with the SEC.
3. Accounting records.
   a. General ledger.
   b. General journal.

Examining these records should assist the auditors in identifying problems requiring more extensive audit attention. Also, the auditors obtain an understanding of the client's business characteristics, policies, and plans that enable them to determine whether the transactions reflected in the accounts were properly authorized and executed in accordance with the directives of management. If audit staff members are thoroughly familiar with the history and problems of the business, the duties and responsibilities of key officials, and the nature and quality of the accounting records and procedures, then they are prepared to carry out each phase of the audit with confidence and understanding. If they do not acquire this background information before beginning the work of analyzing transactions and substantiating account balances, they are almost certain to proceed in a mechanical and routine manner, unaware of the real significance of much of the evidence examined.

Articles of Incorporation and Bylaws

In the first audit of a client's financial statements, a senior auditor will obtain copies of the articles of incorporation for corporate charter) and bylaws. The ***articles of incorporation*** is the basic document filed with the state to evidence the legal existence of a corporation. It includes such information as the name of the company, date and state of incorporation, and number of authorized directors. In addition, the articles of incorporation describe the authorized capital structure, including classes of capital stock, number of shares authorized, par or stated values, liquidating preferences, voting rights, and dividend rates for preferred stock.

The ***bylaws*** help define the internal administrative structure of a corporation; they include the organizational structure, rules, and procedures adopted by the corporate stockholders. For example, the bylaws may stipulate the frequency of stockholders' meetings, the date and method for election of directors and selection of officers, and the powers and duties of directors and officers. Copies of both the articles of incorporation and the bylaws are retained in the auditors' permanent file for convenient reference during repeat engagements.

Partnership Contract

In the audit of a business organized as a partnership, the partnership contract should be examined in much the same manner as the articles of incorporation and bylaws of corporate clients. The partnership contract represents an agreement among partners on the rules to be followed in the operation of the enterprise. The information available in a copy of the partnership contract usually includes the following:

1. The name and address of the firm.
2. The names and addresses of the individual partners.
3. The amount, date, and nature of the investment made by each partner. 4. The profit-sharing ratio, partners' salaries, interest on partners' capital, and restrictions on withdrawals.
5. The duties, responsibilities, and authority of each partner.
6. The provision for insurance on lives of partners.
7. The provisions concerning liquidation of the firm and distribution of assets.

In repeat examinations, the auditors must ascertain whether any modification of the partnership contract has been made and obtain copies of the modifications for the permanent file. If no change has occurred since the preceding audit, a notation to that effect should be made.

Corporate Minutes Book

The corporate minutes book is an official record of the actions taken at meetings of directors and stockholders. Typical of the actions taken at meetings of stockholders is the extension of authority to management to acquire or dispose of subsidiaries and to adopt or modify pension or profit sharing plans for officers and employees. The stockholders also customarily approve the selection of a firm of independent auditors. Representatives of the auditing firm attend the stockholders' meeting for the purpose of answering questions that may arise concerning internal control and the financial operations of the business.

Minutes of the directors' meetings usually contain authorizations for important transactions and contractual arrangements, such as the establishment of bank accounts, setting of officers' salaries, declaration of dividends, and formation of long-term agreements with vendors, customers, and lessors. In addition, the minutes may document discussions by the board of pending litigation, investigations by regulatory agencies, or other loss contingencies. Therefore, the auditors should read the minutes of meetings held through the last day of field work.

Committees of the Board. In large corporations, the board of directors often works through committees appointed to deal with special phases of operations. Common examples include an audit committee and an investment committee. As discussed in Chapters 5 and 7, the audit committee maintains close contact with both the independent CPAs and the company's internal auditors and may be involved in discussions of weaknesses in internal control, accounting policies, and possible illegal or fraudulent acts by management. The investment committee periodically reviews and approves the investment activities of management. Minutes of the meetings of such committees are just as essential to the auditors' investigation as are the minutes covering the meetings of the entire board.

Procedure for Review of Minutes. In the first audit of a client, it may be necessary to review minutes recorded in prior years. Copies of these minutes will be preserved in the permanent file; as succeeding annual audits are made, the file will be appropriately expanded.

The auditors will obtain from the secretary or other corporate officer copies of all minutes, including those of board committees, directors, and stockholders, for both regular and special meetings. These copies should be certified by a corporate officer and should be compared with the official minutes book to an extent sufficient to establish their completeness and authenticity.

In reviewing the minutes, the auditors will (1) note the date of the meeting and whether a quorum was present and (2) underscore or highlight such actions and decisions that in their judgment should influence the conduct of the audit. Nonessential material can be scanned rapidly, and highlighting can be limited to issues that warrant investigation during the course of the audit. For this phase of the audit work, there is no substitute for breadth of experience and maturity of judgment; the minutes include a wide range of information from matters of real importance to the audit to those that may safely be passed by.

Major decisions in the minutes, such as declaration of dividends or authorization for borrowing, usually result in actions that need to be recorded in the accounting records. As the audit progresses, the auditors should trace authorized events from the minutes into the accounting records and cross-reference their copies of the minutes to the underlying account analyses. Similarly, events recorded in the accounting records that normally require authorization by directors should be traced and cross-referenced to the auditors' copies of the minutes.

Determining that All Minutes Are Made Available. How do the auditors know that copies of all minutes have been made available to them? First, they can review their permanent file to determine the identities of the boards' committees and the scheduled date for regular meetings. Next, a typical practice at board and committee meetings is to approve the minutes of the preceding meeting. This practice enables the auditors to work backward from the most recent minutes to the oldest, noting the date of the previous minutes approved in the later meeting. Also, the auditors should obtain from management a letter representing that all minutes have been made available. The client's refusal to provide the auditors with copies of all minutes is a serious limitation of the scope of the auditors' examination. *SAS 58* (AU 508), "Reports on Audited Financial Statements," advises auditors to issue a disclaimer of opinion on the financial statements when significant scope limitations are imposed by the client.

Relationship of Corporate Minutes to Audit Objectives. The nature of the information to be highlighted in the minutes and the usefulness of this information to the auditors can be made clear by a few examples. Figure 10-3 shows several audit objectives and indicates for each objective certain relevant events that are likely to be documented in the minutes of the board and its committees.

Contracts Held or Issued by Client

Early in the audit engagement the auditors should obtain copies of the major contracts to which the client is a party. Information obtained from an analysis of contracts may be helpful in interpreting such accounts as Advances from Suppliers, Progress Payments under Government Contracts, and Stock Options. In addition to production contracts with governmental agencies and other

companies, the auditors may review contracts with suppliers for future delivery of materials, royalty agreements for use of patents, union labor contracts, leases, pension plans, stock options, and bonus contracts with officers.

FIGURE 10-3 Relationship of Minutes to Audit Objectives

Audit Objectives	*Relevant Information Likely to Be Included in Minutes of the Board and Its Committees*
1. Establishing the completeness of cash balances.	l. The opening and closing of bank accounts require authorization by the board of directors.
2. Financial statement presentation and disclosure of marketable securities.	2. Pledging of securities as collateral for a loan requires approval of the investments committee of the board.
3. Establishing the completeness of liabilities.	3a. The obtaining of bank loans requires advance approval by the board. b. Authority for the declaration of dividends payable rests with the board. c. The issuance of bonds payable or other long-term debt requires approval by the board
4. Financial statement presentation and disclosure of loss contingencies.	4a. Such issues as pending litigation, income tax disputes, accommodation endorsements, and other loss contingencies discussed by the board are documented in the minutes. b. Unusual purchase commitments and sales commitments may be submitted to the board for approval. c. The selection of legal counsel, who in turn may have information regarding pending litigation or other loss contingencies, is approved by the board.

The terms *of* existing contracts are often material factors in measuring debt-paying ability and estimating future earnings. When examinations are being made on behalf of prospective investors, creditors, or purchasers of a business, the nature of contracts with customers may outweigh all other considerations in determining a market value for the business.

The auditors may at times require the assistance of engineers, attorneys, and other specialists in the interpretation of important contracts. Most contracts include such accounting concepts as net income or working capital, but unfortunately those who draft the contracts may not in all cases understand the true meaning of the accounting terminology they employ. Skill in analyzing and interpreting the financial aspects of contracts appears to be a qualification of increasing importance to independent auditors.

Among the items auditors should usually note in reviewing contracts are the names and addresses of parties, effective date and duration of the contract, schedule for performance, provisions for price redetermination (such as cost-of-living adjustments), procedures for settlement of disputes, cancellation clauses, and provisions requiring audit of records to determine amounts owed.

Laws and Regulations

Although CPAs are not licensed to give legal advice or to interpret federal or state laws, they must be familiar with laws and regulations that affect the client's financial statements. Recall from our discussion in Chapter 2 that audits must be designed to provide reasonable assurance of detecting illegal acts having a material ***direct*** effect on financial statement amounts. While an audit does ***not*** generally provide a basis for detecting violations of laws or regulations which have an ***indirect*** effect on the financial statement, the auditor must be aware of the possibility that such violations may have occurred. When information that indicates a violation comes to the auditor's attention, the auditor should apply audit procedures directed toward ascertaining whether a material illegal act has occurred.

Among the laws and regulations with which auditors should be familiar are the following:

Foreign Corrupt Practices Act. This legislation has two major parts: (1) it prohibits bribes of foreign government officials for the purpose of securing business and (2) it requires companies to maintain reasonably complete accounting records and an adequate system of internal accounting control. The specific requirements regarding the internal accounting control provisions were discussed in Chapter 7.

State Corporations Codes. These laws govern the formation and operation of corporations and include provisions that affect such matters as legal or stated capital, par or no-par-value stock, dividend declarations, and treasury stock.

Uniform Partnership Act. This Act, in effect in most states, governs the operations of partnerships in areas not covered by the partnership agreement.

State and Federal Corporate Securities Laws. Most states have bluesky laws regulating the issuance of corporate debt and equity securities within their jurisdictions. In addition, the federal Securities Act of 1933 governs the interstate issuance of corporate securities, while the Securities Exchange Act of 1934 deals with the trading of securities on national exchanges or over the counter.

Uniform Commercial Code. This Code regulates sales of goods, commercial paper (such as checks, warehouse receipts, and bills of lading), investment securities, and secured transactions in personal property.

Antitrust Laws. Federal antitrust laws are designed to promote competition, these laws provide civil and, in some cases, criminal liability for offenders.

Labor Laws. Federal laws regulating labor include provisions that relate to such matters as minimum wage, overtime premiums, and equal pay for equal work.

Social Security. The Social Security Act of 1935 provides for payroll taxes on employers and employees to finance retirement and medical benefits for retired persons and certain surviving dependents.

Employee Retirement Income Security Act of 1974 (ERISAI). This legislation, also known as the Pension Reform Act, regulates the administration and funding of private retirement plans.

Cost Accounting Standards. These standards establish accounting methods to be used by contractors to determine cost for government contracts.

Regulations for Specific Industries. Clients in regulated industries, such as insurance companies, banks, savings and loan associations, public utilities, airlines, and railroads, are subject to additional specific controls often administered by federal and state regulatory agencies.

Temporary Controls. Various temporary regulations have been occasionally imposed affecting wages, prices, and dividends.

The Single Audit Act.. The Single Audit Act of 1984 requires any state or local government receiving $100,000 or more in federal financial assistance to have a single audit. In performing a "single audit" the auditors must adhere to the standards of the Governmental Accounting Office (GAO) for financial and compliance audits. Chapter 20 discusses compliance audits in detail.

Correspondence Files

The general correspondence files of the client may contain much information of importance to the independent auditors, but it would be quite out of the question for them to read the great mass of general correspondence on file in search of pertinent letters. When the reading of corporate minutes, contract files, or other data indicates the existence of significant correspondence on matters of concern to the auditors, they should request the client to provide them with copies of such letters. In addition, the audit staff will usually review the client's correspondence with banks and other lending institutions, attorneys, and governmental agencies. Correspondence may generally be accepted as authentic, but if reason for doubt exists, the auditors may wish to confirm the contents of letters directly with the responsible persons.

Income Tax Returns of Prior Years

A review of federal, state, and foreign income tax returns of prior years will aid the auditors in planning any tax services required by the terms of the engagement. The possibility of assessment of additional income taxes exists with respect to the returns of recent years not yet cleared by tax authorities. By reviewing tax returns and revenue agents' reports, the auditors may become aware of any matters that pose a threat of additional assessments: they may also find a basis for filing a claim for a tax refund.

Financial Statements and Annual Reports of Prior Years

Study of the financial statements and annual reports of prior years and of any available monthly or quarterly statements for the current year is a convenient way for the auditors to gain a general background knowledge of the financial history and problems of the business. If independent auditors have submitted audit reports in prior years, these documents may also be useful in drawing attention to matters requiring special consideration.

Reports to the SEC

Registration statements and periodic reports filed by the client with the SEC contain valuable information for the auditors-especially in a first audit. Included in this information will be the client's capital structure. A summary of earnings for the past five years, identity of affiliated companies, descriptions of the business and property of the client, pending legal proceedings, names of directors and executive officers of the client and their remuneration, stock option plans, and principal shareholders of the client.

Review and Testing of the Accounting Records

Early in the examination the auditors should review the client's accounting system and assess the quality of the accounting records. A review of these records will inform the auditors as to the client's accounting procedures, the accounting records in use, and the control procedures in effect. Testing of the accounting records verifies the mechanical accuracy of the records and provides assurance that the journals and ledger are actually achieving their respective purposes of recording and classifying transaction data.

The quality of accounting records may vary widely from one engagement to the next. Many clients maintain records that are carefully designed, well maintained, and easy to comprehend. The journals and ledgers of such clients are generally up to date, in balance, and virtually free from mechanical error. When the auditors ascertain that a client's accounting records are highly reliable, the audit work necessary to substantiate account balances may justifiably be minimized. At the other extreme, the accounting records of some clients may be typified by unrecorded transactions, unsupported entries, and numerous mechanical errors. In these cases, the auditors may have to perform extensive audit work to substantiate account balances. On occasion, the accounting records may be so inadequate that the auditors must disclaim an opinion on the financial statements.

Extent of Testing. If the client's accounting records and procedures are well designed and efficiently maintained, it is reasonable to devote less audit time to verifying the mechanical accuracy of the records than would be required in audits in which less satisfactory conditions prevail. The extent to which the auditors test the accounting records depends upon two factors: (1) the general appearance of the records, and (2) the frequency and relative importance of any misstatements discovered during the actual testing. The first of these factors, the general appearance of the records, deserves some explanation. High-quality accounting records have basic characteristics that are readily apparent: journal entries include adequate written explanations, general journal entries are reviewed and approved by an officer before processing, and the records are up to date and properly cross-referenced. When records do not possess these characteristics, the existence of misstatements is a virtual certainty.

Testing of the accounting records may be done on a judgmental basis, or the auditors may use statistical sampling techniques. Attributes sampling, as discussed in Chapter 9, is a statistical sampling plan that may be used to estimate deviation rates with specified levels of risk of assessing control risk too low.

The General Ledger

The function of the general ledger is to accumulate and classify the transaction data posted from the journals. To ascertain that the ledger is being properly maintained, the auditors should conduct tests to determine that (1) account balances are mathematically correct, (2) entries in the ledger were posted from journal entries, and (3) journal entries were properly posted.

To test the mathematical accuracy of account balances, the auditors should verify the footings of some or all of the ledger accounts. The term ***footings*** is used among practicing accountants to designate column totals. To foot, as discussed in Chapter 6, means to verify the total by adding the column.

The concept of ***directional testing***, discussed in Chapter S, applies to the second and third groups of tests. For the second group, the auditors must satisfy themselves that entries in the general ledger were posted from authentic sources; that is, from entries in the journals. This procedure is important because the financial statements are drawn from the general ledger balances, and these balances conceivably could be falsified through the recording of unsupported debits or credits in the general ledger. The auditors can determine that entries in the ledger are properly supported ***by tracing a sample of ledger entries back into the journals***. Ledger entries included in this sample are normally selected at random from entries made throughout the year. Of course, the auditors may test most or all of the entries in excess of some specified dollar amount. Tracing ledger entries back to journal entries may reveal transactions that are not supported and, possibly, are not valid. By extending the test and vouching the journalized transactions to the supporting documents, such as receiving reports and canceled checks, the auditors may also obtain evidence of the validity of the journalized transactions. On the other hand, transactions that are not supported ***can never*** be found by tracing forward from journal entries or source documents to the ledgers.

Finally, to test the accuracy of the client's posting procedures, the auditors should ***trace a sample of entries from the journals into the general and subsidiary ledgers***. In this test, the auditors are testing the completeness of posted transactions. If a transaction was never posted, this omission can be detected only by tracing from the source documents or the journals to the ledgers. Transactions improperly omitted from ledger accounts ***cannot*** be brought to light by tracing existing ledger entries back to their source. Of course, some errors, such as transposition errors in entering transactions and postings to the wrong account, may be discovered by tracing in either direction.

Computer-Based Systems. It is likely that a client's accounting system will involve some form of electronic data processing. In computer-based systems, transactions are entered into the computer either individually or in batches. The computer system then creates a journal of the transactions, and posts the transactions to the general ledger and appropriate subsidiary ledgers. Entries in the journals are linked to the ledger postings by the ***audit trail*** that allows journal entries to be traced to or from the ledgers. The audit trail also allows journal entries to be traced to and from the documents supporting the transactions.

Tests of the mechanical accuracy of computer-based accounting records may be performed manually by the auditors. It is generally more efficient, however, to perform the tests using ***computer-assisted audit techniques***, as described in Chapter 8. Generalized audit software programs may be used to test the accuracy of accounting records.

The General Journal

The general journal is an accounting record used to record all transactions for which special journals have not been provided. In its simplest form, the general journal has only a single pair of columns for the recording of debit and credit entries, but many variations from this basic design are encountered. A third column may be added to provide for entries to subsidiary ledgers, or various multicolumn forms may be used.

Some companies maintain a system of journal vouchers. These are serially numbered documents, each containing a single, general journal entry, with full supporting details and bearing the signature of the controller or other officer authorized to approve the entry. A general journal in traditional form may be prepared from the journal vouchers, or that series of documents may be utilized in lieu of a general journal. Companies having electronic data processing equipment generally enter journal vouchers to serve as one of the transaction sources for printouts of the ledgers and the trial balance.

The auditors should conduct tests to determine that entries in the general journal are based upon actual transactions and that these transactions have been properly recorded. Suggested procedures for testing the general journal follow:

1. **Foot column totals of the journal.** The testing of footings in the general journal follows the pattern previously described for verification of ledger balances. The footings may be performed manually or by using computer-assisted audit techniques.
2. **Vouch selected entries to original documents.** As discussed in Chapter 6, to vouch a journal entry means to examine the original documents supporting the entry. The term voucher is used to describe the supporting documentary evidence. For example, a journal entry recording the trade-in of a machine would be vouched by comparing it with a purchase order, supplier's invoice, sales contract, receiving report, or paid check—the voucher for this entry. The auditors might not consider it necessary to examine all these documents if the evidence first examined appeared to provide adequate support for the entry. All general journal entries selected for testing should be vouched.

   Entries in the general journal should include clear, informative explanations; but, unfortunately, deviations from this principle are frequently encountered. The auditors should determine whether (1) the explanation is in agreement with the supporting documentation, and (2) the entry reflects the transaction properly in the light of generally accepted accounting principles.

   The supporting evidence to be examined during the review of general journal entries may include purchase orders, invoices, receiving reports, sales contracts, correspondence, the minutes book, and the partnership contract. Journal vouchers represent an internal control device; however, they should not be considered as original source documents supporting entries in the general journal. Verification of journal entries requires that the auditors refer to original invoices and other evidence previously described.
3. **Scan the general journal for unusual entries.** The importance of certain types of transactions that are recorded in the general journal makes it desirable for auditors to scan this record for the entire period under audit, in addition to vouching all entries selected for testing. The following list is illustrative of the type of significant transactions for which the auditors should look in this scanning of the general journal:
   1. The write-off of assets, particularly notes and accounts receivable: Collections from customers abstracted by employees and not recorded in the accounts may be permanently concealed if

the accounts in question are written off as uncollectible. Any general journal entries involving loans receivable from officers require full investigation to provide assurance that such transactions are proper and have been authorized.

2. Assumption of liabilities: Transactions that create liabilities are normally recorded in special journals. Common examples of such transactions are the purchase of merchandise, materials, or equipment and the receipt of cash. General journal entries that bring liabilities into the record warrant close investigation to determine that they have received proper authorization and are adequately supported.
3. Any debits or credits to Cash accounts, other than for bank charges and other bank reconciliation items: Most transactions affecting cash are recorded in special journals.
4. Creation of revenue: Transactions affecting operating revenue accounts are usually recorded in special journals. Operating revenue would be recorded in the general journal only if the underlying transaction was of an unusual nature or, for some reason, was being processed in a special manner. In either case, the auditors should verify the authenticity of the transaction and the propriety of the entry.
5. Unexplained or fragmentary transactions, the purpose and nature of which are not apparent from the journal entry: General journal entries with inadequate or unintelligible explanations suggest that the person making the entry did not understand the issues involved or was unwilling to state the facts clearly. Entries of this type, and entries that affect seemingly unrelated accounts, should be fully investigated.
6. Related party transactions: Transactions between the client and affiliated companies, directors, officers, and principal owners and their immediate families are not at arm's length and should be investigated to determine that the substance of the transactions has been fairly recorded. These transactions, as discussed in Chapter 6, should be reviewed by the auditors as to reasonableness of amounts, business purpose, and adequacy of disclosure.

> Illustrative Case
>
> In a widely publicized management fraud, the financial statements of Equity Funding Corporation of America were inflated over a period of years by more than $120 million in fictitious assets and revenue. Although falsified journal entries were prepared to record fictitious transactions, there was frequently no documentation to support the journal entries. Large amounts of revenue were also recognized in journal entries that involved debits and credits to an illogical combination of accounts. Thorough investigation of unusual revenue-creating journal entries could have alerted the company's independent auditors to the fraud long before it reached mammoth proportions.

4. **Determine that general journal entries have received the approval of an officer.** An adequate internal control structure includes procedures for regular review and written approval of all general journal entries by the controller or other appropriate executive. The auditors should determine that such procedures have been consistently followed. In those cases in which a client official does not regularly review and approve journal entries, the auditors may deem it desirable to review the general journal with the controller. In such cases, the report to the client on internal control structure and related matters should include a suggestion that the client undertake regular review and approval of journal entries.

Audit Working Papers for the Examination of Accounting Records

Upon completing the review and testing of the accounting records, the auditors should prepare a working paper describing the records in use, the tests of controls and other audit procedures followed, the nature and significance of misstatements discovered, any suggestions for improving the accounting system, and the auditors' conclusion as to the overall quality of the accounting records. This working paper summarizes an important part of the auditors' consideration of internal control and may serve as a reference for determining appropriate modifications in the audit program. At the beginning of the next annual audit, a review of the working paper will enable the auditors to concentrate upon the most significant aspects of the accounting records.

KEY TERMS INTRODUCED OR EMPHASIZED IN CHAPTER 10

Adjusting journal entry
: A journal entry drafted by the auditors to correct a misstatement discovered in the financial statements and accounting records.

Administrative working papers
: Working papers specifically designed to help the auditors in planning and administration of the engagement, such as audit programs, internal control questionnaires and flowcharts, time budgets, and engagement memoranda.

Analysis
: A working paper showing all changes in an asset, liability, equity, revenue, or expense account during the period covered by the audit.

Articles of incorporation
: That part of the application to the state for a corporate charter that includes detailed information concerning the financial structure and other details of the business.

Bylaws
: Rules adopted by the stockholders at the inception of a corporation to serve as general guidelines in the conduct of the business.

Corroborating documents
: Documents and memoranda included in the working papers that substantiate representations contained in the client's financial statements. These working papers include audit confirmations, lawyers' letters, copies of contracts, copies of minutes of directors' and stockholders' meetings, and letters of representations from the client's management.

Cutoff
: The process of determining that transactions occurring near balance sheet date are assigned to the proper accounting period.

Journal voucher
: A serially numbered document describing the details of a single journal entry and bearing the signature of the officer who approved the entry.

Lead schedule

A working paper with columnar headings similar to those in a working trial balance, set up to combine similar ledger accounts the total of which appears in the working trial balance as a single amount.

Minutes book

A formal record of the issues discussed and actions taken in meetings of stockholders and of the board of directors.

Permanent file

A file of working papers containing relatively unchanging data, such as copies of articles of incorporation and bylaws, copies of minutes of directors', stockholders', and committee meetings, and analyses of such ledger accounts as land and retained earnings.

Reclassification entry

A working paper entry drafted by the auditors to assure fair presentation of the client's financial statements, such as an entry to transfer accounts receivable credit balances to the current liabilities section of the client's balance sheet. Since reclassification entries do not correct misstatements in the client company's accounting records, they are not posted to the client's ledger accounts.

Substantive tests

Tests of account balances and transactions designed to detect any material misstatements in the financial statements.

Tick mark

A symbol used in working papers by the auditor to indicate specific step in the work performed. Whenever tick marks are used they must be accompanied by a legend explaining their meaning.

Vouch

To verify the accuracy and authenticity of entries in the accounting records by examining the original source documents supporting the entries.

Working papers

Papers that document the evidence gathered by auditors to show the work they have done, the methods and procedures they have followed, and the conclusions they have developed in an audit of financial statements or other type of engagement.

Working trial balance

A working paper that lists the balances of accounts in the general ledger for the current and the previous year and also provides columns for the auditors' adjustments and reclassifications and for the final amounts that will appear in the financial statements.

Chapter 6
Working Paper Basics

Introduction

In this chapter you will learn to identify the purpose and uses of our audit working papers.

You will identify the key elements of effective working papers by examining various types of working papers you will encounter. You also will be able to explain why clear, concise, and relevant working papers are important in meeting your audit objectives.

To apply basic working paper techniques you will practice indexing and cross-referencing.

> The following chapter documents a recommended working paper format. Be aware that among practice offices (and even within the audit teams in your office) personal preferences may result in slight differences in the working paper formats but not in the objectives. You will quickly pick up and adapt to variations if any during your first few assignments.

Working Paper Purpose and Uses

Throughout your career as an independent auditor, you will prepare or review audit working papers. Communication, both oral and written, is a very important aspect of your work. Part of your performance evaluation will be based on how effectively you communicate through the working papers you prepare. Your technical knowledge is of more value when it is evident in your working papers.

In this section you will learn about the purpose and uses of our audit working papers. The chapter discusses the types of working papers you will use and the importance of clear, concise, and relevant working papers in meeting our audit objectives. The examples of working papers and related discussions will give you several techniques for preparing effective audit schedules and memoranda on your engagements.

Purpose

The primary purpose of working papers is to **document** the audit procedures performed and to **support** our conclusions. Ultimately this means to document the evidence required to support our opinion on the financial statements.

In litigation, plaintiffs' attorneys argue that if procedures aren't documented, they weren't performed.

Spend about five minutes flipping through the 12/31/X4 Powertronics working paper binder. Don't spend too much time on all the details; well get to that later. As you review the working papers, you will likely be curious about the specific audit procedures performed. We'll discuss these in Chapters 9 through 14. For now, just get a feel for what's there.

While preparing working papers you must ask yourself, "Do my working papers adequately document procedures performed and does the documentation support my conclusion?"

The best way to ensure that the answer to this question is "yes" is to refer to the audit program-a list of the procedures to be performed. An audit program step is not completed until the work performed and our evaluation of the results are **documented**. Additionally, each audit program step must be cross-referenced to the working papers that document its performance. Once a step on the audit program is **completed**, you should place your initials and the working paper reference on the audit program. In other words, **sign off on the audit program step**.

Go to your Powertronics, Inc. 12/31/X4 audit binder. Flip through the binder and turn to the Powertronics cash audit program—C Program. (Look for *"C-Program"* in the lower right-hand corner of the working paper. This is called a working paper reference.) Review the cash audit program and note the initials and the working paper references to the right of each audit program step.

Since the work has been completed, the program steps have been signed off. The work performed and our evaluation of the results are **documented** at the specified working paper references.

We will talk about how audit procedures are documented in a moment. First, consider the uses of working papers.

Uses

What uses do working papers have?

Working papers may provide information for:

- Accompanying footnotes to the financial statements
- Income tax returns
- Review by third parties

Accompanying footnotes to the financial statements are often prepared from various working papers. For example, turn to the Powertronics fixed asset working paper K. Powertronics' method of depreciation and useful lives for its property, plant, and equipment are written on the working paper. We are required to disclose this information in the financial statements. Therefore, our working papers support this disclosure.

Audit working papers are often a source of information for other aspects of the client engagement. To understand all uses for the working papers, you must be familiar with the engagement requirements. Two common engagement requirements are our preparation or review of the company's income tax return and Form 10-K You might want to review these working papers to understand such a use. These working papers can be obtained for an engagement from your senior.

For example, we might save time overall if the summary schedule of property and equipment is designed to help us prepare the federal corporate income tax return (Form 4562—Depreciation) and the property and accumulated depreciation schedules included in SEC Form 10-K.

Finally, your working papers also may be reviewed, often years after the fact, by third parties. The following are examples of situations in which such third-party reviews are possible:

- Other auditors may be engaged to perform a peer review of our working papers for the purpose of evaluating the firm's quality control system, including adherence to firm policies for preparing working papers. We also perform our own internal quality control review.

- IRS field agents may ask to review selected working papers when making a tax examination.
- Parties to a legal action may subpoena our working papers.
- The SEC may review working papers during an Enforcement Division investigation.
- Other auditors may review our working papers if a client merges with another company or changes auditors.

The firm has specific policies to follow prior to allowing outside parties access to our working papers. Because many third parties use our working papers, the working papers should not contain careless, ambiguous, or irrelevant remarks.

Three things to remember when you prepare working papers:

- Document the procedures performed in working papers.
- Make sure your conclusion, as documented, is consistent with the results of your procedures.
- Do not include superfluous or derogatory comments in the working papers.

******

Test your understanding of the purpose and uses of audit working papers by completing the exercise on the following page.

The firm holds leadership positions in each of its six target industries manufacturing/high tech, financial services, health care, retail/wholesale, insurance, and real estate.

Exercise 6-1

1. Which of the following is the primary purpose of the audit working papers?
   A) To support bonuses given to management.
   B) To gather information for financial statements and tax returns.
   C) To document the audit procedures performed as a means of supporting our opinion on the financial statements.
   D) To satisfy quality control considerations.
2. Which following third party(s) may request the release of our working papers for review?
   A) IRS
   B) Other auditors
   C) Parties to legal action
   D) SEC
   E) All of the above
3. True or False — An audit program step is considered incomplete until the work is performed and our evaluation of the results of the tests is documented.
4. State three uses of audit working papers (other than the primary purpose in question 1).

When you're finished, turn to the Suggested Solutions at the end of the chapter.

Working Paper Basics

Now that you've briefly looked through the Powertronics' working papers, you may be asking yourself, "How are these working papers organized? What should be included as a working paper? Who prepares working papers?" Let's start with a general overview of how working papers are organized.

- **Individual working papers** document the results of our audit procedures. Individual working papers are then organized to flow in a logical fashion to support our conclusions reached for the significant account or issue and filed by ...
- **Working paper sections** document the results of our audit findings for the various audit areas (i.e., a significant account or issue). To keep all our working paper sections organized, we file them in ...
- **Binders/Folders** contain all of the working papers generated during our audit. What does a binder look like? Go to your Powertronics working papers. This is a good example of what a typical binder cover might look like. As you can see, certain information may be listed on the cover, such as client name, subsidiary or division, audit date or period, and the contents of the binder. However, the working papers might be organized in folders rather than binders. You will get the opportunity to use folders during Audit Techniques. Throughout this chapter we will refer to binders, since that is how our Powertronics 19X4 working papers are organized.

The culmination of the audit, an opinion on the financial statements, is supported by all binders for the engagement.

Throughout this chapter you should refer to the Powertronics, Inc. 19X4 working paper binder you received as part of your independent study material. Because we'll be asking you to refer to specific working papers throughout the program, we want you to be able to find your way around the prior-year Powertronics binder.

The Powertronics binder is a partial set of working papers. To simplify our discussions we did not include all working papers.

How many binders are needed for an audit?

There is no limit to the number of binders needed for each client; it may be one binder-or 50 or more on a very large engagement!

What can you expect a working paper to look like? When you looked through the 12/31/X4 Powertronics binder you probably noticed that the working papers all looked different. Here's a partial list of the types of working papers and an example from the Powertronics working papers:

	Powertronics	Example
Memo paper	***FF memo***	Audit Memoranda
7-column paper	**E6**	Accounts Receivable—Trade Rollforward
14-column paper	**EE 1-1/2**	Confirmation Control

- Photocopies of client/outside documents and working papers
- Other documents (e.g., letters, confirmation forms, computer reports, typed reports, flowcharts, or financial statements)

Note that many of the working papers that are prepared on memo paper, 7-column paper, and 14-column paper also can be prepared on the computer. For example, in the 12/311X4 Powertronics working papers, the working paper **FF-memo** was prepared on the computer.

What should be included as a working paper?

We are selective about what we include. That is, just because a client gives us a schedule does not mean we include it in our working papers. Anything that specifically documents the performance of our audit procedures can be filed in our binders.

Almost any kind of material can become an audit working paper. For example, the working papers for an audit of a construction contractor might include photographs of job sites to document the existence and stage of completion of the project.

We never file original client documents in our binders, unless the client intends for us to retain them.

Who prepares these working papers?

It depends. The working papers could be prepared by you, the client, the internal audit department, and/or the other members of your audit team.

We often use copies of schedules the client prepares during the normal course of their business for our working papers. We typically document our audit procedures on a copy of the schedule. If we need to have additional schedules prepared for the audit, we try to get the client to prepare these schedules and gather information. Clients often feel that by assuming these duties they benefit, too. By saving our working paper preparation time, their audit bill is lower!

Refer to the **K** working paper in the Powertronics binder and note the "**PBC**" written in the lower right-hand corner of the working paper. We might use this to indicate that a schedule was originally prepared by the client"

Now refer to the U 12 *working paper.*
Was this working paper prepared by the client?

No. Since the **PBC** notation is not present, we know the working paper was prepared by the auditor whose initials are on it.

Speaking of initials, you're probably wondering when it's appropriate for you to initial working papers.

Anytime you document the performance of an audit procedure you should initial and date the working paper.

Most offices initial the lower right-hand corner of the working papers. You'll learn your office's preference during your first assignment.

Several auditors could perform procedures on a given working paper. In those cases you would find an initial and date for each of the auditors on the working paper.

Working Paper Organization

Until now we have primarily focused on the purposes and uses of working papers. But, as you know, we must render an opinion on Powertronics' financial statements as a whole. This requires us to audit all significant accounts. What we need now is a method to organize all working papers for the various accounts.

Standard Index

Recall from your review of the 19X4 Powertronics binder that the individual papers have red **index or working paper reference** in the lower right-hand corner. Each working paper has a unique index or working paper reference.

To maintain consistency in working paper presentations. We often use a standard indexing system. Each index has two parts: a letter prefix, and a number suffix. A list of the standard prefix indexing system, by major working paper sections, is shown below. Each letter index identifies the working papers filed.

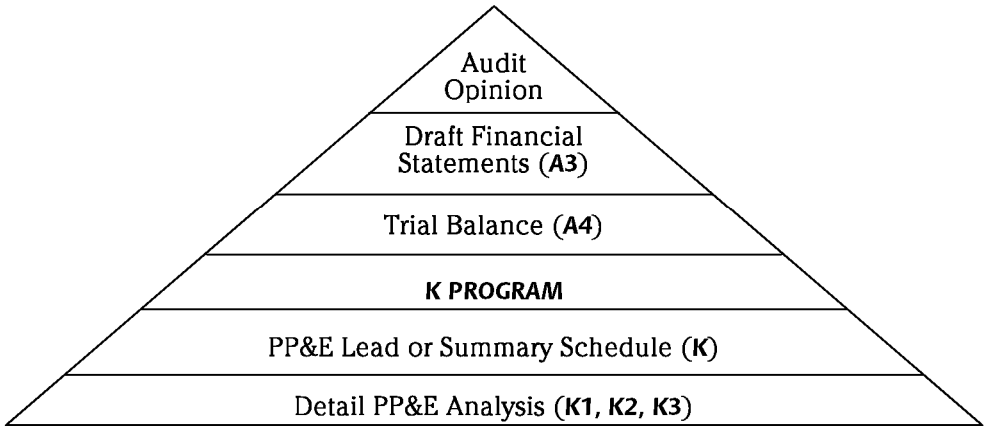
A	Control and review	**N**	Accounts payable
B	Understanding the sources of information	**NN**	Confirmation of accounts payable
C	Cash and bank balances	**O**	Income taxes payable
D	Marketable securities	**P-1**	Accrued liabilities and deferred income
E	Receivables	**P-2**	Product warranty liabilities
EE	Confirmation of receivables	**Q**	Long-term debt
F	Inventories	**R**	Deferred income taxes and other noncurrent credits
FF	Observation and confirmation of inventories	**S-1**	Commitments
G	Prepaid expenses and other current assets	**S-2**	Contingencies
H	Investments	**T**	Stockholders', partners', or proprietors' equity
I	Affiliates	**U-1**	Revenues
J	Long-term receivables, non- current deposits, and other assets	**U-2**	Costs and expenses
K	Property, plant, and equipment	**V**	Other matters
L	Intangibles and deferred charges X	**W**	Special information for filings with regulatory agencies
M	Notes payable	**X**	Special information for tax returns

Within each working paper section, individual working papers are arranged numerically (the suffix). The following uses the Powertronics **K** working papers as an example of how working papers are arranged:

K PROGRAM
K
K1
K2
K3

Since the audit program summarizes what we've done, it is often placed before the detailed numbered working papers.

One way to envision the standard working paper indexing system is through the image of a triangle. At the base of the triangle are the detail working papers (or foundation of our audit conclusions). As we proceed to the top of the triangle, we need to build a strong base to support our final goal (forming an opinion on the financial statements). Along the way, we want to leave an easy path for others to follow (proper working paper flow). Let's consider what this might look like for our property, plant, and equipment working papers.



The objective of our indexing system is to make it easy for anyone to retrace the steps we took to complete the audit. When you prepare a set of working papers, such as the accounts receivable (E working papers), you have a good idea of how all the working papers flow together. However, when your working papers are added to others to make a binder, a logical, easy-to-follow system is vital. At various times throughout the audit seniors managers, senior managers and partners review the audit decisions documented in your working papers. They will need to find working papers and will appreciate an easy-to-follow system.

An index should be assigned to each audit working paper as soon after its preparation as is practical.

Back to the Powertronics **K** working papers—follow along in your binder...

- ***K PROGRAM***

  Since the audit program affects the entire account balance area, it is in the front of the working paper section, just after the general audit memorandum (***K MEMO***) if one were necessary. (The audit program also may be filed with all other programs in the ***A8*** section, depending upon the audit team's preference.)

  This working paper documents the procedures we perform for this account.

- ***K***

  This is often called a lead or summary schedule. This schedule contains a summary of the property, plant, and equipment accounts. As you can see, there are numerous accounts summarized_on this schedule (including the accumulated depreciation accounts).

The lead or summary schedule is the "middle-man" schedule. It acts as a link between our more detail audit working papers and the trial balance (which is often much less detailed than the lead or summary schedules). We will refer to this schedule as the lead schedule for the remainder of this chapter.

The lead schedule at **K** is a good example of a schedule that performs a dual audit purpose. **K** not only provides the bridge between the detail working papers and the trial balance, but it also is an example of a "rollforward" schedule. Rollforward schedules provide details of activity in account balances between certain dates. In this case, the 12/31/X3 property, plant, and equipment balances are rolled forward to 12/31/X4.

Another example of a lead schedule can be found at **E**—the Accounts Receivable Summary. It may not be necessary to have a lead schedule for account balance sections that are not complex.

- **K1, K2, K3**

After the lead schedule, the detail schedules, which document most of our audit procedures, are filed.

K1 , **K2**, and **K3** are the detail audit working papers, where most of our procedures are documented for property, plant, and equipment. As you can see, each of these working papers provides details of particular balances on the lead schedule. Each schedule is agreed up to the lead schedule (the K working paper).

How can you tell how working papers interrelate?

Now that we've discussed how working papers are indexed, what does it all mean? How can you tell the relationship of one working paper to another? Let's take a look at the **K2** working paper. Notice that the **K2** working paper supports the **K** working paper, not **K1**. There's a simple rule of thumb to keep straight about how working papers support each other.

> To find out what working paper a given working paper supports drop the last number on the right.
>
> For example a working paper indexed **K1.1** would support the **K1** working paper.

This working paper directly supports ...	... this working paper
K2	**K**
E3.1	**E3**
D4.2.1	**D4.2**
F22.2	**F22**
A4.1	**A4**
E3.1.1	**E3.1**

Getting back to our Powertronics **K** working papers, look at working paper **K1 1/2**. Suppose we needed a working paper with the detail support for the warehouse addition amount of $274,963.42.

What would be the appropriate index for this working paper?

Based on what we've learned about the interrelationship of working papers, we would reference the support as **K1.1**. This indicates that the working paper supports **K1**. Could we have put the **K1.1** information on the **K1** working paper? Yes, if it would fit; however, **K1** might be hard to read if that amount of detailed information was squeezed onto it. A working paper with a lot of detail is hard to follow. If needed for further detail, the auditor could have added more working papers, such as:

K1.2
K1.3
K1.4

Note, however, all of these working papers directly support the **K1** working paper.

Additionally, if working papers supporting **K1.1** were needed, they would be referenced as follows:

K1.1.1
K1.1.2
K1.1.3

In preparing working papers, you will come across schedules in which one sheet of paper simply isn't enough to document all the detail.

A good example of this is with an aged accounts receivable trial balance. Suppose you have an aging five pages long. It comprises 100 accounts with 20 accounts detailed on each page. The senior has told you to "file the aging at **E40**."

How do we index the pages?

Since all five pages support the accounts receivable balance, we would number the pages **E40 1/5**, **E40 2/5**, **E40 3/5**, and so forth to indicate each page of the five-page document.

Exercise 6-2

Match the working paper contents in Column B with the reference in Column A.

Column A	Column B
Working paper index:	Description of working paper contents:
_____1. **C PROGRAM**	A. Detail of the first bank account
_____2. **C- *Lead***	B. Detail of the third bank account
_____3. **C1**	C. Cash lead or summary schedule and conclusion statement
_____4. **C2**	D. Detail of the second bank account Match the
_____5. **C1.1**	E. Detailed listing of outstanding checks for the first bank account
_____6. **C3**	F. Cash audit program

When finished, turn to the Suggested Solutions at the end of this chapter.

If you had trouble with this exercise, reread the material covered thus far in this chapter.

Cross-Referencing

Now that we've covered some of the basics of indexing, let's discuss cross-referencing.

We've talked about individual working papers being grouped to create a working paper section that supports a significant account, and we've talked about working paper sections being grouped to create a binder. But how do we tie this process together to specifically show how one working paper relates to another?

We indicate this by cross-referencing the amounts.

Indexing permits cross-referencing of procedures in the audit program and general ledger trial balance amounts to the related audit working papers. These cross-references help reviewers fulfill their responsibilities in determining that (1) each audit program procedure was performed and the results were documented, and (2) all amounts have been given appropriate attention.

Cross-referencing is the process of making sure the information from audit tests on one working paper agrees with another working paper. For example, we can indicate that an amount we have audited on the detail working paper supports an amount on the lead schedule by "cross-referencing from the detail to the lead."

The cross-referencing procedure has two main purposes: (1) to indicate where certain numbers or other data originated (i.e., where the supporting detail can be located), and (2) to indicate where various detail amounts have been summarized in the working papers.

The thing to remember is that if an amount **supports** a total located on another working paper, the amount and total must be cross-referenced between the working papers. The way to accomplish this is to place the working paper index next to the amount being cross-referenced.

Now turn back to the Powertronics ***K*** working paper. Find the amount of additions for 19X4 for the 'Buildings—Main Plant" account. The amount is $325,000. Note how a reference—***K1 1/2***—is; placed to the left of that number on the working paper. Turn to working paper ***K1 1/2***. Can you find the corresponding amount ($325,000) on ***K1 1/2***?

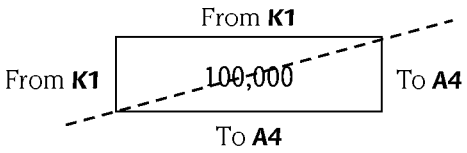
At ***K1 1/2***, a corresponding reference—***K***—is placed to the right of the $325,029.31. Although one of the amounts is rounded and the other is not, it is appropriate to cross-reference the two amounts.

This indicates to a reviewer looking at the ***K*** working paper that the $325,000 was audited at the ***K1*** working paper. Also, in reviewing the ***K1*** working paper, this would indicate that the $325,000 supports an amount on the ***K*** working paper.

How can you tell if a referenced amount is "from a detail working paper" or "in support of a summary working paper?"

There is a general rule we follow. Suppose you are looking at an amount for $100,000 at working paper **K**. Refer to the diagram below. Any reference written to the left or above the amount (upper half of the dashed line) indicates the amount is from that detail working paper. Any reference written to the right or below the number (lower half of the dashed line) indicates that the amount is going to that summary working paper. It might help to think of the diagram as an envelope; the $100,000 came from the "address" in the upper left corner and is going to the "address" in the lower right corner.

Generally, we try to cross-reference our amounts from the detail working papers up to the summary_level working papers. In this manner, someone can easily follow our process and flow of information.



Where

K1 is the detail support working paper,
K is a lead/summary schedule, and
A4 is a summary schedule of all lead schedules (trial balance).

Important Rule—Every time information is referenced from one working paper to another working paper, a corresponding cross-reference MUST be on both working papers. This allows the reviewer to "trace through the amount" or to follow where an amount is "coming from" or "going to."

See how this works. Flip through the other **K** working papers and note how references "tie" two working papers together. It's important for both references to be made so a reviewer can follow the flow of the working papers. Spend some time in this area. In *Audit Techniques*, you will be expected to know a little about cross-references. If you have questions, write them on your To-Do List or ask a senior in your office.

Remember, if an amount appears on more than one working paper, it should be cross-referenced multiple times as long as we are meeting an audit test objective on the multiple working papers. In other words, don't cross-reference merely because a number you are auditing is on another schedule. Make sure you are meeting an audit objective. Remember, a cross reference facilitates working paper review. It does not by itself mean a balance has been audited.

Exercise 6-3

For each of the following amounts, interpret whether the cross-reference indicates the amount is:

A. From a detail working paper or

B. To a summarizing working paper

	A or B?
1. 15,000 **El** **K1.1**	_____
2. 72,000	_____
3. 33,000 **F3.2**	_____
4. ***M5*** 999,000 ***M5.2***	_____
5. 1,000,000	_____
6. 450,000 ***G4***	_____

When finished, turn to the Suggested Solutions.

Exercise 6-4

Select two items below that best represent the main purposes of cross-referencing.

A. To indicate where certain numbers or other data originated (i.e., where supporting detail can be located in the working papers).

B. To indicate where various detail amounts have been summarized in the working papers.

C. To indicate where certain numbers can be found in client records.

When finished, turn to the Suggested Solutions.

Exercise 6-5

Below are skeleton working papers. Cross-reference the amounts as described.

1. Cross-reference the $50,000 of furniture from **K1.1** to **K1**.

MATRIX, INC.

FURNITURE	50,000
FIXTURES	25,000
	75,000

Prep by: Index No.
Date: *K1*

MATRIX, INC.

CONE TABLE	10,000
CONE TABLE	10,000
DINING ROOM REMOD	30,000
TOTAL FURNITURE	50,000

Prep by: Index No.
Date: *K1.1*

2. Cross-reference the $4,300 book balance from the detail **C5** working paper to the **C** working paper.

MATRIX, INC.

BANK BAL	7,200
OUTSTANDING CHECKS	(2,900)
BOOK BAL	4,300

Prep by: Index No.
Date: *C5*

MATRIX, INC.

BANK A/C #1	1,000
BANK A/C #2	2,500
BANK A/C #3	4,300
TOTAL CASH	7,800

Prep by: Index No.
Date: *C*

3. Cross-reference the $7,500 of remaining prepaid insurance from **G1.1** to **G1**.

MATRIX, INC.

INS. PAID	10,000
INS. AMORTIZATION	(2,500)
INS. REMAINING	7,500

Prep by: Index No.
Date: *G1.1*

MATRIX, INC.

PREPAID INS.	7,500
PREPAID RENT	2,000
TOTAL PREPAIDS	9,500

Prep by: Index No.
Date: *G1*

When finished, turn to the Suggested Solutions for the correct answers.

The A Section

We have discussed the uses of effective working papers, standard indexing, and cross-referencing techniques. One area of the working papers important to your understanding of Powertronics and the audit engagement as a whole must be covered prior to your performance of specified audit objectives and procedures.

Your work on Powertronics, and on every engagement for that matter, is generally guided by the specifics of the **A** section of the working papers.

The **A** section is the first group of working papers in an engagement binder. These working papers are also known as the Control and Review section. These papers can tell you a lot about your client and are very important. Let's spend some time discussing each subsection.

A1—*Quality Control/Checklists/Sign-offs*

This section contains the overall forms and checklists used on each engagement. They help ensure there is proper documentation to support the audit opinion.

- The first form you may see is the Review and Approval Summary. This form is signed by the engagement senior, manager, etc. at the conclusion of the job. It is a representation to the firm that the signer has performed all procedures assigned to him or her.
- You also will see checklists. These checklists are representations by the engagement team that the client's financial statements have been prepared in accordance with generally accepted accounting principles and firm guidelines. The GAAP Disclosure Checklist and the Regulation S-X Checklist-Supplement to GAAP Disclosure Checklist (SEC engagements only) are examples of checklists.

  Get a form from the supply room in your office or better yet, get an engagement binder and see what a completed form looks like. Review these forms to gain insight into your areas of responsibility.
- A final copy of the client's financial statements (alternatively filed at 43) may also be included here.

A2—*Summary Review Memorandum*

You probably remember reading about the Summary Review Memorandum (SRM) in Chapter 3.

The SRM documents our overall audit conclusions. The SRM is prepared to help engagement personnel consider the impact and resolution of significant accounting, auditing, and reporting matters.

When the client does not record all of our proposed adjustments, we prepare a list of the unrecorded adjustments (also called audit differences) at 45 and summarize them in the Summary of Audit Differences section of the SRM.

A3—*Financial Statements*

In this section, yowl find any matters relating to the compilation, calculation, and reconciliation of the financial statements. You will be involved in gathering information used in footnote support. That is why it is important to anticipate required disclosures while actually auditing your assigned account balance areas.

A4—Trial Balance

Yowl work a lot with the working trial balance (TB). These working papers usually are referred to as the 44. They are important because all lead schedules will be cross-referenced to them. In addition, the 4[1]4 directly supports the audited financial statements.

Turn to the Powertronics 44 (we have only included the first page of the 4[1]4 in the Powertronics working papers). Note how the W/P REF. column has references for all the account balance areas. Note how the 44 agrees to the E and C working papers. You can see that 19X4 (year being audited) columns start with the unaudited Balance per books (or the 'Unadjusted balance"). In this way, we will determine that the general ledger is in balance. We start with the Balance per books, add or subtract the adjustments to arrive at the Balance per audit. As you can see, this page of the 44 is complete. The final column on the right shows the totals that appear on the client's financial statements.

We might also use the TB to:

- Comment on the reasonableness of certain account balances, including a comparison with prior-year balances. In some cases, these comments may eliminate the need for separate working papers (e.g., immaterial balances or certain income and expense totals explained by analytical review for which no detail analysis is needed).
- Combine accounts that make up financial statement captions.
- Determine that the financial statements agree with the accounting records.

A5—Overall Evaluation

There are two categories of adjustments, defined as follows:

Audit adjustments that the client books. These adjustments correct two types of client errors:

- Amounts improperly recorded (i.e., amounts on client's books that need to be increased/decreased)
- Amounts between financial statement account classifications (i.e., amounts properly stated but posted to wrong accounts)

  We may distinguish between adjustments and reclassifications booked by the client by filing adjustments on one working paper and filing reclassifications on a separate working paper. See working papers **A5-1** and **A5-2** for examples.

Audit adjustments that the client does not book. These adjustments are proposed to correct the same two types of client errors above.

Generally due to insignificance, the client may not book (i.e., waive) all proposed adjustments. These waived adjustments are clearly identified in the **A5** working papers by accumulating all waived adjustments on a separate **A5** working paper. Powertronics booked all of the audit adjustments in 12/31/X4; thus there is no example in your working paper binder. If we had proposed any adjustments for Powertronics that the client did not book, they also would have been summarized in the Summary of Audit Differences section of the SRM at **A2**.

All adjustments are carried forward from the detail schedules to the **A5** working papers. You can see in your Powertronics binder that there was a total of seven audit adjustment and reclassification entries booked Adjusting journal entries are not posted directly to the **A4** (trial balance) from the detail working papers. Instead, significant adjustments are posted from the detail working papers to the journal entry working papers at **A5**. After the **A5** adjustments that are going to be booked are approved by the client, amounts are posted to the trial balance at **A4**.

A6—*Summary Results*

This section includes the summary results of the following areas:

- Events subsequent to the balance sheet date
- Errors and irregularities
- Illegal acts
- Transactions with related parties
- Going concern

We will talk more about some of these areas in which you will be involved in Chapter 14-"General Audit Procedures."

A7—*Other Documents*

This section includes copies of the following other documents: · Letters from lawyers

- Client representation letters
- Minutes
- Agreements
- Documentation of the involvement of other auditors

Typically, you will not perform procedures in this area during your first year.

A8—*Planning and Time Control*

This is an area in which you're likely to be very involved. In this section, you'll find the Audit Planning Memorandum and the Audit Approach Plan (both discussed in Chapter 3). You also will find the detail time budgets and comparisons of budgeted and actual time. You will post your time to a working paper in this section.

You can find a lot of useful information about your clients in this section; ask your senior for last year's and/or this year's 48 section.

A9—*Matters for Communication to Management, the Board of Directors, or Committees of the Board*

As management letter comments are accumulated they are filed in the **A9** section. Because you will be involved in performing the audit procedures, it is important that you be involved with writing **A9** comments for your clients.

A10—*Matters Relating to the Next Year's Audit*

This section includes suggestions for improving the efficiency of neat year's audit. For example, a list indicating additional working papers that could be prepared by client personnel or a suggestion for different types (more effective/efficient) of audit tests may be found.

A11—*Interim Financial Statements*

Copies of client's interim financial statements are filed at *A11*.

******

Here is one final word on the **A** section, which distinguishes it from the account balance section. The **A** section is the only section with a standard detail index. That is, the **A4** represents the trial balance in all client engagements. In other sections, the specific indexing (**K1**, **K2**, **K3**, etc.) is left to the discretion of the preparer.

Take advantage of the **A** section of the working papers-it contains a wealth of knowledge and represents the culmination of all work performed by the client service team.

Effective Working Papers

Each time you prepare an audit working paper, keep in mind that it is a permanent, formal document that should precisely describe what you did and what you concluded. Your working papers will be reviewed by other members of the audit team who will need to understand them without question. It is imperative that working papers convey accurate, clear, and concise messages. This will help a reviewer arrive at the same conclusion you have.

What do we mean by effective working papers?

The quantity, type, and content of effective working papers vary with the circumstances, but they should be sufficient to show that the accounting records reconcile with the financial statements reported on, and that the first three standards of field work have been observed.

Factors Dictating Content and Organization

The standards of field work are one of the factors that determine the content and organization of working papers. They require that our working papers include documentation showing that:

- The work has been adequately planned and supervised.
- The internal control structure has been studied and evaluated to the degree necessary to determine whether and to what extent other auditing procedures are to be developed.
- The audit evidence obtained, the auditing procedures applied, and the testing performed have provided sufficient competent evidential matter to afford a reasonable basis for an opinion.

If you want more information on these standards, see AU Section 300 of *AICPA Professional Standards Volume 1*. You will probably be familiar with these standards from your auditing course in college. Make sure you are familiar with these standards before going further.

In addition to the standards of field work, you must consider the nature of the engagement, the nature of the auditor's report, and the nature and condition of the client's records in determining what to include and how to organize it.

The decisive factors in dictating the content and organization of your working papers are the objectives of the audit procedures.

We can illustrate how our audit objectives dictate the content and organization of our working papers by referring to an analysis of Powertronics' professional fees.

The audit objective of our analysis of the professional fees account for Powertronics is to **identify the existence of major litigation or other important matters**, such as significant contract negotiations for the acquisition of a company that would require financial statement disclosure, or union contract negotiations that could impact the costing of inventories.

Review the schedule of professional fees on the neat page and consider why it fails to meet the primary audit objective stated above.

Although the auditor examined supporting invoices for each professional fee, this schedule fails to meet the primary audit objective because it doesn't tell us what these fees relate to and whether any follow-up is required.

We must provide enough information on audit schedules for reviewers to agree with the preparer's conclusion regarding the facts. In this instance, the preparer should have recorded information on the nature of the services provided when the invoices were examined and documented a conclusion.

Now, compare the schedule we just looked at to the schedule in the 19X4 Powertronics binder at *U12*. At *U12*, the preparer described the nature of the services. This description of services enables us to accomplish our audit objective—to identify any major litigation or other important matters.

This all boils down to knowing your audit objectives. You must consider them in relationship to the audit procedures outlined in the audit program. For example, for professional fees above, we are, among other things, auditing primarily for financial statement completeness, presentation, and disclosure for major litigation. That is, we are determining whether the company has properly accrued liabilities for litigation under FAS 5 (Contingencies) and accordingly disclosed such matters in the financial statements.

Once you know your audit objectives, you will have a clear focus on the needs of your working papers. When auditing cash or property, plant, and equipment, remember the importance of clearly understanding your audit objectives and you will be better prepared to create effective working papers.

Planning the Organization of Your Working Papers

The organization of the working paper must be planned before you begin documenting clear, concise, and well-organized records of our audit procedures. When you plan an audit working paper consider the following:

- Determine what is to be accomplished by the audit procedures and what needs to be documented.
- Consider how the working papers best fit together for an audit area (i.e., can one working paper be designed to document several audit program steps?).
- Consider other uses of the audit working paper.
- Plan the layout of the working paper so that it presents the information in the most concise and understandable manner.
- Decide which type of paper to use (e.g., 7-column, 14-column, or memoranda paper) or whether the working paper should be prepared on a microcomputer.

Powertronics, Inc.
Professional Fees
12/31/X4

Date	Description	Amount	
1/5/X4	A.B. Hoffman	43600	X
3/12/X4		27500	X
7/1/X4	Simons & Simons	12200	X
9/1/X4	A.B. Hoffman	15723	X
9/14/X4		20000	X
11/20/X4		75000	X
		126523	
		A-4	

X Vouched Expenses

Prepared by *LTC*
Date *1/X5*

Index No. *U12*

Effective Communication

Once you have established the content and organization of your working papers, you can ensure they effectively communicate your message through working paper headings, clear and concise tickmarks, conclusions, and memoranda.

Audit working paper headings. Effective working papers naturally have direction. Be sure your working papers have a heading that includes the following information:

- The client's name.
- A title or description of the data in the working paper. It might be helpful to include a general statement describing the purpose of the working paper (i.e., what audit objective or program step we are meeting) if it's not obvious.
- The audit period or balance sheet date.

Tickmarks. You have undoubtedly noticed the funny-looking, cryptic marks on the working papers. These are called tickmarks.

Tickmarks are used to indicate the procedures performed on data in the working papers. Tickmark explanations should be dear and concise, specifically describing the work performed, and should be fully explained on the particular working paper where used or on a "tickmark legend" at the beginning or end of the section of working papers you are working with (e.g., account balance area). See the **K** working paper in the Powertronics binder for some examples of tickmarks.

As you may have noticed, the tickmark symbols are normally placed in red pencil immediately neat to the applicable figures or data.

Tickmark explanations normally include a description of

- Evidence examined, findings, and results
- Unusual items noted **and** how they were resolved

Here are a few examples of tickmarks. A tickmark stating "examined supporting data" is vague and prompts a reviewer to ask what data were examined. A more complete tickmark, such as "examined vendor's invoice and receiving report, noting agreement of date recorded, account and amount" makes clear what evidence was examined and what procedures were performed.

The comment "tested for reasonableness" is similarly vague. 'Recomputed and found to be within $100" better describes the audit test performed and the result. It also permits the reviewer to consider the preparer's conclusion concerning reasonableness.

In the same manner, to say a "difference was satisfactorily reconciled" doesn't tell the reviewer what items make up the difference or why the client's treatment was judged appropriate. A better explanation would be "vendor difference consists of check no. 238, which was traced to the commercial account outstanding check list." Invest the time upfront to write a more detailed explanation. If your explanation is too brief,

you'll probably get a review note from your senior asking for more information. Then, at the very least, you'll have to invest the time to write a more detailed explanation. You may even need to review or redo the procedures to be able to answer the senior's review note. Although writing a more detailed explanation takes longer upfront, it takes much less time to prepare than it takes to backtrack to answer a reviewer's questions.

Let's look back at the analysis of Powertronics' professional fees at ***U12*** in your 19X4 Powertronics binder. Note how the tickmarks clearly document the procedures performed and any items of significance noted (such as Powertronics' policy concerning patent cost). Compare this to the example of poor working paper documentation we looked at earlier on page 32. You can see that the ***U12*** working paper in your binder provides much clearer and complete documentation and, as a result, achieves our audit objectives. Imagine the time it would take to answer a reviewer's comments on the ***U12*** working paper on page 32. For example, a reviewer might ask "What are the professional fees of $43,600 that were paid to A. B. Hoffman?" Unless you can recall the answer, you'll need to look at the invoices again. That may seem easy enough, but often our clients must get this information for us from their files. You may need to ask the client **again** for the same information.

There are a few standard tickmarks. They are listed on the inside cover of your 12/31/X4 Powertronics binder. You will document audit procedures through the use of tickmarks in later chapters. Additionally, you will prepare working papers and use tickmarks in *Audit Techniques*.

Narrative Comments. Narrative comments on audit schedules might include (1) a brief summary of discussions with client personnel, (2) data needed for notes to the financial statements, (3) a description of an account when it is not evident from the title, or (4) any additional information that would clarify data on the schedule and make it easier for others to review.

Audit Conclusions. We document overall **audit conclusions** on accounts or groups of accounts in (1) the individual account balance section of the audit working papers, or, when prepared, (2) audit memoranda. We document conclusions on the audit as a whole in the Summary Review Memorandum.

Often brief working paper conclusion statements can be used to document your responsibility for performing the work called for by the audit. program and to express a conclusion based on the audit evidence you obtained.

> The trade accounts receivable balances have been examined in accordance with the audit program. In my opinion, these balances are fairly stated in accordance with GAAP. No significant issues requiring further attention have been identified.

Brief working paper conclusion statements are illustrated in the 12/31/X4 Powertronics' working papers. Refer to working papers **E** and ***C-Lead*** for examples.

Audit Memoranda. Although conclusion statements should be sufficient to document our conclusions in many areas of the audit, **audit memoranda** are an efficient way to document the resolution of important accounting and auditing issues. Additionally, we use audit memoranda to document the performance of certain audit procedures not otherwise evidenced in the working papers and procedures that involve subjective judgments concerning the fair statement of an account balance.

FF-MEMO illustrates a memorandum that documents our inquiry of client personnel during a review for obsolete and slow-moving inventory.

Audit memoranda should not merely repeat the steps in the audit program. Rather, they should describe problems or items of significance encountered and the nature and extent of any additional procedures performed because of these items. Additionally, the memoranda should describe our conclusions as a result of the work performed. The memoranda also should clearly state the nature and amounts of any audit differences or audit adjustments noted.

For example, assume during our audit of property, plant, and equipment that we expand our audit procedures to examine support for all additions to the accounts over $50,000 (instead of those over $75,000, as originally stated in the audit program). An effective memorandum describing the test might say:

> While examining invoices supporting property additions over $75,000, 1 found two repairs to the main plant, totaling $170,000, that should have been expensed. Therefore, I expanded my testing by lowering my scope and obtaining a client-prepared schedule of all additions over $50,000 to accounts 252-257 for the year. I examined vendors' invoices, receiving reports, and purchase orders to support them and found no other additions that should be expensed. Therefore, I included adjustments on the list of adjusting journal entries for the two errors noted. In my opinion, after these adjustments, accounts 252-257 are fairly stated in accordance with GAAP.

Remember, a memorandum ordinarily is prepared if we believe it would summarize and help clarify other working paper documentation, particularly in a complex area where significant judgment is involved or in areas where items of audit significance are noted during performance of audit procedures.

******

To be effective, working papers must be prepared in light of the audit objectives and the reviewer's needs to enable the reviewer to arrive at the same conclusion. Clear and concise tickmarks and audit memoranda are effective ways to communicate your work to the reviewer.

Tips for Preparing Working Papers

Prior-Year Working Papers

Practically speaking, use prior-year working papers when making judgments about the quantity, type, and content of the working papers for a particular engagement.

For Powertronics, be sure to review the prior-year working papers to help you:

- Get ideas about audit schedule formats required in future case studies.
- Gain insight into problems encountered in the prior audit (i.e., in various account balances under audit).

Understand how to execute an audit procedure.

Note—Concentrate first on the audit program to be sure you understand this year's audit requirements. If you are not sure what is required, discuss the audit program with the senior. Then, review last year's working papers and, considering the current requirements, try to improve the working papers when possible rather than duplicate them. Additionally, be aware of situations where we can improve our efficiency or our documentation by preparing working papers in a more efficient manner (e.g., put a detailed depreciation schedule on the microcomputer rather than preparing it every year by hand).

Using Client-Prepared Working Papers

Remember that we often ask clients to prepare audit working papers. In many cases the senior coordinates our requests for client-prepared schedules by preparing a client assistance package during planning. This package outlines the form and content of requested schedules along with the timetable of dates when the various schedules will be needed.

Before documenting audit procedures on a client-prepared working paper, we should make sure it:

- Meets the objectives of the planned audit test (i.e., it includes the right data)
- Agrees to the general ledger, trial balance, or other controlling source
- Is mathematically accurate

For **maximum efficiency**, we perform these procedures in the order in which they are listed above. This will prevent wasting time by clerically testing a working paper that doesn't agree with the general ledger, or worse yet, that doesn't help us meet our audit objectives. If the client schedule doesn't meet those criteria, bring it to the attention of the senior. Finally, when using client-prepared working papers, dearly distinguish between our comments or notations and those made by the client.

While you would expect client-prepared working papers to always meet our objectives, remember from Chapter 2 that client expectations or objectives are often quite different from ours.

The "To Do List"

As you are auditing an account or group of accounts, you may have questions that can't be readily answered. To track these questions for follow-up, we jot them down on a "to do list."

"To do" comments are memory joggers to help us remember questions that can't be immediately resolved or audit procedures that cannot be completed because of lack of information. The "to do list," which is not indexed, should be filed in the front of the binder containing the working papers to which it refers. For example, the fact that the company did not comply with the stated capitalization policies raises the question of why the policy wasn't followed. The comment is placed on the "to do list," in the front portion of the binder containing the property, plant, and equipment working papers, for appropriate follow-up.

Subsequent investigation may reveal a change in company policy we were unaware of, or it may reveal that the error was merely a failure to observe a policy still in effect. When the issue raised by this "to do" comment is resolved, we "clear" the comment by making appropriate modifications to the working papers where the question arose. The results of the investigation of the comment also may give rise to a management letter comment.

"To do" comments must be removed from the working paper binder and destroyed/discarded after all items have been cleared, since they do not become a permanent part of the working papers.

Self-Review

Before presenting completed working papers for an area to the senior, you should review the work. Questions you should answer during this self-review process include:

Does the working paper completely and accurately present the information?

- Is it clear, concise, and organized so that it is easy to understand?
- Are all of the procedures called for completed? Are the results, including exceptions, clearly described and quantified?
- Does the working paper total agree with the trial balance or lead schedule?
- Are the audit program and trial balance or lead schedule, if prepared, cross-referenced to the working paper?
- Have account balances been compared with those of the prior year and have the reasons for significant variations been explained?
- Are all tickmarks clearly explained?
- Is the source of important amounts on the working paper clearly identified?
- Are all comments and explanations dearly stated?
- Is my conclusion logical, based on the audit evidence?
- Is the working paper signed and dated?
- Does my working paper have a heading (i.e., name, schedule title, audit date)?
- Are all audit program steps signed off and initialed?
- If necessary, is the purpose of the schedule explained by a brief note at the bottom of the working paper?

- Are the working papers legible?

Performing a thorough self-review assures that your working papers clearly document the procedures performed and the conclusions reached. This helps subsequent reviewers concentrate on matters of substance that affect the audit. **Remember that the primary responsibility for the content and organization of the working papers lies with the preparer**.

Exercise 6-6

Answer the two questions below.

1. Which of the following is the **decisive** factor in determining content and organization of working papers?

   A) The condition of the client's records B) Standards of field work
   C) Our audit objectives
   D) Working papers prepared in other account balance sections

2. Which of the following would be the best reason to prepare an audit memorandum for a particular audit area?

   A) To list the audit procedures performed
   B) To document our audit conclusion on an account
   C) To discuss accounting and auditing issues and/or a proposed audit adjustment

When you're finished, turn to the Suggested Solutions for the correct answers.

Exercise 6-7

Now that you have an idea of how the working papers flow, just what can you expect to happen out in the field? Below is a list of key working paper steps to ensure organized and effective working papers. List the steps in the order you would perform them.

A) Cross-reference detail working papers to lead/summary working paper.
B) Organize flow of working papers.
C) Audit detail working papers.
D) Sort through working papers and determine whether working papers provided meet our needs.
E) Cross-reference lead/summary working paper to trial balance.

When finished, turn to the Suggested Solutions.

Exercise 6-8

Now let's review the contents of various types of working papers. Match the contents in the right-hand column below with the appropriate working paper on the left.

Working Paper	Content
_____1. Trial balance	A. Detail working papers where most of our procedures are documented
_____2. Lead or summary working paper	B. Pictorial description of an accounting system
_____3. Account analysis	C. Summary of individual accounts or group of accounts (e.g., PP&E)
_____4. Audit memoranda	D. Documentation of the resolution of audit procedures not otherwise evidenced in the working papers
_____5. Flowchart	E. Third-party evidential matter
_____6. Confirmation	F. Summary of all accounts, and directly supports the audited financial statements

Exercise 6-9

Here's a challenge for you. Now that you've finished this chapter on working paper basics, ask yourself the following questions:

1. Could I organize a stack of indexed working papers that are out of order?

   Try it with your 19X4 Powertronics working papers! Scatter them about, then put them back in order. Don't worry, well give you feedback that makes sure you have them in the right order.

2. Could I write a tickmark for an audit procedure that I performed?

   Here's an excerpt from the audit program.

   Audit Program Excerpt

   1. Obtain the client-prepared bank reconciliations for all bank accounts as of 12/31/X4 and perform the following:
      a. Trace the bank balance per the bank reconciliation to the balance per the cutoff bank statement.

Now try documenting procedure la. Don't look at the suggested solution! If you're stuck, refer to the 19X4 Powertronics cash working papers—the C section. Look for a similar audit program step and find out how it was documented.

When you're finished, turn to the Suggested Solutions at the end of this chapter.

Summary

Audit working papers provide written evidence of our audit procedures and support our audit conclusions. They should be complete, concise, factual, and logically arranged. Well-prepared working papers aid reviewers and other auditors who are involved in related areas of the audit.

The quantity, type, and content of working papers will vary with the circumstances of the engagement. They should be sufficient to show that the accounting records agree or reconcile with the financial statements reported on and that the applicable auditing standards of field work have been observed.

Information in account analyses is supplemented by audit memoranda when a fuller explanation is needed. Memoranda also record such things as meetings with the client and observation and inquiry audit procedures. Memoranda should be written clearly and concisely, and opinions or conclusions should be supported by specific facts.

If you require further clarification about the basic working paper techniques discussed in this chapter, consider asking one of the staff in your office to walk you through the topics. Regardless, you will find the walkthrough of a set of working papers invaluable.

If you don't know whom to talk to, ask one of the audit managers if he or she knows someone who could help you out. Remember, everyone in your office knows what it's like to be "just starting." You should have no trouble finding someone to answer your questions. Besides, by asking these questions, you probably will get a head start in identifying your office's working paper documentation preferences.

You'll get to further practice these and other newly learned working paper techniques when you attend *Audit Techniques*.

******

In the next chapter, you will have an opportunity to perform certain procedures designed to obtain evidence. But first, take a break!

Suggested Solutions

Exercise 6-1

1. C-The primary purpose of audit working papers is to document the audit procedures performed and to support our conclusions. The working papers provide the evidence to support our opinion on the financial statements being audited.

2. E-Remember, the firm has specific policies to follow prior to allowing outside parties access to our working papers. They are outlined in Chapter 29 of Volume II of the *Audit Manual*.

3. True-An audit program step is considered complete only when the work performed and our conclusions, based on the results of our tests, are explicitly documented.

4. The use of working papers may include providing information for:
   - Accompanying footnotes to the financial statements
   - Income tax returns
   - Review by third parties

Exercise 6-2

_F_1.	**C PROGRAM**	Cash audit program
_C_2.	**C-Lead**	Cash lead or summary schedule and conclusion statement
_A_3.	**C1**	Detail of the first bank account
_D_4.	**C2**	Detail of the second bank account
_E_5.	**C1.1**	Detailed listing of outstanding checks for the first bank account
_B_6.	**C3**	Detail of the third bank account

Exercise 6-3

1. B
2. A
3. B
4. A
5. A
6. B

Exercise 6-4

A and B are correct. Cross-referencing serves to indicate where data originated (supporting detail) and where data are summarized (summary schedules).

C is incorrect. You've probably noticed other marks or comments on the working papers. They are called tickmarks and narrative comments. We'll discuss the tickmarks and narrative comments in the neat section. We often use such items to indicate where certain numbers or other data can be found in client records. We would not usually cross-reference to those records.

Exercise 6-6

1. Cross-reference the $50,000 of furniture from **K1.1** to **K1**.

MATRIX, INC.

FURNITURE	*K1*	50,000	
FIXTURES		25,000	
		75,000	

Prep by: Index No.
Date: *K1*

MATRIX, INC.

CONE TABLE		10,000	
CONE TABLE		10,000	
DINING ROOM REMOD		30,000	
TOTAL FURNITURE		50,000	*K1*

Prep by: Index No.
Date: *K1.1*

2.

MATRIX, INC.

BANK BAL		7,200	
OUTSTANDING CHECKS		(2,900)	
BOOK BAL		4,300	
		C	

Prep by: Index No.
Date: *C5*

MATRIX, INC.

BANK A/C #1		1,000	
BANK A/C #2		2,500	
BANK A/C #3	*C5*	4,300	
TOTAL CASH		7,800	

Prep by: Index No.
Date: *C*

3.

MATRIX, INC.

INS. PAID		10,000	
INS. AMORTIZATION		(2,500)	
INS. REMAINING		7,500	
		G1	

Prep by: Index No.
Date: *G1.1*

MATRIX, INC.

		G1.1	
PREPAID INS.		7,500	
PREPAID RENT		2,000	
TOTAL PREPAIDS		9,500	

Prep by: Index No.
Date: *G1*

Exercise 6-6

1. C) While the other factors listed might affect the content of our working papers, the audit objectives are the decisive factors in dictating the content and organization of the working papers.
2. C) Audit memoranda might describe problems encountered or items of significance noted, such as a proposed audit adjustment. Audit procedures performed are listed in the audit program, while conclusion statements can be documented on the applicable lead schedule.

Exercise 6-7

1. D) Sort through working papers and determine whether working papers provided meet our needs. Most clients (or the senior) will provide you with a group of loose working papers by section. You should sort through the working papers to ensure the items requested have been provided and that items provided will satisfy our requirements.
2. B) Organize flow of working papers. After identifying those working papers to be used for the section, organize working papers into a logical flow, with information flowing from detail up to summary level.
3. E) Cross-reference lead schedule to trial balance. Ensure that your lead or summary_working paper ties to the trial balance. This will prevent you from auditing a set of working papers that do not tie up to the final product.
4. A) Cross-reference detail working papers to lead or summary working paper. Verify that the detail you have ties up to your lead or summary working paper. This will ensure that the detail you audit will ultimately tie to the trial balance.
5. C) Audit detail working papers. After you are satisfied that the working papers provided make sense, and amounts properly tie to the trial balance, you can proceed with auditing the working papers.

Exercise 6-8

1. _F_ The trial balance is a summary of all accounts and directly supports the audited financial statements.
2. _C_ The lead or summary working paper is the (middleman) working paper and acts as a link between each audit area (account or group of accounts) and the trial balance.
3. _A_ Most of our audit procedures are documented on account analyses.
4. _D_ Audit memoranda document the resolution of important accounting and auditing issues and the performance of certain audit procedures not otherwise clearly evidenced in the working papers.
5. _B_ A flowchart is a pictorial description of an accounting system.
6. _E_ Confirmation, as you may recall from college, generally refers to external verification or third-party evidential matter.

Exercise 6-9

1. The working papers belong in the following order:

   A4, A5-1, A5-2, C-*Program*, C-*Lead*, C *Tickmarks*, C1, C1.1, C2, C3,C4,C5, E *Program* 1/3-3/3, E, E6, EE-1 1/2-2/2, EE2 1/6-6/6, EE 3 1/2-2/2, EE4, FF *Memo*, K *Program* 1/2-2/2, K, K1 1/2-2/2, K2, K3, U1 *and* U12.

2. On the bank reconciliation, next to the bank balance, you might have placed tickmark ***B***. In the tickmark legend you may have defined tickmark ***B*** as follows:

   B Traced and agreed the balance to the appropriate cutoff bank statement for the account as of 12131!X4.

   Refer to your Powertronics working papers for cash-the C section-for an example. Read tickmark ***B*** and see how it is used on the bank reconciliations.

   This is a difficult point, but spend some time now in this area. During *Audit Techniques* we'll ask you to write tickmarks.

******

How did you do? If you had difficulty with any question, review the applicable section(s). Remember, this will become easier with practice.

Handout 3

Site File Index

Left Side of Site File		Right Side of Site File	
Code	Content	Code	Content
	* *File Activity Sheet* * *Cost Survey File Index – Left Side*		* *Cost Survey File Index – Right Side*
A	*Cost Survey Site Procedures*	1	Labor Information
B	*Site Memorandum*	2	Financial Statements
C	Processing Fee Model	3	Depreciation Schedule
D	*Site Equipment List*		

* Cover sheets

Work Assignments

1. Prepare *File Activity Sheet*
2. Review an actual site file and present review to all training participants

Work Assignment 1

Prepare File Activity Sheet

Acme Metals and Salvage

Using the information provided below, prepare a *File Activity Sheet* for Acme Metals and Salvage.

In 2011, Mr. Jones and Mr. Hall conducted a cost survey of Acme Metals and Salvage, RC 007. The site is located at 100 Mile Road, Downtown, CA, 90000. The primary contact person is Mr. Wilson.

On 7/27/11, Mr. Jones made contact with Will Wilson at (916) 555-1212, and set up a site visit for 8:30 on August 3, 2011. On 8/3/11, the survey team met with Will, conducted a site tour, received labor information, and completed labor hour interviews. On 8/10/11, Mr. Jones made a follow up telephone call to Will Smith to confirm some of the information contained in the financial statements. On 8/14/11, the survey team received the 2010 Federal Income Tax Form 1120 for the site. On 9/8/11, Mr. All Allan, CalRecycle, checked out the site file for a quality control review.

Results will be used for the processing fee year 2010.

FILE ACTIVITY SHEET

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

Participant Name
Address
City Zip code
Phone Number E-mail Address

Survey History (Contacts with Participant)

Date	Comments

File Review

Out		Out for	In		Comments
Date	Initials		Date	Initials	

File Activity Sheet	Reviewed by: Date:	Prepared by: Date:	Index # Inside Front Cover 2

Work Assignment 2

Review an Actual Site File and Present Review to All Training Participants

You will be given a completed site file from a prior processing fee allowable cost survey, and asked to review and present the site to all of the other training participants. You will have about five minutes to present your site review. Provide the name and brief description of the site, and then present any characteristics about the site that you find relevant to issues arising during a cost survey. This may include problems and solutions presented in the *Site Memorandum*, unusual characteristics of the site that may have made the on-site survey a bit difficult, and other issues you believe the other participants should know about.

Module 4
Interviewing

Objectives:

- Enhance interviewing skills, and provide guidance on how to obtain correct and meaningful cost survey data
- Understand the operations and outputs of the automated cost survey model

Key Topics:

- Preparing for interview with site management:
  - Understand processing fees
  - Understand site (CRV-type material weights, certification number, prior surveys)
  - Obtain an initialized automated cost survey model for the site
- Conducting interviews:
  - Describe purpose, scope, and time period of the cost survey
  - Use active listening skills
  - Allow time for a considered response
  - Take notes
  - Clarify cost and labor information
  - Review interim results of model for reasonableness
- Using the automated cost survey model
- Summarizing the interviews:
  - Review results generated by the model
  - Formalize and structure notes taken into the *File Activity Sheet* and *Site Memorandum*
  - Confirm labor hour allocation and cost per ton results with interviewee, where possible

Curriculum Materials:

Reading List/Handouts:

1. Interviewing
2. General interviewing tips
3. Active listening techniques
4. Processing fee automated cost survey model walkthrough — schedule and overview
5. How to print cost model
6. Labor input sheet useful to manually record interview results
7. Checklist of cost survey supplies

Work Assignments:

1. Conduct role playing exercises
2. Complete interview skill development quiz
3. Practice entering cost and labor data into automated cost survey model

Key Topics

Preparing for Interview with Site Management

This module focuses on enhancing interviewing skills as a way to obtain correct and meaningful cost survey data. Several interview techniques are described which can assist the survey team in many aspects of cost surveys, including but not limited to: interviews during a site tour, interviewing site management about cost and financial data, interviewing supervisory personnel regarding the allocation of labor time to CRV and other activities.

Critical to success of an interview is preparation. Prior to conducting any cost surveys, the survey team should understand processing fees and handling fees, and recognize how costs of recycling are a component of determining both fees. When the survey team understands processing fees and handling fees, they can answer questions about the purpose and intent of cost surveys.

Before conducting a site's cost survey, the survey team should know the recycling volumes and review previously completed cost survey site files for the site in advance of the site visit. Prior site knowledge allows the survey team to ask questions related to a site's operations which facilitates gathering more information.

The survey team then can relate field observations to the site's financial data when conducting the site tour. For example, prior to a site walk-through the survey team might have reviewed a depreciation schedule that listed all of a site's recycling equipment. During the site walkthrough, the survey team could compare specific equipment items from the depreciation schedule to those observed in the field, and ask questions to clarify any potential discrepancies.

Similarly, the survey team might observe more laborers at a site than what shows on payroll records (W-2s, ADP payroll records). This discrepancy might suggest some laborers are paid cash, or that some are temporary, and, therefore, not listed on the payroll. It may also suggest a change in business volumes from the prior calendar year for which costs are being obtained.

Prior to a site visit, the survey team should ensure that the cost model for the site is populated with the RC's name, certification identifier, and volumes of CRV material redeemed during calendar year 2008.

Additionally, latest available CRV weight data provided on the cost model for the site should be checked. The survey team should review this weight data to understand the relative size of the site and the mix of CRV materials collected.

Survey team members should thoroughly practice performing interviews using the hard copy labor hour allocation form. You will use the hard copy for the labor allocation interview because time and physical constraints at the site prevent key-entering labor allocation interview data directly into the laptop computer.

The survey team also should understand the model's organization, location of input fields and output sheets, and how to navigate among the input sheets. This allows the survey team to be fluent with the model.

Before arriving at the site, survey team members should decide who will do cost interviews and who will do labor interviews. The interviewing handout in this module provides other preparation tips.

Conducting Interviews

A few techniques can enhance the quality of information obtained during an interview while encouraging active participation from a site's management. During an interview, the survey team should:

- **Describe the purpose, scope, and time period of the cost survey.** At the beginning of the site visit, the survey team should describe to site management the purpose, scope, and time period of the site surveys, and the timing of the resulting processing fees and handling fees. The survey team should assure site management that a site's results are confidential, and that all results will be presented only in aggregate. **The survey team should assure site management that the purpose of this site visit is to obtain cost information for the processing fee and handling fee calculations. This is not an audit, enforcement, or compliance visit. The survey team should remind site management that they are eligible to receive the processing payment or handling fee that is established as a result of the cost surveys.** The survey team also should briefly describe the sample design and selection process (e.g., sites were selected randomly so as to represent a cross section of all RCs).
- **Use active listening skills.** Active listening refers to a level of listening where people refrain from evaluating a speaker's words and place themselves in speaker's position, attempting to understand the other's point of view (see attached list of active listening techniques included as a handout in this module). Active listeners take in main ideas, acknowledge and respond when spoken to, avoid distractions, maintain eye contact, are empathetic to a speaker's thoughts, and suspend their own thoughts to give attention solely to listening.

  Active listeners also seek to clarify a response. For instance, the survey team asked, "Of the time Laborer A spent on CRV activity, how much time did she spend on aluminum?" The interviewee responded, "about a third." Using active listening, the survey team clarified the response by reiterating "so 33 percent of Laborer A's CRV time was spent on aluminum activities?"
- **Allow time for a considered response.** This technique is critical to obtaining complete and accurate cost survey data. By allowing the interviewee to complete a response prior to interruptions, the survey team often will obtain more complete information. Only after an interviewee finishes a thought should the interviewee clarify the thought, or move to another question.

  Interviewees may need to research questions. For example, if the survey team asked, "What does this insurance expense relate to?" a site manager may need to review accounting records to better understand the expense. Where significant research is required, it is advisable for the survey team to revisit it once all questioning is complete.
- **Take notes.** The survey team should always take effective notes throughout the interview. The survey team should have an ample supply of paper available, and responses from the interviewee should be documented. **The survey team should indicate the certification number of the site (e.g., RC1234) on the bottom right of each page of notes.** Interviewers should capture main points rather than noting everything an interviewer says. Notes should be sufficiently-spaced throughout the page and never crammed onto one page. The survey team should not hesitate to interrupt an interviewee to ask for time to finish documenting a thought or response. If two staff are conducting the interview, either may ask questions that continue the main interviewer's train of thought. The staff asking the question should document the answer to his/her question.
- **Clarify cost and labor information.** After financial and labor information is obtained from site management, the survey team should clarify cost and labor information with site management. Modules 9 and 10 describe steps the survey team should take to determine what costs are and how they are allocated to material types. Module 12 summarizes how site management is interviewed to determine the allocation of labor hours and wages to each material type.

During interviews, the survey team should ask questions to thoroughly understand all cost and labor items. For example, the survey team might ask, "Are all costs reported on this income statement," and an interviewee might respond "Yes, most of them." The survey team should continue probing the interviewee by asking "Can you identify and quantify any additional costs not reported in the income statement?"

Similarly, an owner's salary may not be identified on the financial statements. The survey team might ask, "If the owner didn't take a salary, did the owner draw cash from the company during the year?" If the interviewee indicates no draws were taken, the survey team might ask, "If no owner draws were taken, "How did she compensate herself for her time and efforts?"

An interviewee's response during a financial or labor interview may conflict with what the survey team observes during the site tour. It is important for the survey team to clarify and question observations. For example, the survey team might ask, "Of the items shown on the depreciation schedule, which are related to CRV recycling activities?" The interviewer might respond "I don't think any are." If this information conflicts with an observation, the survey team should not simply accept the answer, but ask "I observed a glass crusher during the site tour. Wasn't that used for CRV containers?" In some cases, additional explanation might be required for the interviewee to understand a question or to assure his/her own responses are accurate.

- **Review interim results of model for reasonableness.** It is not likely that the survey team will have the time, while at the site, to input labor and other cost data into the cost model. If you are able to do so, while at the site, you can review results produced by the automated cost survey model at an interim time during the survey to determine if any problems have occurred. It is recommended that the survey team not break the continuity of an interview, but instead perform this check during a planned or natural break.

  During this interim review, some problems may be obvious if a "flag" has appeared on the automated cost survey model. Examples of problems which are not as easily detected include: (1) wages from payroll records do not equal wages shown on financial records, or (2) total costs from the model do not match total costs shown on financial statements. If any data appear unreasonable, interviewers should check all data inputs to the model and correct any problems before continuing.

Using the Automated Cost Survey Model

The survey team will use the automated cost survey model to record the financial and labor hour information obtained during the on-site visit. To conduct on-site interviews and then key enter results efficiently, the survey team should thoroughly understand the organization and operation of the model. "Hands on" training will be provided throughout training to teach trainees how to use the model.

In general, the model is designed to compute the cost per ton to recycle each CRV material (i.e., aluminum, glass, and plastic) and for all containers redeemed from data input by the interviewer. The survey team must input labor and cost data into fields, which are discussed below. The names of the tabs (Excel worksheets), as they appear within the Microsoft Excel cost survey workbook, are noted in **bold face** type.

In advance of each site visit, the interview team will be provided a cost model for each site that will contain site identification and volume (pounds) data already included on the model. This relieves the survey team from having to enter these data.

- *Site activity description*. The **Site ID and Volume** sheet contains a summary of the site's CRV volumes, as well as the site's certification identifiers and company name.

  In addition, the project team will have entered the redemption weight and site-specific commingled rates for all CRV materials provided by DOC on the **Volume Data** tab prior to the survey team receiving the

cost model. The model uses redemption weights as the denominator in the calculation of CRV material cost per ton. Further, site-specific commingled rates are applied to certain labor allocation percentages to determine the allocation of a laborer's time to CRV materials. This information is summarized on page 1 of the model's output.

- *Labor information*. A "data input form" on the **Labor Input Sheet** is used to input each employee's wages, hours, and the percent allocation of labor hours to each material type or other materials/business. It is best to use a hard copy of this form while conducting interviews with site management, and then key enter the labor hour allocation information directly into the cost model. The model then allocates each employee's wages to each material type, and uses the combined percentage of labor hours for all employees to allocate all other indirect costs to each material type or to non-CRV/other business.
- *Cost information*. A site's allowable costs are identified from financial information provided by site management (e.g., audited financial statements, or tax returns). During an interview with site management, the survey team categorizes these costs into allowable cost categories and inputs these results into the model using the **Cost Input Sheet.** The survey team also interviews site management to identify any cost which can be directly associated with any one of the CRV material types, to all CRV material types, or to non-CRV materials/other business. Results of this questioning are inputted into the **Recycler Direct Costs** sheet.

Summarizing the Interviews

If the survey team had time to enter labor and cost data into the cost model while at the site, the survey team can review results generated by the model at the end of the site visit. Interviewers also should formalize and structure notes taken during the visit into the *Site Memorandum*. Finally, the survey team should confirm that all financial data, labor hours, labor wages, and labor allocation percentages appear reasonable.

The survey team can verbally review the cost-per-ton results with site management. The survey team should note on the *Site Memorandum* any relevant explanation given by site management regarding the results.

Where possible, if the survey team believes costs for any of the CRV materials appears unreasonable, the survey team should research the data in the model, identify apparent issues or inconsistencies, attempt to reconcile inconsistencies with site management, as necessary, then resolve the issue with required corrections to data entered into the cost model. This will require that the survey team telephone site management after leaving the site and after reviewing results produced by the cost model. The survey team **MUST** make every feasible attempt to clarify with site management those data site management provided (or did not provide) that may be causing unreasonable results.

Schedule

Estimated module time:	**4.8 Hours**	
Outline of Module	**Technique**	**Training Time** ***(including self study) (min.)***
1. Introduce module	Lecture	20
2. Read key topics, handouts	Reading	30
3. Do work assignment #1 – Conduct role playing exercises	Role Playing	30
4. Do work assignment #2 – Complete interview skill development quiz	Work Assignment	10
5. Do work assignment #3 – Practice entering cost and labor data into automated cost survey model (Handout 4 has schedule)	Work Assignment	200
	Totals	**290**

Readings and Handouts

1. Interviewing
2. General interviewing tips
3. Active listening techniques
4. Processing fee automated cost survey model walkthrough — schedule and overview
5. How to print the cost model
6. Labor input form (useful to manually record interview results)
7. Checklist of cost survey supplies

Interviewing

Before conducting the on-site interviews, familiarize yourself with the site using as much advance information as you can get. This includes reviewing recycling volumes on the cost model for the site, plus information from a prior cost survey done at the site, if the site was visited during a prior cost survey. The survey team should verify that volume data for the site are in the cost survey model before conducting the on-site visit.

Depending on site-specific characteristics, **one person** on the survey team can be responsible for obtaining and reviewing financial information at the site, while the **second person** can be responsible for obtaining payroll records and interviewing site management to determine each employee's allocation of time to CRV and other materials. This approach should be decided by each cost survey team. A new team member may want the more experienced member to conduct the initial interviews.

If it is necessary for both team members to attend financial and labor interviews of site management, both persons should be responsible for asking questions and taking notes. During the labor activity interview, one person should be responsible for recording answers on the hard copy labor input form, then either person can enter labor information on the automated model. Both team members should be responsible for taking any notes (e.g., what an individual employee is responsible for, or how multiple employees' performing identical tasks are grouped for purposes of entering data on the automated model).

Specific suggestions for preparing for and conducting the interviews are provided below:

Prepare for the Interview

- Clearly identify the objectives of the intended interview. Otherwise, it will be difficult to identify who is the best person to interview at the site, and difficult to get the required information.
- Understand the types and models of equipment and orientation in real situations, to help determine what should be observed and recorded during the site visit.
- If it is not obvious, find out the duties and responsibilities of the people that you will be interviewing.
- Confirm the specific time and place for the meeting, providing sufficient notice for the participant(s).
- Use a hard copy of the labor input sheet to record results of labor allocation interviews. The hard copy form mirrors the **Labor Input Sheet.** Prepare plenty of hard copies of the labor input sheets.
- Identify topics that the interview is to cover. The site visit is focused specifically on obtaining costs of operation and allocation of employees' time during the calendar year of interest.
- Be fully conversant in the use of the automated cost survey model and the hard copy labor input sheets.
- Confirm that specific cost and labor information needs have been communicated to the interviewee well in advance of the interview in order to allow sufficient preparation time. In some cases, site managers require that their bookkeeper or CPA be present during the site visit.
- Understand how to deal with less than cooperative owners.
- Complete as much of the *File Activity Sheet* form as is possible (an MS Word template, *File Activity Sheet Template.dot*). This form is filed in the inside of the front cover of the site file holding all site visit workpapers.

Conduct the Interview

- Introduce yourself and explain the reasons for the interview and its context within processing fees and handling fees. (Confirm that the interviewee received the advance notice of the site visit)
- Confirm the intended length of the interview
- Confirm that this visit is about determining recycling costs for purposes of the processing fee. It is also important that you remind the site manager of the following:

  - The information provided by the manager will not be publicly disclosed.
  - You are not conducting a financial audit.
  - You are not conducting a compliance or an enforcement audit.
  - The recycling center is eligible to receive the processing fee that is established as a result of these cost surveys.

- Put the interviewee at ease and keep the atmosphere relaxed and open. The interview should be a discussion, not an interrogation
- Listen, and try not to anticipate the interviewee
- During the walkthrough of the site, ask open questions requiring more than just "yes" or "no" answers
- Allow time for a considered response
- Rephrase a question if you suspect it has been misunderstood
- Follow the structure of the cost survey forms provided on the model to keep the discussion on correct subjects, but be flexible wherever necessary
- Ensure that digressions do not take excessive time away from that needed to obtain cost and labor information
- Separate opinions from objective facts
- Ask for examples to illustrate difficult and new concepts
- **Obtain** copies of financial and payroll records (most preferably, before the on-site visit)
- Take notes and use headings as reminders of ideas to come back to later
- Avoid jargon
- Regularly review with a brief summary of the ground covered, asking if any major point has been omitted
- Raise and agree on all outstanding issues and, where possible, identify someone who can be approached to help resolve them (e.g., payroll hours and wages information is not available)
- Ask what additional material should be reviewed and if anyone else should be interviewed
- Prepare the interviewee for the possibility of a follow-up

Summarize the Interview

- Clarify any outstanding issues
- Formalize written notes into the *Site Memorandum* while still at the site
- Complete the *Site Equipment List* form (a MS Word template, *Site Equipment List Template.dot*)

Confirm the Interview Findings

- Furnish the interviewee with the resulting estimates of cost per ton and any other results of the model, if you had time at the site to enter all data into the cost model, and invite his or her comments
- Actively follow-up agreements or disagreements with interview findings
- Put changes into effect
- Complete *Cost Survey Site Procedures* checklist (a MS Word template, *Site Procedures Template.dot*)
- File a copy of the *Cost Survey Site Procedures* and *Site Memorandum* checklist in the site file folder.

Handout 2

General Interviewing Tips

- Review any materials related to a site prior to visiting that site
- Be persistent if you experience difficulty understanding an interviewee's point of view
- If you have a problem understanding the site manager, do not hesitate asking additional questions to clarify
- When you do not understand an interviewee, try a different approach
- Use the automated cost survey model to guide the interviewee
- Take notes, take notes

Handout 3

Active Listening Techniques

- Clarify meaning and understanding
- Refrain from evaluating the speaker's words and attempt to understand the speaker's point of view
- Take in main ideas, acknowledge and respond when spoken to, avoid distractions, and maintain eye contact
- Allow interviewee to complete a response. Don't interrupt.
- Only after interviewee finishes a thought should the interviewer clarify the thought or move to another question
- Restate the person's basic idea, emphasizing facts
- Use noncommittal words and positive tone of voice
- Summarize major ideas and concepts to confirm your understanding
- Listen to understand, not to provide opinion
- Stay focused on a particular point or idea
- Don't interrupt
- Use every opportunity to positively reinforce the interviewee's behavior, ideas, or actions

Handout 4
Page 1 of 3

Processing Fee Automated Cost Survey Model Walkthrough

Schedule

Estimated module time:	**3.3 Hours**	
Outline of Module	**Technique**	**Training Time *(including self study) (min.)***
1. Introduce cost model	Lecture	5
2. Discuss cost model structure and navigation	Lecture	15
3. Review soft copy of an actual site file's cost model	Work Assignment	5
4. Discuss site identification, recycling volumes, and commingled rate	Lecture	5
5. Enter volume data from an actual site (use December line)	Work Assignment	5
6. Enter employee wages, hours and labor allocation from an actual site	Work Assignment	30
7. Enter financial statement costs from an actual site	Work Assignment	15
8. Enter direct costs from an actual site	Work Assignment	5
9. Compare results of entered data with actual site results	Review	25
10. Repeat steps 5 through 9	Work Assignment	80
11. Conclude walkthrough	Review	10
	Totals	**200**

Processing Fee Automated Cost Survey Model Walkthrough
Overview of Input Sheets and Input Information

The cost model consists of 14 worksheets (MS Excel "tabs"):

- Three of the 14 worksheets are used by the survey team to input: (1) labor hours and wages, (2) line item costs from financial statements, and (3) costs that can be directly allocated.
- The remaining 11 tabs display results of the cost survey, such as costs per ton by CRV material, BCI and AMI percentages, and total site costs allocated to each CRV material.

The three primary worksheets for data input are the following:

Labor Input Sheet

- For each employee that worked during the calendar year being reviewed:
  - Name and position
  - Gross wages
  - Hours worked
  - Percent of time spent at the site, recycler, processor, other businesses, and unallocated
  - Percent of time spent with non-CRV material and each of three CRV material types

Cost Input Sheet

- Source of financial information
- For each line item cost from financial source documents:
  - Description
  - Amount
  - Cost category
- If financial data must be annualized, add a worksheet that shows:
  - Partial year amount
  - Cost category
  - Number of months
  - Total amount

Recycler Direct Costs Sheet

- Costs that can be allocated directly to a CRV material type, beverage containers, recycler-only indirect costs, and other materials/other business of the recycler

The following two primary worksheets will already be populated with site information:

Site ID and Volumes Sheet

Site information, including:

- General site information

Fields on this work sheet that are displayed from another worksheet include:

- Resulting site costs per ton for each of 10 CRV materials
- Redemption weight by material type
- Site-specific commingled rate for each CRV material

Volume Data Sheet

- Received weights for each CRV material, by month
- Redeemed weights for each CRV material, by month

Allowable Cost Survey Model Directory[a]

1.	Site ID and Volumes	Display
2.	Review Sheet	Display
3.	**Labor Input Sheet**	**Input**
4.	**Cost Input Sheet**	**Input**
5.	Cost Summary	Display
6.	**Recycler Direct Costs**	**Input**
7.	BCI and AMI Percentages	Display
8.	Recycler BCI Costs	Display
9.	Recycler AMI Costs	Display
10.	Recycler Cost Summary	Display
11.	Volume Data	Input
12.	ALBMModel	Display
13.	PlasticModel	Display
14.	Results	Display

[a] Bold-faced worksheets are those worksheets that the survey team must complete. All other worksheets shown are populated by the cost model.

How to Print the Cost Model

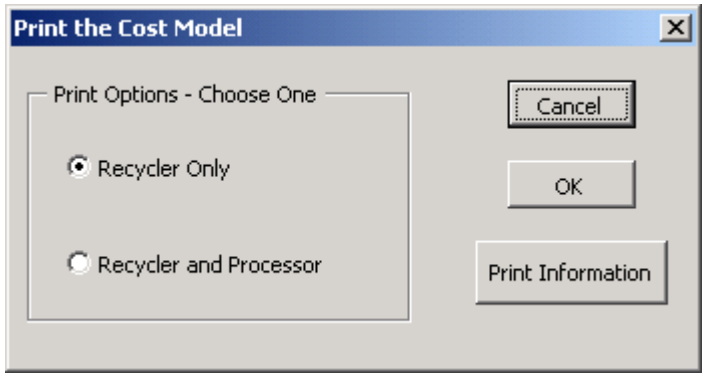
This document describes the following two areas of the cost model that relate to printing the cost model:

- Print the Cost Model Screen
- Print Information Sheet.

Print the Cost Model Screen

To print portions of the cost model, push the blue "Print" button located at the top of the **Site ID and Volumes** sheet. The screen below will appear, providing two print options:

- Recycler Only – prints only those sheets associated with the recycler (7 sheets)
- Recycler and Processor – prints those sheets associated both the recycler and processor. You will not need to chose this option because processor information will not be collected.



To select a print option, click one of the two options and select OK. For each option, the model runs through a print macro to print the selection. This process may take approximately 60 seconds to complete and prints 7 pages for recyclers with labor input sheets and cost input sheets that do not exceed one page.

Prior to starting a print job, the user should make sure that the appropriate default printer has been selected for that computer.

Print Information Sheet

To identify the actual sheets that are printed from the cost model click Print Information from the Print the Cost Model screen. The screen below will appear. For each print option, the model page number, sheet name, and macro name are identified. The user can toggle between this Print Information sheet and the Print the Cost Model sheet.

The Print Information sheet remains hidden unless activated from the Print the Cost Model screen.

Print Options Information

Return to Print Options

Only those sheets that are necessary for site review, and/or that include data entered by surveyors, are printed. The following table summarizes the sheets that will print with each of the two print options. The actual number of pages will vary depending on the number of rows used on the sheets requiring data entry (i.e. the **Cost Input Sheet** and **Labor Input Sheet**). To print worksheets other than those listed here, print one worksheet at a time directly from the worksheet.

Page #	Sheet Name	Macro Name	Recycler Only	Recycler and Processor
C-1	Site ID and Volumes	SiteIDPrint	x	x
C-2	Review Sheet	ReviewSheetPrint	x	x
C-3.A.1+	Labor Input Sheet	LaborInputAPrint	x	x
C-3.B.A+	Labor Input Sheet	LaborInputBPrint	x	x
C-3.C.1+	Labor Input Sheet	LaborInputCPrint	x	x
C-4.1+	Cost Input Sheet	CostInputPrint	x	x
C-5	Cost Summary	CostSummaryPrint	x	x
C-6	Recycler Direct Costs	RecDirectCostsPrint	x	x
C-7	Processor Direct Costs	ProDirectCostsPrint		x
C-8	Processor Cost Summary	ProcessorCostSumPrint		x
Minimum Sheets Printed per Option:			**8**	**10**

Handout 6

Name _____

Position _____

Gross Wages _____

Hours _____

# of Employees _____

Overall Activity

% RC

% PR

+

% Other Business

Total % Other Business =

% Unallocated

	% Direct Yard Labor	% All Other Labor
Recycler		

	Direct Yard Labor	All Other Labor
% Non-CRV Type Material		
% CRV Type Material		
% AL & B-M		
% Glass		
% Plastic		
% PET		
% HDPE		
% #3 to #7 Plastics		

Name _____

Position _____

Gross Wages _____

Hours _____

# of Employees _____

Overall Activity

% RC

% PR

+

% Other Business

Total % Other Business =

% Unallocated

	% Direct Yard Labor	% All Other Labor
Recycler		

	Direct Yard Labor	All Other Labor
% Non-CRV Type Material		
% CRV Type Material		
% AL & B-M		
% Glass		
% Plastic		
% PET		
% HDPE		
% #3 to #7 Plastics		

Handout 7

Checklist of Cost Survey Supplies

- Site folders with site name, address, and cost model for each site with site's 2010 CRV volumes
- Blank hardcopy of labor input recording sheet. During the labor allocation interviews, the surveyor can record on this blank form results for each site employee, then later enter the answers into the **Labor Input Sheet** of the cost model.
- Laptop computer and power cord, equipped with:
  - 10-key pad for laptop
  - Extension cord
  - Windows Internet Explorer that is able to connect and transfer to the project's secure file server
  - Alternate backup media (example: flash thumb drive)
- Pads of paper to write interview and other notes
- Pencils and pens
- Scissors
- Tape
- Stapler and staples
- State of California *Travel Expense Claim* form

Work Assignments

1. Conduct role playing exercises
2. Complete interview skill development quiz
3. Practice entering cost and labor data into automated cost survey model

Work Assignment 1

Role Playing Exercises
(Work in teams of two)

Each person will be provided an actual site file completed during a prior cost survey. Using skills described in this module (i.e., interviewing tips, active listening, allowing time for a considered response, and note taking) conduct an interview of another team member regarding the site file. The objective of the interview is to obtain as much information from the interviewee about an actual site that was surveyed during a prior processing fee cost survey (e.g., how CRV materials are handled). Each person should conduct an interview of the other for 15 minutes.

Interview Skill Development Quiz

Select the best answer to the following questions:

l. Good interviewers do all of the following ***except***
   a. Document main points with notes
   b. Clarify any unclear or ambiguous information
   c. Suspend own thoughts to give attention solely to listening
   d. Allow time for a considered response
   e. Rephrase a question if the interviewee may have misunderstood the question.

2. Active listeners frequently:
   a. Insert their opinions into the interview
   b. Take detailed comprehensive notes of each statement made by the interviewer
   c. Nod their heads and smile while thinking how to phrase the next question
   d. Listen to understand what a person is saying
   e. Ask plenty of questions on one topic.

3. Good listening skills can:
   a. Help you to gain control during an interview
   b. Help you to quickly complete on-site cost surveys
   c. Help you convey information better to site management
   d. Enhance the quality of information obtained during an interview
   e. Both c. and d.

4. During the cost survey, the survey team does not:
   a. Interview each site employee
   b. Walkthrough the site asking questions to site management regarding a site's operations
   c. Interview site management concerning labor information
   d. Interview site management concerning financial information
   e. Describe the purpose and intent of cost surveys to site management.

5. Which of the following is true of the allowable cost survey model?
   a. Labor wage, hour, and allocation information is inputted in a data form
   b. All costs are allocated to material types by labor wages
   c. Site management uses their own allocation basis to allocate labor wages to each CRV material
   d. Labor hour and wage information is directly input from income statements
   e. All key entry errors are automatically flagged.

6. Which of the following is <u>not</u> true of the allowable cost survey model?
   a. Interviewers have the capability to document footnotes
   b. Interviewers are allowed to input all of the required site activity information
   c. Interviewers can print an output of the model using a macro command
   d. Interviewers can take notes regarding cost assumptions
   e. Interviewers do not input redemption weights for CRV beverage containers.

7. When conducting interviews using the automated cost survey model, interviewers should:
   a. Manually override BCI and AMI labor allocation percentages when they appear unreasonable to site management
   b. Question site management about whether he/she is telling the truth in cases where financial information conflicts with field observations
   c. Copy a previously completed site file to a blank disk, then erase the input from the completed site to create a blank cost survey template for a new site
   d. Review cost per ton results for reasonableness upon completion of inputs to the model
   e. Break the continuity of an interview to perform an interim check of results.

8. What should an interviewer do if a site's depreciation schedule conflicts with equipment observed in the field?
   a. Ask site management to explain the difference between the schedule and actual equipment observed
   b. Note any reasons to explain the discrepancy
   c. Ignore the equipment for purposes of the cost survey
   d. Both a. and b.
   e. a., b., and c.

9. A site manager answered the question "What percentage of time does the employee spend on CRV materials," by saying "almost all of his time." A good interviewer would do the following:
   a. Conclude that this meant 100 percent of his time
   b. Ask the site manager what percentage time he means by "almost all the time."
   c. Lead the interviewee by asking, "Is that roughly 90 percent?"
   d. Estimate a percentage from your own site observations
   e. Ask "Well, if you're not certain what the percent is, does any one around here know?"

10. A cost survey team member should do all of the following *except*:
   a. Review any previously submitted financial and payroll information
   b. Review any previously completed allowable cost survey site files
   c. Understand how to input data into the allowable cost survey model
   d. Understand processing fees
   e. Complete the labor allocation data form prior to the site visit

Work Assignment 3

Entering Cost and Labor Data into Automated Cost Survey Model

The objective of this exercise is to practice inputting cost and labor data. Trainees will be provided two cost survey site files which were completed for a prior cost survey. From labor interview forms, trainees should input labor wage, hour, and allocation data into the model's labor input data form. Trainees also should practice inputting and categorizing financial information into the cost input sheet. Further, trainees should identify direct costs and input these into recycler and processor direct cost input sheets.

In order to compare the costs per ton by each CRV material that you obtain from this exercise with the cost per ton for the actual site you are entering, you must enter volume data into the cost model you are using for this exercise. To do this, click on the **Volume Data** tab of the cost model you are creating. On the December line of the recycler volumes tables (those whose column headers are shaded in blue), enter the "redeemed" weight (in pounds) you find on the first page of the cost model printout into BOTH the received weight and the redeemed weight for each CRV material type. For example, in the 12th row of the columns labeled "AL REC" and "AL RED", enter the total aluminum received weight you find in the first page of printout of the cost model for the site you are entering.

Interviewees then should check the automated model's material cost per ton results for aluminum, glass, and plastic against the results calculated from the prior costs survey. You should compare your BCI and AMI percentages with the actual BCI and AMI percentages from the two recycling centers. You should also compare the subtotal costs for aluminum, glass, and plastic on the **Recycler Cost Summary** worksheet with actual subtotal costs from the two recycling centers. A group discussion then should be held to discuss any lessons learned.

NOTE: You do not have the site's actual received weight for each CRV material, only the redeemed weight. Therefore, for this exercise, you must enter the site's redeemed weight as both the received and redeemed weights. Because of this, the site's commingled rate for each CRV material will be 100%. A site's actual commingled rate is typically less than 100%, so your resulting cost per ton will be slightly different than what the actual site model shows.

Module 5
Site Tour

Objective:

- Highlight how to conduct a site tour

Key Topics:

- Recording observations from a walkthrough of the site
- Identifying major equipment
- Understanding major site processes
- Clarifying the types and mix of materials handled
- Citing relevance of site tour

Curriculum Materials:

Reading List/Handouts:

1. Sample **Site ID and Volumes** worksheet from the automated cost survey model
2. *Site Memorandum*
3. *Site Equipment List*
4. Recycling and processing equipment advertisements
5. Examples of completed **Site ID and Volume** worksheets forms (from the automated cost model) and site memoranda

Work Assignments:

1. Complete *Site Equipment List* and *Site Memorandum* exercise
2. Role play a site tour
3. Identify terms used at a recycler or processor

Key Topics

Recording Observations from a Walkthrough of the Site

The survey team should conduct a walkthrough of the site with site management. During the walkthrough, the survey team should ask site management clarifying and probing questions to enhance or provide detail of site operations and processes. It is recommended that one team member take notes during the walkthrough, while another team member questions site management.

Information from the walkthrough is summarized in the *Site Memorandum* (see handout in this module). Key information the survey team should obtain from the walkthrough includes:

- A general site description (site size, location, demographics, economics, customer traffic flow, number and type of employees)
- Material types collected, including CRV and non-CRV
- Estimated mix of CRV and non-CRV material collected
- Major equipment types
- Major processes and operations
- Other business activities not related to handling returned beverage containers.

Examples of completed site activity description forms from the cost survey model and copies of the *Site Memorandum* are provided as handouts to this module.

Identifying Major Equipment

The survey team should identify major equipment used by the recycler (and processor, if a dual site). Types of equipment used by recyclers and processors vary depending upon the site's complexity and processes. A list of major recycling and processing equipment is provided as a handout in this module. The survey team should complete the *Site Equipment List* form (an MS Word template, *Site Equipment List Template.dot*)

The survey team can use copies of the list to identify major equipment observed during the site walkthrough. It also is helpful to note on the list which materials are recycled or processed by a piece of equipment. This information can be used later to identify a site's direct costs (i.e., costs that can be assigned to one material type). For example, one site's baler might be used for CRV aluminum and plastic material only.

During the walkthrough, the survey team should attempt to identify from site management any leased, rented, or owned equipment. This information aids in understanding a site's lease expenses, rent expenses, and depreciation expenses. For example, if a site manager indicates all equipment is rented, the survey team should expect low depreciation expenses. Further, the survey team should ask for clarification on types and uses of any equipment which is unknown or unrecognizable to them.

Small to medium-sized recyclers typically use trucks, forklifts, small scales, and several dumpster/bins. Larger, more sophisticated sites (e.g., dual sites) also may have a truck scale, conveyor, magnetic separator/sorting system, and several balers. Most of this equipment is used for recycling or processing more than one material.

Some equipment is designed specifically for a particular material type. For example, a site collecting aluminum might use an aluminum densifier. Similarly, a site accepting paper might use a paper shredder and/or a paper baler.

The survey team should note the approximate age (e.g., a year old versus five years old) of major equipment. Age serves as a check against a site's depreciation schedule (obtained later in the cost survey). As an example, if the survey team notes a roll-off truck is very old (e.g., 20 years old) but is currently depreciated, the team might question why the truck is still being depreciated (for a further discussion of depreciation, see module 8).

Understanding Major Site Processes

As a result of the walkthrough, the survey team should attempt to understand a site's major processes. Once a material is collected, how does it flow through the site? For recyclers, what process does the material undergo from collection to its transfer to a processor (or another recycler)?

As an example: At a recycler, employees accept materials at a buyback area. Materials then are weighed and sorted into separate small cans and bins. Customers are paid scrap and CRV payments based on CRV beverage container weights. Materials then are transported across the site and are further sorted and placed into larger rolloff bins. Finally, materials are loaded on a roll-off truck and transported to a processor ten miles from the site.

These activities are to be distinguished from those at a processor, where materials arrive from a recycler and are placed into large bins. Processors "cancel" CRV materials by crushing, densifying, flattening, or compacting. Materials then are baled or briquetted, and loaded into a semi trailer truck for transport to an end-user.

Clarifying the Types and Mix of Material Handled

A recycler or processor typically handles many materials, some of which may be CRV and some non-CRV. During the walkthrough, the survey team should cite each material type as well as the mix of materials collected. A list of materials handled by recyclers and processors is included as a handout in this module.

For example, during the site tour the survey team determined that a site collected scrap and CRV aluminum, scrap and CRV glass, all plastic, newspaper, cardboard, steel/tin, and paper. Further, the site manager was able to estimate that roughly 65 percent of all material collected was CRV material (the remaining 35 percent was non-CRV material). Of the CRV material collected, the manager indicated approximately 55 percent was aluminum, 30 percent glass, 14 percent PET, and one percent bi-metal.

Citing Relevance of Site Tour

Information obtained during the site tour serves as a basis for comparative analysis with results of the automated cost survey model. Consequently, the survey team should take sufficient and accurate notes during the site tour.

The survey team will eventually compare the mix of CRV/non-CRV materials, and split of CRV materials (i.e., aluminum, glass, plastic, bimetal) recorded during the site walkthrough with AMI and BCI percentages produced by the automated cost survey model. If these figures are significantly different (e.g., differ by more than 25 percentage points), the survey team should note the differences and review these differences with site management. For example, it might be unreasonable for site management to indicate that 65 percent of all labor activity was spent on CRV aluminum materials when the automated cost survey model showed an AMI aluminum percentage of ten.

Similarly, cashier and labor activities can be used to explain why material costs are high or low. For instance, if a cashier is spending most of his spare time assisting yard laborers rather than waiting for the next customer, this might suggest an operation that is relatively efficient and, therefore, has low costs overall. Similarly, if laborers must poke holes in all plastic containers prior to crushing them; this could explain why plastic costs for that site are high.

Schedule

Estimated module time:	**3.3 Hours**	
Outline of Module	**Technique**	**Training Time** ***(including self study) (min.)***
l. Introduce module and assignment	Lecture	20
2. Review key topics and read all handouts	Readings	30
3. Do work assignments #1 – Complete *Site Equipment List* and *Site Memorandum*	Work Assignment	15
4. Review results with other participants and check answers	Self Review	10
5. Do work assignment #2 – Role play a site tour	Role Play	10
6. Review results with other participants and check answers	Self Review	5
7. Do work assignment #3 – Identify terms used at a recycler or processor	Work Assignment	15
8. Visit local recycling center	On-site tour	90
	Totals	**195**

Readings and Handouts

1. Sample **Site ID and Volumes** worksheet from the automated cost survey model
2. *Site Memorandum*
3. *Site Equipment List*
4. Recycling and processing equipment advertisements
5. Examples of completed **Site ID and Volumes** worksheets from the automated cost model and site memoranda.

Sample Site ID and Volumes Worksheet

Site ID and Volumes

Recycler and Processor Volume Data

Recycler Cert #	RCXXXX	Processor Cert #		Company Name	Company A
Record Year	2008	Stratum			

	Aluminum	Bi-Metal	Aluminum/ Bi-Metal	Glass	PET #1	HDPE #2	PVC #3	LDPE #4	PP #5	PS #6	Other #7	Plastic Total
Redemption Weight -- Pounds												
RCXXXX	319,200.0	2.0	319,200.2	959,400.0	102,600.0	50,000.0	0.0	0.0	0.0	0.0	50.0	152,650.0
No PR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Redemption Weight -- Tons												
RCXXXX	159.60000	0.00100	159.60010	479.70000	51.30000	25.00000	0.00000	0.00000	0.00000	0.00000	0.02500	76.32500
No PR	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Commingled Rate Percentage												
RCXXXX	99.60	100.00	99.60	92.50	88.80	100.00	100.00	100.00	100.00	100.00	80.00	95.00
No PR	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Processor Actual Received Weight -- Pounds												
No PR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Comments (Click in the box)

Site Costs Per Ton

RC AL	RC Bi-M	RC GL
No Aluminum	No Bi-Metal	N/A

RC PET#1	RC HDPE #2	RC PVC#3	RC LDPE#4	RC PP #5	RC PS #6	RC O #7
No PET	No HDPE	No PVC	No LDPE	No PP	No PS	No Other

SITE MEMORANDUM

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

SURVEY TEAM MEMBERS:

YOU ARE NOT LIMITED TO THE SPACE INDICATED ON THIS FORM!
THIS FORM MAY BE COMPLETED ON THE COMPUTER AND EXPANDED AS NEEDED.

A. GENERAL DESCRIPTION OF SITE'S LOCATION AND OPERATIONS

1. Site information

LOT SIZE	
No Sq Ft	_____
or No of Acres	_____

TYPE
_____ Supermarket Site
_____ Independent Facility

2. Material Types Handled:

a. CRV Aluminum____ Bi-Metal____ Glass ____ PET Plastic___

Other Plastics: HDPE (#2)___ PVC (#3) ___LDPE (#4)___ PP (#5)_____ PS (#6)___ OTHER (#7)___

b. Non-CRV Motor Oil___ Cardboard___ Clothing___ Pane Glass___ Paper/fiber___ Scrap metal___

Other: _____

3. Overall Activity Split (%)

CRV _____ Non-CRV _____

4. CRV Activity (%)

Aluminum _____ Glass _____ PET Plastic _____ HDPE Plastic _____
Bi-Metal _____ #3 to #7 Plastic _____

If the percentage in 3 & 4 above are not consistent with the BCI & AMI percentages in the model, explain:

5. Business Activity

Number of Business Locations: Recycler _____ Processor _____ Other _____
Business Ownership: Sole Proprietor _____ Corporation _____ Partnership _____

SITE MEMORANDUM	Reviewed by: Date:	Prepared by: Date:	Index # B.1.1

Revised 2/26/09

SITE MEMORANDUM

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

Estimated number of full time employees

CRV		Non-CRV		Other Business	TOTAL
yard	Office	yard	Office		

6. **Changes from previous calendar year**
   a. Materials _____
   b. Employees _____
   c. Equipment _____
   d. Yard size _____
   e. Location _____
   f. Volumes _____

7. **Narrative description of site's location and operations**

B. DESCRIPTION OF CRV MATERIALS HANDLED

Include: Brief description of how each material type is handled from yard entry to yard exit. Include how materials are: sorted, stored, packaged, and transported (including who transports, vehicle type, Scrap Value Deduction (SVD,) and miles freighted to next facility).

1. **Aluminum Beverage Containers:**

2. **Bi-Metal Beverage Containers:**

3. **Glass Beverage Containers:**

4. **PET #1 Plastic Beverage Containers:**

5. **HDPE #2 Plastic Beverage Containers:**

SITE MEMORANDUM	Reviewed by: Date:	Prepared by: Date:	Index # B.1.2

Revised 2/26/09

SITE MEMORANDUM

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

6. **PVC #3 Plastic Beverage Containers:**

7. **LDPE #4 Plastic Beverage Containers:**

8. **PP #5 Plastic Beverage Containers:**

9. **PS #6 Plastic Beverage Containers:**

10. **Other #7 Plastic Beverage Containers:**

C. SPECIFIC SOURCE OF PAYROLL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

D. SPECIFIC SOURCE OF FINANCIAL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

E. DESCRIPTION OF DIRECT COSTING AND SPECIAL COST CONSIDERATIONS

Include: Brief description of why items are direct costed, and the approaches used. (For example: "Truck depreciation is direct costed between aluminum, PET, and HDPE because the owner purchased a new truck to haul only these materials. We used BCI, then the relative weights of PET and HDPE to allocate costs." Also identify and explain any unusual cost categories that you discussed with the site operator such as legal fees, consulting, travel, etc.

F. PROBLEMS ENCOUNTERED AND SOLUTIONS: (Any problems noted MUST have a corresponding solution.)

PROBLEM 1:

SOLUTION 1:

SITE MEMORANDUM	Reviewed by: Date:	Prepared by: Date:	Index # B.1.3

Revised 2/26/09

SITE MEMORANDUM

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

PROBLEM 2:

SOLUTION 2:

G. CONTACT PERSON(S):

Site Management	Site Information
Name:	Name:
Title:	Title:
Phone #:	Phone #:
FAX: #:	FAX: #:
Email	
Labor Interview	**Financial Information**
Name:	Name:
Title:	Title:
Phone #:	Phone #:
FAX: #:	FAX: #:
Labor Information	**Payroll Information**
Name:	Name:
Title:	Title:
Phone #:	Phone #:
FAX: #:	FAX: #:

SITE MEMORANDUM	Reviewed by: Date:	Prepared by: Date:	Index # B.1.4

Revised 2/26/09

SITE EQUIPMENT LIST

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

QTY	Equipment Type	Equipment Manufacturer (Manufacturer name must be included when multiple items of the same type of equipment exist and there is a cost, such as depreciation, expensed to one of the items.)	Material Type: AL, GL, PET, Other PL, Other
	Aluminum Densifier		
	Baler		
	Bins		
	Blower		
	Briquetter		
	Can Condenser		
	Chopper		
	Compactor		
	Conveyor System		
	Crane		
	Crusher		
	Dumpster		
	Flattener		
	Forklift		
	Granulator		
	Hopper		
	Loader		
	Magnetic Separator		
	Perforator		
	Pickup Truck		
	Roll-off Bins/Trailer		
	Roll-off Truck		
	Shredder		
	Tractor		
	Trailer		
	Trommel Screen		
	Truck Scale		
	Scale		
	Lift		

Site Equipment List	Reviewed by: Date:	Prepared by: Date:	Index # D.1

Revised 2/5/04

FRONT LOADER CONTAINERS

PITCH TOPS

STANDARD FEATURES

- PLASTIC LIDS
- 14 GA. CONSTRUCTION WITH FLANGED CORNERS AND "V" GROOVE RIBS FRONT, BACK AND BOTTOM
- INTERLOCKING BANDING
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- LID HOLDERS TO HOLD LIDS OPEN
- LID EARS TO ACCOMMODATE PLASTIC OR STEEL LIDS
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PRODUCT SPECIFICATIONS

RECYCLING CONTAINERS

Item	Model #	Capacity	Dimensions (LxWxH)	Weight	Nesting Ratio	Stacked Height (3 bins)	Nested Height (2 bins)
14 gallon bin	RB-N	14.00 gal.	21.75x16.00"x13.00"	4.0 lbs.	6.5 to 1	–	–
18 gallon bin	RB-NL	18.00 gal.	25.25"x17.60"x13.50"	5.0 lbs.	5.5 to 1	–	–
Ribbed stacking bins	RB-R	11.85 gal./bin	20.125"x15.25"x12.40"	4.0 lbs.	3.0 to 2	35.60"	24.60"
Ribbed stacking bins w/solid front panels	RB-RS	11.85 gal./bin	20.125"x15.25"x12.40"	4.1 lbs.	3.0 to 2	35.60"	24.60"
Solid stacking bins	RB-SS	11.85 gal./bin	20.125"x15.25"x12.40"	4.5 lbs.	3.0 to 2	35.60"	24.60"
Nestable/stacking bins	RB-NS	11.20 gal./bin	21.00"x16.10"x12.40"	3.7 lbs.	3.0 to 1	35.10"	16.40"
Office paper recycler	ORB-4G	4.00 gal.	13.00"x8.00"x13.00"	1.5 lbs.	5.75 to 1	–	–
Apartment recycler	ARB-6G	6.00 gal.	13.00"x12.00"x13.00"	2.2 lbs.	5.75 to 1	–	–

ROLL OUT CARTS

Item	Model #	Capacity	Dimensions (LxWxH)	Weight
20 gallon cart	ROC-20	20.00 gal.	22.98"x20.20"x39.13"	30.25 lbs.
35 gallon cart	ROC-35	35.00 gal.	22.98"x20.20"x39.13"	25.50 lbs.
65 gallon cart	ROC-65	65.00 gal.	28.11"x26.70"x40.58"	36.00 lbs.
65 gallon cart – Green Waste Version	ROC-65Y	65.00 gal.	28.11"x26.70"x40.58"	38.60 lbs.
95 gallon cart	ROC-95	95.00 gal.	33.73"x28.70"x45.13"	46.00 lbs.
95 gallon cart – Green Waste Version	ROC-95Y	95.00 gal.	33.73"x28.70"x45.13"	49.20 lbs.

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Sample Site Activity Description Form

Site ID and Volumes

Recycler and Processor Volume Data

Recycler Cert #	RC99999	Processor Cert #		Company Name	Company A
Record Year	2008	Glass Stratum	N	Container Stratum	3

	Aluminum	Bi-Metal	Aluminum/ Bi-Metal	Glass	PET #1	HDPE #2	PVC #3	LDPE #4	PP #5	PS #6	Other #7	Plastic Total
Redemption Weight -- Pounds												
RC99999	1,695.5	0.0	1,695.5	11,639.6	3,752.3	0.0	0.0	0.0	0.0	0.0	0.0	3,752.3
No PR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Redemption Weight -- Tons												
RC99999	0.84775	0.00000	0.84775	5.81980	1.87615	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	1.87615
No PR	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Commingled Rate Percentage												
RC99999	65.56	100.00	65.56	54.86	35.53	100.00	100.00	100.00	100.00	100.00	100.00	35.53
No PR	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Processor Actual Received Weight -- Pounds												
No PR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Comments (Click in the box)

Site Costs Per Ton

RC AL	RC Bi-M	RC GL
$14,990.02	No Bi-Metal	$913.50

RC PET#1	RC HDPE #2	RC PVC#3	RC LDPE#4	RC PP #5	RC PS #6	RC O #7
$1,827.32	No HDPE	No PVC	No LDPE	No PP	No PS	No Other

SITE MEMORANDUM

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

SURVEY TEAM MEMBERS:

YOU ARE NOT LIMITED TO THE SPACE INDICATED ON THIS FORM!
THIS FORM MAY BE COMPLETED ON THE COMPUTER AND EXPANDED AS NEEDED.

A. GENERAL DESCRIPTION OF SITE'S LOCATION AND OPERATIONS

1. Site information

LOT SIZE	
No Sq Ft	900
No of Acres	

TYPE	
x	Supermarket Site
	Independent Facility

2. Material Types Handled:

a. CRV Aluminum x Bi-Metal ____ Glass x PET Plastic x

Other Plastics: HDPE (#2) x PVC (#3) ___ LDPE (#4) x PP (#5) x PS (#6) x OTHER (#7) x

b. Non-CRV Motor Oil ___ Cardboard ___ Clothing ___ Pane Glass ___ Paper/fiber ___ Scrap metal ___

Other: _____

3. Overall Activity Split (%)

CRV 100 Non-CRV _____

4. CRV Activity (%)

Aluminum 50 Glass 30 PET Plastic 20 HDPE Plastic _____
Bi-Metal _____ #3 to #7 Plastic _____

If the percentage in 3 & 4 above are not consistent with the BCI & AMI percentages in the model, explain:

5. Business Activity

Number of Business Locations: Recycler 4 Processor _____ Other _____
Business Ownership: Sole Proprietor _____ Corporation _____ Partnership x

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

Estimated number of full time employees

CRV		Non-CRV		Other Business	TOTAL
yard	Office	yard	Office		
1.75	.25			5.25	7.25

6. Changes from previous calendar year

a. Materials	Accepting Plastics 2 thru 7
b. Employees	None
c. Equipment	None
d. Yard size	None
e. Location	None
f. Volumes	None

7. Narrative description of site's location and operations

The recycling center is operating as a partnership (husband and wife), who own four other small recycling centers. One partner works exclusively with the daily operations of all the recycling centers, while the other is a silent partner.

This site has been in operation since 1998 and only accepts CRV material. The recycling center is located next to a small supermarket in a farming community. The site is an open-air site, operating out of a 15 foot trailer where the material is weighed and stored until it is picked up approximately three times a week by the recycler.

The recycler and a helper pick up the GL, PL, and AL by hand and load the material into a 28 foot trailer then drive approximately 25 miles to the next recycling facility, which is also a storage area for the glass and plastic. The glass is unloaded by hand into a Roll-off container which is owned by the processor, who picks up the Roll-off two times a month for an SVD.

The plastic is unloaded by hand and stored at the storage yard in large plastic bags, until there is enough material to take to the processor, which is about once a month. The recycler then drives the Aluminuma directly to the processor approximately 12 miles away.

The recycler pays a fixed $350.00 a month for rent. The storage yard, which is another RC, is protected by a chain link fence, installed last year.

B. DESCRIPTION OF CRV MATERIALS HANDLED

Include: Brief description of how each material type is handled from yard entry to yard exit. Include how materials are: sorted, stored, packaged, and transported (including who transports, vehicle type, Scrap Value Deduction (SVD,) and miles freighted to next facility).

1. Aluminum Beverage Containers:

Customers drive or walk up to the recycling center. The customers dump their containers into a 30 gallon plastic barrel, while the employee helps and observes the material being transferred.

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

The employee/customer lifts the 30-gallon barrel into the trailer, where the material is then weighed on a floor scale.

The employee subtracts the weight of the 30 gallon plastic container from the total weight of the cans and enters the weight into a receipt book, which the customer signs and is then paid cash. The employee then dumps the material into large plastic bags, where it is then stored inside the trailer until a driver picks it up three times a week. The glass and plastic is first dropped off to the next recycling center and storage facility located in Bakersfield approximately 25 miles away. Once the glass and plastic is unloaded, the aluminum is then taken to the processor located approximately 12 miles away.

2. **Bi-Metal Beverage Containers:**

3. **Glass Beverage Containers:**

Customers drive or walk up to the recycling center. Both the customer and the employee color sort and transfer the glass containers into 30 gallon plastic barrels, green and brown are mixed, while clear glass is kept separate. The employee and or customer lifts the 30 gallon plastic container up, to the scale located inside the trailer where the material is then weighed. The employee subtracts the weight of the 30 gallon plastic container from the total weight of the glass and then records the weight into the recept book, which the customer then signs and is paid cash. The employee then transfers the glass into 55 gallon poly drums, also located inside the trailer.

The glass is stored inside the trailer until it is picked up approximately three times a week, by a driver that is employed by the recycler. The driver and a helper transfer the poly drums by hand to a truck that drives to the storage yard approximately 25 miles away, (Empty poly drums are exchanged for the full drums).

The material is then unloaded by hand into a 24 foot Roll-off container supplied by the processor for a SVD, who picks up the Roll-off two times a month.

4. **PET #1 Plastic Beverage Containers:**

Customers drive or walk up to the recycling center and dump their containers into 30 gallon plastic barrels, while the employee observes and or helps the customer.

The employee then lifts the 30 gallon plastic barrel, up to the trailer, where the material is then weighed on a floor scale. The employee then subtracts the weight of the 30 gallon container from the total weight of the plastic ocntainers. The weight of the CRV plastic material is recorded in a receipt book, which the customer signs, and is then paid cash. The employee transfers the plastic into large plastic bags, until it is picked up by a driver at the same time the glass and Al is picked up. The plastic is then unloaded by hand by the driver and a helper, and stored at the same storage yard that the glass is stored at. When enough material has been collected it is then taken to the processor 12 miles away by the recycler. No SVD is taken for this material

5. **HDPE #2 Plastic Beverage Containers:**

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

6. **PVC #3 Plastic Beverage Containers:**

7. **LDPE #4 Plastic Beverage Containers:**

8. **PP #5 Plastic Beverage Containers:**

9. **PS #6 Plastic Beverage Containers:**

10. **Other #7 Plastic Beverage Containers:**

C. SPECIFIC SOURCE OF PAYROLL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

The owner pays his employees cash. All hours were given verbally by the interpreter.

D. SPECIFIC SOURCE OF FINANCIAL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

The owner supplied the name of his accountant who was able to fax the Department Form 565, Depreciation Schedule, and was interviewed regarding the items.

E. DESCRIPTION OF DIRECT COSTING AND SPECIAL COST CONSIDERATIONS:

Include: brief desciption of why items are direct costed, and the approaches used. For example: "Truck depreciation is direct costed between aluminum, PET, and HDPE because the owner purchased a new truck to haul only these materials. We used BCI, then the relative weights of PET and HDPE to allocate costs." Also identify and explain any unusual cost categories that you discussed with the site operator such as legal fees, consulting, travel, etc.)

F. PROBLEMS ENCOUNTERED AND SOLUTIONS: (Any problems noted MUST have a corresponding solution.)

PROBLEM 1: This recycling center is a Spanish speaking site. The survey team Initially had difficulty obtaining any financial information due to the language barrier

SOLUTION 1: The survey team was able to obtain assistance from CalRecycle's Spanish speaking interpreter. The survey team was also given the name of the recycling center's financial accountant, who faxed the necessary financial documents. An interpreter provided assistance during the site interview.

PROBLEM 2: No employee or owners hours are associated with wages or income.

SOLUTION 2: The owner verbally provided the survey team with the number of hours the emplyees worked as well as their wages, through the help of an interpreter.

SITE MEMORANDUM

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

G. CONTACT PERSON(S):

Site Management	Site Information
Name:	Name:
Title:	Title:
Phone #:	Phone #:
FAX: #:	FAX: #:
Labor Interview	**Financial Information**
Name:	Name:
Title:	Title:
Phone #:	Phone #:
FAX: #:	FAX: #:
Labor Information	**Payroll Information**
Name:	Name:
Title:	Title:
Phone #:	Phone #:
FAX: #:	FAX: #:

Sample Site ID and Volumes Worksheet

Site ID and Volumes

Recycler and Processor Volume Data

Recycler Cert #	RCYYYY	Processor Cert #	PRyyyy	Company Name	
Record Year	2008	Stratum			

	Aluminum	Bi-Metal	Aluminum/ Bi-Metal	Glass	PET #1	HDPE #2	PVC #3	LDPE #4	PP #5	PS #6	Other #7	Plastic Total
Redemption Weight -- Pounds												
RCYYYY	122,225.0	0.0	0.0	234,093.0	17,158.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRyyyy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Redemption Weight -- Tons												
RCYYYY	61.11250	0.00000	0.00000	117.04650	8.57900	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	8.57900
PRyyyy	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Commingled Rate Percentage												
RCYYYY	100.00	100.00	100.00	99.80	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
PRyyyy	0.00	100.00	0.00	100.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Processor Actual Received Weight -- Pounds												
PRyyyy	1,745,274.0	0.0	1,745,274.0	0.0	222,547.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Comments (Click in the box)

Site Costs Per Ton

RC AL	RC Bi-M	RC GL
$388.98	No Bi-Metal	$335.79

RC PET#1	RC HDPE #2	RC PVC#3	RC LDPE#4	RC PP #5	RC PS #6	RC O #7
$1,021.12	No HDPE	No PVC	No LDPE	No PP	No PS	No Other

SITE MEMORANDUM

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

SURVEY TEAM MEMBERS:

YOU ARE NOT LIMITED TO THE SPACE INDICATED ON THIS FORM!
THIS FORM MAY BE COMPLETED ON THE COMPUTER AND EXPANDED AS NEEDED.

A. GENERAL DESCRIPTION OF SITE'S LOCATION AND OPERATIONS

1. Site information

LOT SIZE	
No Sq Ft	
No of Acres	2

	TYPE
	Supermarket Site
x	Independent Facility

2. Material Types Handled:

a. CRV Aluminum x Bi-Metal ____ Glass x PET Plastic x

Other Plastics: HDPE (#2)___ PVC (#3) ___ LDPE (#4)___ PP (#5)_____ PS (#6)___ OTHER (#7)___

b. Non-CRV Motor Oil___ Cardboard___ Clothing___ Pane Glass___ Paper/fiber___ Scrap metal___

Other: _____

3. Overall Activity Split (%)

CRV 30 Non-CRV 70

4. CRV Activity (%)

Aluminum 50 Glass **15** PET Plastic 35 HDPE Plastic _____
Bi-Metal _____ #3 to #7 Plastic _____

If the percentage in 3 & 4 above are not consistent with the BCI & AMI percentages in the model, explain:

5. Business Activity

Number of Business Locations: Recycler x Processor x Other _____
Business Ownership: Sole Proprietor _____ Corporation x Partnership _____

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

Estimated number of full time employees

CRV		Non-CRV		Other Business	TOTAL
yard	Office	yard	Office		
4.5	2.5	24	14		45

6. Changes from previous calendar year

a. Materials	Now accepting resins #2 - #7
b. Employees	None
c. Equipment	None
d. Yard size	2 1/2 acre increase
e. Location	acquired lot next door (see above)
f. Volumes	Increase

7. Narrative description of site's location and operations

Metals Inc. is located in an industrial section of San Jose. This facility has been in operation for over 25 years as a scrap metal dealer and is currently a certified processor for aluminum and plastic as well as a certified recycling center for all CRV material types. The center is open Monday through Friday from 8:00 a.m. to 5:00 p.m. and on Saturday from 8:30 to 5:00 p.m.

The buyback center occupies a small portion of the entire lot. Customers enter the lot from the only driveway and proceed to the buyback center located in the southwest corner of the 2+ acre lot. Directly across from the buyback center, located in the middle of the center, is the cashier/administrative office. Receipts from the buyback center are sent there via a vacuum tube for customer signature and payment. The rest of the lot is dedicated to scrap metal storage and the processing of aluminum and plastic.

Metals Inc. employs three full-time and two part-time yard workers and one full-time and three part-time cashiers who work only at the buyback center. This center is the only CRV buyback in the area and therefore is extremely busy, especially on Saturday. All other employees work in the recycling of ferrous and non-ferrous or the processor and help out on an as needed basis.

This center accepts CRV aluminum, glass, and plastic. They also accept all types of ferrous and non-ferrous scrap metal. Aluminum and plastic are hauled directly to the processor at no cost to the recycler. Glass is either picked up by the processor for a pull charge of $187.00 or self-hauled. Management was unable to determine how many times glass was self-hauled but did give an estimation of approximately five times.

B. DESCRIPTION OF CRV MATERIALS HANDLED

Include: Brief description of how each material type is handled from yard entry to yard exit. Include how materials are: sorted, stored, packaged, and transported (including who transports, vehicle type, Scrap Value Deduction (SVD,) and miles freighted to next facility).

1. **Aluminum Beverage Containers:** Customers drive in the only gate and park to the left at the buyback area. Attendants assist customers in transferring their aluminum into the basin of one of six conveyors equipped with magnetic separators. The aluminum is inspected while they are conveyed to the hopper where they are weighted. The material is dumped onto another conveyer and sent to a twenty-yard bin,

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

which feeds a crusher/blower, and finally into a 40-yard roll-off container. The weight and material basis is recorded on a weight ticket that is sent to the cashier's office via a vacuum tube. The customer walks to the cashier's office to sign the receipt and receive cash payment. The material is self-hauled a short distance to the processor by the attendant using the roll-off truck. The recycler receives CRV for their aluminum.

2. **Bi-Metal Beverage Containers:**

3. **Glass Beverage Containers:** Customers drive in the only gate and park to the left at the buyback area. Attendants inspect the glass while assisting customers in color sorting their bottles into separate plastic trash barrels. The barrels are weighed on the floor scale and dumped into separate bins depending on color. The attendant records the material basis and weight on a weight ticket and send it to the cashier's office via a vacuum tube. The customers walk to the cashier's office to sign the receipt and recive cash payment. Full bins are trucked across the yard and stored until they are self-hauled 25 miles to, or picked up by the processor who charges a $187.00 pull charge per load. The recycler receives either a scrap value deduction or scrap value depending on how the processor receives the material.

4. **PET #1 Plastic Beverage Containers:** Customers drive in the only gate and park to the left at the buyback area. Attendants inspect the bottles for non-CRV material and different resin types. The material is transferred to plastic barrels and weighed on the floor scale. The attendants record the material basis and weight on a weight ticket and send it to the cashier's office via a vacuum tube. The customers walk to the casier's office to sign the receipt and receive cash payment. Meanwhile, the attendants dump the plastic into a hopper equipped with a ram, which lightly compresses the bottles into a 20-yard roll-off bin. The load of plastic is self-hauled to the processor by the attendant using the roll-off truck. The recycler receives scrap value for the load of PET.

5. **HDPE #2 Plastic Beverage Containers:**

6. **PVC #3 Plastic Beverage Containers:**

7. **LDPE #4 Plastic Beverage Containers:**

8. **PP #5 Plastic Beverage Containers:**

9. **PS #6 Plastic Beverage Containers:**

10. **Other #7 Plastic Beverage Containers:**

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

C. SPECIFIC SOURCE OF PAYROLL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

The bookkeeper provided the survey team with 2010 W-2 Forms and a self-generated wage and hour ledger along with information for the labor interview.

D. SPECIFIC SOURCE OF FINANCIAL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

The bookkeeper provided the survey team with the 2010 fiscal year Federal Income Tax Form 1120 and the depreciation schedule.

E. DESCRIPTION OF DIRECT COSTING AND SPECIAL COST CONSIDERATIONS:

Include: brief desciption of why items are direct costed, and the approaches used. For example: "Truck depreciation is direct costed between aluminum, PET, and HDPE because the owner purchased a new truck to haul only these materials. We used BCI, then the relative weights of PET and HDPE to allocate costs." Also identify and explain any unusual cost categories that you discussed with the site operator such as legal fees, consulting, travel, etc.)

F. PROBLEMS ENCOUNTERED AND SOLUTIONS: (Any problems noted MUST have a corresponding solution.)

PROBLEM 1: Financial documents do not cover the calendar year 2010.

SOLUTION 1: Federal Income Tax Form 1120 covered the 2010 fiscal year (October 1, 2009 through September 30, 2010). The bookkeeper supplied the survey team with financial records covering the first quarter of the 2011 fiscal year (October 2010 through December 2010). The participant only recently began tracking expenses quarterly, so the last quarter of 2009 is not available to reconcile to a 2010 calendar year. A comparison of an average quarter for the fiscal year with expenses for the last quarter of 2010 demonstrated that the Oct 2009 – Sept 2010 fiscal year is a reasonable representation of the 2010 calendar year.

PROBLEM 2: Not all employees have W-2's representing wages paid in the record year.

SOLUTION 2: For those employees that do not have W-2's, their total wage and hour information comes from the self-generated wage and hour ledger.

SITE MEMORANDUM

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

G. CONTACT PERSON(S):

Site Management	Site Information
Name:	Name:
Title:	Title:
Phone #:	Phone #:
FAX: #:	FAX: #:
Labor Interview	**Financial Information**
Name:	Name:
Title:	Title:
Phone #:	Phone #:
FAX: #:	FAX: #:
Labor Information	**Payroll Information**
Name:	Name:
Title:	Title:
Phone #:	Phone #:
FAX: #:	FAX: #:

Sample Site ID and Volumes Worksheet

Site ID and Volumes

Recycler and Processor Volume Data

Recycler Cert #	RCZZZZ	Processor Cert #	PRzzzz	Company Name	
Record Year	2008	Stratum			

	Aluminum	Bi-Metal	Aluminum/ Bi-Metal	Glass	PET #1	HDPE #2	PVC #3	LDPE #4	PP #5	PS #6	Other #7	Plastic Total
Redemption Weight -- Pounds												
RCZZZZ	122,225.0	0.0	0.0	234,093.0	17,158.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRzzzz	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Redemption Weight -- Tons												
RCZZZZ	61.11250	0.00000	0.00000	117.04650	8.57900	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	8.57900
PRzzzz	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Commingled Rate Percentage												
RCZZZZ	100.00	100.00	100.00	96.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
PRzzzz	0.00	100.00	0.00	100.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Processor Actual Received Weight -- Pounds												
PRzzzz	1,745,274.0	0.0	1,745,274.0	0.0	222,547.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Comments (Click in the box)

Site Costs Per Ton

RC AL	RC Bi-M	RC GL
$1,917.77	No Bi-Metal	$1,743.76

RC PET#1	RC HDPE #2	RC PVC#3	RC LDPE#4	RC PP #5	RC PS #6	RC O #7
$1,313.00	No HDPE	No PVC	No LDPE	No PP	No PS	No Other

SITE MEMORANDUM

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

SURVEY TEAM MEMBERS:

YOU ARE NOT LIMITED TO THE SPACE INDICATED ON THIS FORM!
THIS FORM MAY BE COMPLETED ON THE COMPUTER AND EXPANDED AS NEEDED.

A. GENERAL DESCRIPTION OF SITE'S LOCATION AND OPERATIONS

8. Site information

LOT SIZE	
No Sq Ft	
No of Acres	

TYPE	
x	Supermarket Site
	Independent Facility

9. Material Types Handled:

a. CRV Aluminum x Bi-Metal ____ Glass x PET Plastic x

Other Plastics: HDPE (#2)___ PVC (#3) ___ LDPE (#4)___ PP (#5)_____ PS (#6)___ OTHER (#7)___

b. Non-CRV Motor Oil___ Cardboard___ Clothing___ Pane Glass___ Paper/fiber___ Scrap metal___

Other: Non-CRV Glass

10. Overall Activity Split (%)

CRV 99% Non-CRV 1%

11. CRV Activity (%)

Aluminum 45% Glass 50% PET Plastic 5% HDPE Plastic _____
Bi-Metal _____ #3 to #7 Plastic _____

If the percentage in 3 & 4 above are not consistent with the BCI & AMI percentages in the model, explain:

12. Business Activity

Number of Business Locations: Recycler 426 Processor 2 Other _____
Business Ownership: Sole Proprietor _____ Corporation x Partnership _____

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

Estimated number of full time employees

CRV		Non-CRV		Other Business	TOTAL
yard	Office	yard	Office		
1					1

13. Changes from previous calendar year

a. Materials	As a result of SB332
b. Employees	None
c. Equipment	None
d. Yard size	None
e. Location	None
f. Volumes	Increase due to new CRV containers in the program.

14. Narrative description of site's location and operations

This site is situated on the west side of a supermarket parking lot located on Country Side Lane. The site typically takes up four to five parking spaces and consists of one forty-foot roll-off bin and four igloos. The roll-off bin is used to store the UBC aluminum and plastic and the igloos hold the sorted UBC glass. One igloo is for clear glass, one for green glass, and two for brown glass. There are five 10-gallon buckets used to sort and weigh glass, and three wire mesh baskets used to sort and weigh aluminum and plastic. No baling of materials is done at this site.

There are no coverings or buildings to protect the attendant from the elements or house the equipment, with the exception of the roll-off. Utilities such as telephones, gas electricity, water and garbage are non-existent at this location.

One attendant operates the site. which is open thirty hours per week. The attendant picks up the portable computer, printer, key for roll-off, and script, which is used to pay the customer, from the supermarket each morning. There is a 120-lb capacity scale inside the roll-off bin along with a table and chair that the attendant uses as a desk. The attendant turns on the portable computer, levels the scale and is ready for business. At the end of the day the portable computer, printer, key for roll-off bin and unused script is returned to the supermarket for storage until the next business day, as a theft precaution.

B. DESCRIPTION OF CRV MATERIALS HANDLED

Include: Brief description of how each material type is handled from yard entry to yard exit. Include how materials are: sorted, stored, packaged, and transported (including who transports, vehicle type, Scrap Value Deduction (SVD,) and miles freighted to next facility).

1. **Aluminum Beverage Containers:** The customer and/or the attendant sort the UBC aluminum into wire mesh baskets. The site attendant visually inspects and weighs the material on a 120-lb. capacity scale. The buy-back volume is then recorded into the portable computer and the site attendant completes the script with the necessary information for payment to the customer. The customer signs for and redeems the script for cash at the supermarket within 60 days. The UBC aluminum is stored behind a barrier in the roll-off. Various processors picked up material during 2010. No SVD taken.

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

2. **Bi-Metal Beverage Containers:**

3. **Glass Beverage Containers:** The customer and/or the attendant color sort the UBC glass into ten-gallon buckets for weighing. The site attendant visually inspects and weighs the material on a 120-lb. capacity scale. The buy-back volume is then recorded into the portable computer and the site attendant completes the script with the necessary information for payment to the customer. The customer signs for and redeems the script for cash at the supermarket within 60 days. The UBC glass is stored in the appropriate igloo according to color. Once the igloos reached capacity, various processors picked up material during 2010. No SVD taken.

4. **PET #1 Plastic Beverage Containers:** The customer and/or the attendant sort the UBC plastic into wire mesh baskets. The site attendant visually inspects and weighs the material on a 120-lb. capacity scale. The buy-back volume is then recorded into the portable computer and the site attendant completes the script with the necesssary information for payment to the customer. The customer signs for and redeems the script for cash at the supermarket within 60 days. The UBC plastic is put into large plastic bags and stored inside the roll-off on top of the UBC aluminum. Various processors picked up material during 2008. No SVD taken.

5. **HDPE #2 Plastic Beverage Containers:**

6. **PVC #3 Plastic Beverage Containers:**

7. **LDPE #4 Plastic Beverage Containers:**

8. **PP #5 Plastic Beverage Containers:**

9. **PS #6 Plastic Beverage Containers:**

10. **Other #7 Plastic Beverage Containers:**

C. SPECIFIC SOURCE OF PAYROLL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

The CPA provided a payroll report obtained from their PayChex Payroll Program. This report listed department, gross pay and total hours for each non-salaried employee for the calendar year ending 12/31/10.

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

D. SPECIFIC SOURCE OF FINANCIAL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

The CPA provided a Statement of Earnings for the calendar year ending 12/31/10. The Statement of Earnings listed expenses separately by Operating Expenses, and General and Administrative Expenses.

E. DESCRIPTION OF DIRECT COSTING AND SPECIAL COST CONSIDERATIONS:

Include: brief desciption of why items are direct costed, and the approaches used. For example: "Truck depreciation is direct costed between aluminum, PET, and HDPE because the owner purchased a new truck to haul only these materials. We used BCI, then the relative weights of PET and HDPE to allocate costs." Also identify and explain any unusual cost categories that you discussed with the site operator such as legal fees, consulting, travel, etc.)

F. PROBLEMS ENCOUNTERED AND SOLUTIONS: (Any problems noted MUST have a corresponding solution.)

PROBLEM 1: The company did not have actual hours worked by contract/temporary employees who do not work directly at the RC sites and fall into the "Other Business" category.

SOLUTION 1: The company gave number of employees and hourly rate. Rates were averaged and divided into total wages to determine hours. See Labor Reconciliation.

PROBLEM 2: The company could not give a breakdown per site for Administration wages and hours. The CPA indicated that everyone had some part of their job that had to do with Recycling.

SOLUTION 2: We determined Administrative wages and hours for the site by allocating 0.24% of total administrative wages and hours to this site (1 / 426 = 0.24%). The Cost Model will not accept less than 1%. Therefore, we entered the allocated Administrative wages and hours for this site, and entered as 100% Site time and 100% Recycler.

PROBLEM 3: Financials include wages for Corporate Officers and Salaried Employees. However, the company would not divulge any salary information for corporate officers and salaried employees.

SOLUTION 3: Balance of wages from Labor/Financial Reconciliation was used for Corporate Officers and Salaried Employees (Super Managers). Hours were determined by information provided by the CPA (2 Corporate Officers / 33 Salaried Employees).

SITE MEMORANDUM

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

G. CONTACT PERSON(S):

Site Management	Site Information
Name:	Name:
Title:	Title:
Phone #:	Phone #:
FAX: #:	FAX: #:
Labor Interview	**Financial Information**
Name:	Name:
Title:	Title:
Phone #:	Phone #:
FAX: #:	FAX: #:
Labor Information	**Payroll Information**
Name:	Name:
Title:	Title:
Phone #:	Phone #:
FAX: #:	FAX: #:

Work Assignments

1. Complete *Site Equipment List* and *Site Memorandum* exercise
2. Role play a site tour
3. Identify terms used at a recycler or processor

Complete *Site Equipment List* and *Site Memorandum* Exercise

In the following exercise, complete the *Site Equipment List* and Sections A and B of the *Site Memorandum*, based on the information provided on the following two pages. For this exercise only, assume that you have conducted interviews with site management that clarify any questions you may have about the information you see below.

Notes from Site Tour of BIG Recycler/Processor

Buyback Area

Customers bring materials to the temporary parking area and weigh them in front of the Buyback Building. One laborer assists customers with both CRV and non-CRV materials at the buyback area. She prints out checks and pays customers. Customers then place their materials into separate locations for:

- CRV aluminum
- Cardboard/newspaper
- Clear glass
- Green/brown glass
- Motor oil
- Office paper
- Plastics
- Scrap metals.

The site manager was able to estimate that 45 percent of material collected was CRV. Of this CRV material, approximately 40 percent was aluminum, 30 percent glass, 20 percent plastics, and 10 percent bi-metal.

Covered Processing Area

Materials are fork lifted from the buyback areas into the covered processing area for processing. After processing, materials are then placed into the covered dumpster area where they are hauled to an end-user.

This area contains a conveyer system/glass crusher, and other equipment for complete processing of glass. This area also contains an aluminum densifier, and a baler area for baling aluminum, plastic, and newspaper.

One laborer drives a forklift on-site, regularly transporting material from the buyback area to the processing area. A total of 10 additional employees work in the processing area at one time (one foreman, seven CRV employees, and two non-CRV employees).

Other Buildings

The site administration and employee offices are located in the Administration Building. Equipment and trucks are serviced in the Maintenance Building. Two frontloader trucks are currently in the maintenance shop. A total of 15 employees are part of the administrative and maintenance portion of the business.

Truck/Equipment Storage

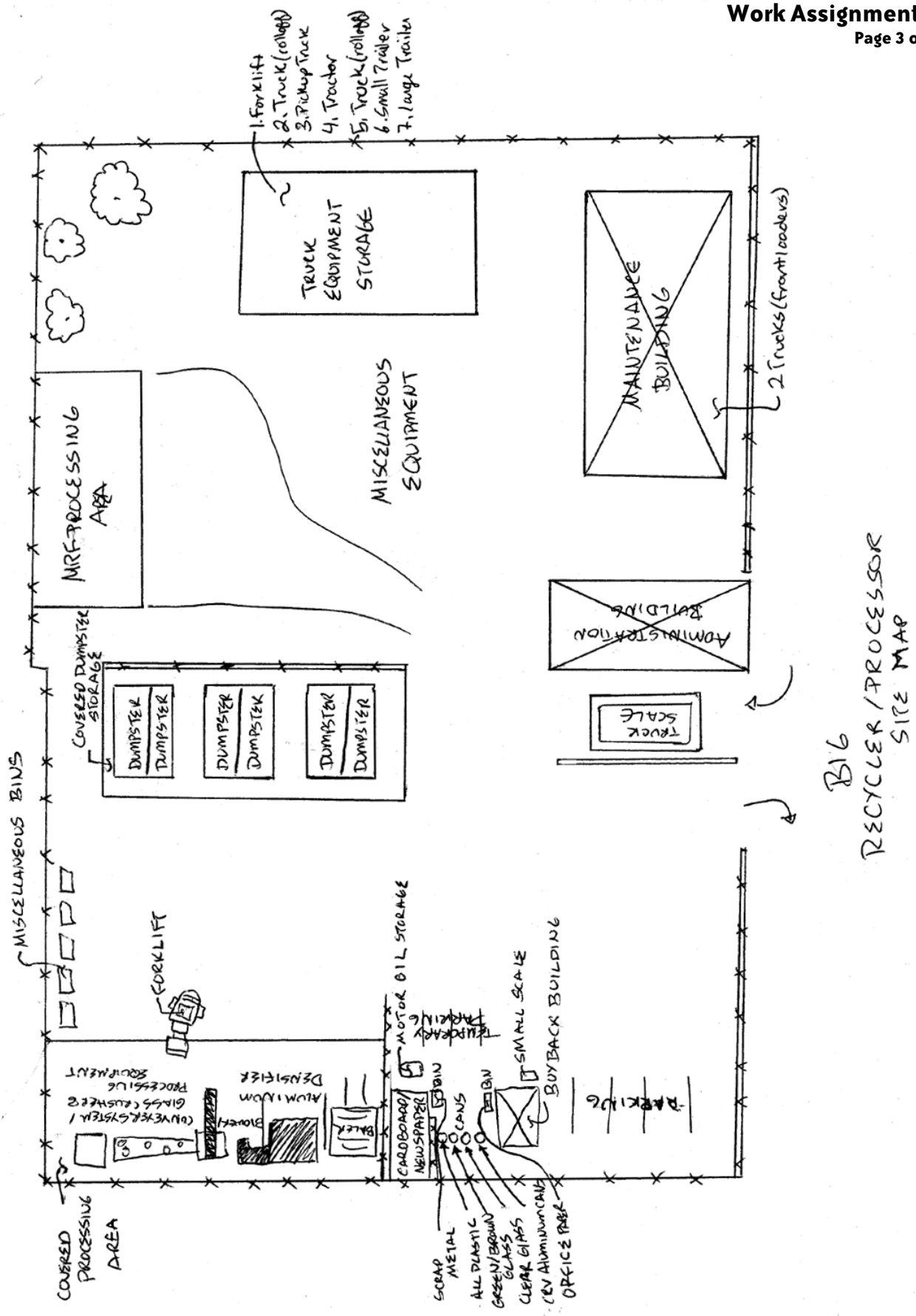
- Several truck/equipment items are stored in this area including: Forklifts
- Tractors, Trailers, Trucks – All of this equipment is owned by BIG.

MRF Processing Facility

This is a "dirty" MRF processing facility where commingled garbage and recyclables are brought from throughout BIG county. Here approximately five laborers sort materials on an open concrete floor. All recyclable materials are weighed prior to being commingled with buyback materials in the processing area.

Other Information

- Light industrial area
- Lower to middle class economic area
- Truck scale is used for vehicles which enter into a materials recovery facility (MRF) processing operation
- The only leased equipment is the aluminum densifier. All other equipment is owned.


1. Forklift
2. Truck (rolloff)
3. Pickup Truck
4. Tractor
5. Truck (rolloff)
6. Small Trailer
7. Large Trailer
TRUCK EQUIPMENT STORAGE
MAINTENANCE BUILDING
2 Trucks (Front loaders)
MRF PROCESSING AREA
MISCELLANEOUS EQUIPMENT
ADMINISTRATION BUILDING
TRUCK SCALE
COVERED DUMPSTER STORAGE
DUMPSTER
DUMPSTER
DUMPSTER
DUMPSTER
DUMPSTER
DUMPSTER
MISCELLANEOUS BINS
FORKLIFT
MOTOR OIL STORAGE
TEMPORARY TRASH
SMALL SCALE
BUYBACK BUILDING
PARKING
CONVEYER SYSTEM / GLASS CRUSHER
PROCESSING EQUIPMENT
BLOWER
ALUMINUM DENSIFIER
BALER
CARDBOARD
NEWSPAPER
BIN
CANS
BIN
COVERED PROCESSING AREA
SCRAP METAL
ALL PLASTIC
GREEN/BROWN GLASS
CLEAR GLASS
CRV ALUMINUM CANS
OFFICE PAPER
B16
RECYCLER/PROCESSOR SITE MAP

Role Play a Site Tour
(Work in teams of three: interviewer, a note taker, and a site manager)

In the following role-playing assignment, the objective is to gather information from the site manager to complete Section A and B of the *Site Memorandum*. One team member should act as an interviewer and one as a note taker. Note that both team members can ask questions of the site manager concerning the site. The remaining individual should act as the site manager for Newton Recycling; only this person should view the attached Site Information Summary. Assume the site manager knows the operation and processes of this small recycler. The survey team should conduct a mock site walkthrough using the attached site map, asking questions about any site "observation."

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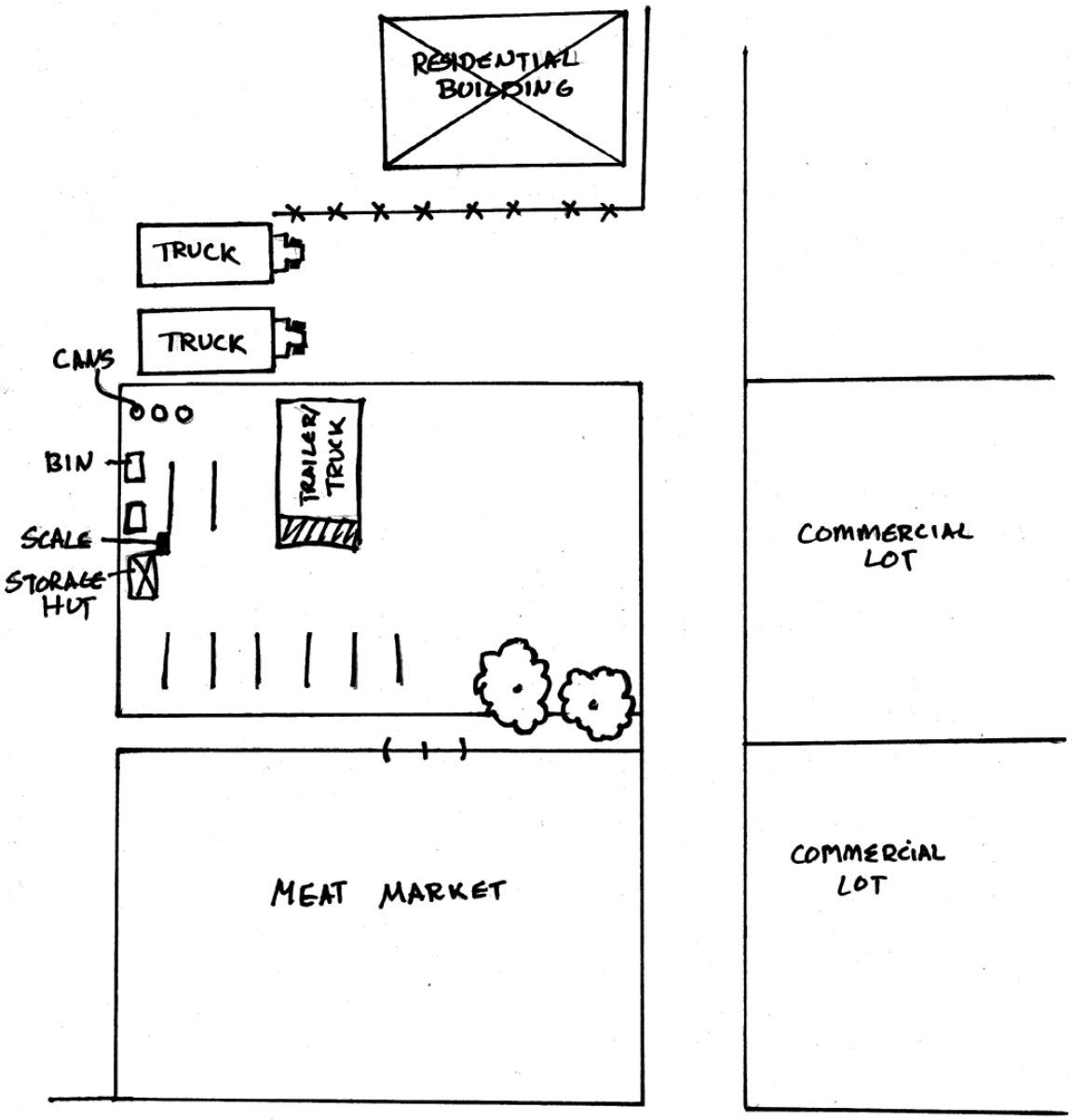

NEWTON RECYLCING
SITE MAP

SITE MEMORANDUM

RC: RCXXXX **PR:** _____ **Name:** Newton Recycling

Site Visit Date: July 12, 2011

SURVEY TEAM MEMBERS:

YOU ARE NOT LIMITED TO THE SPACE INDICATED ON THIS FORM!
THIS FORM MAY BE COMPLETED ON THE COMPUTER AND EXPANDED AS NEEDED.

A. GENERAL DESCRIPTION OF SITE'S LOCATION AND OPERATIONS

15. Site information

LOT SIZE	
No Sq Ft	4,500
No of Acres	

TYPE	
x	Supermarket Site
	Independent Facility

16. Material Types Handled:

a. CRV Aluminum x Bi-Metal x Glass x PET Plastic x

Other Plastics: HDPE (#2)___ PVC (#3) ___LDPE (#4)___ PP (#5)_____ PS (#6)___ OTHER (#7)___

b. Non-CRV Motor Oil___ Cardboard___ Clothing___ Pane Glass___ Paper/fiber___ Scrap metal___

Other: Scrap Glass

17. Overall Activity Split (%)

CRV 20 Non-CRV 80

18. CRV Activity (%)

Aluminum 25 Glass 55 PET Plastic 20 HDPE Plastic 0
Bi-Metal _____ #3 to #7 Plastic 0

If the percentage in 3 & 4 above are not consistent with the BCI & AMI percentages in the model, explain:

19. Business Activity

Number of Business Locations: Recycler x Processor _____ Other _____
Business Ownership: Sole Proprietor _____ Corporation x Partnership _____

RC: RCXXXX **PR:** _____ **Name:** Newton Recycling

Site Visit Date: July 12, 2011

Estimated number of full time employees

CRV		Non-CRV		Other Business	TOTAL
yard	Office	yard	Office		
1.5	0.5			5	7

20. Changes from previous calendar year

a. Materials None
b. Employees None
c. Equipment None
d. Yard size None
e. Location None
f. Volumes None

21. Narrative description of site's location and operations

MadeUpName Garbage Service owns the site and storage bins. Newton Recycling began operations at the site in 1981, and incorporated shortly thereafter as Newton Recycling, Corp (a 501(c) (3) company). The company, the City of Somewhere, and MadeUpName Garbage Service entered into a three-way agreement to operate the site.

Laborers handle all yard activities at the buyback center except weighing CRV material and paying customers. On the cost model's Labor Input Sheet, the survey team identifies the position of these laborers 1 and 2.

MadeUpName Garbage Service owns the site and all of the 20-yard and 25-yard bins used to store collected CRV and non-CRV materials. MadeUpName Garbage Service also purchases the material from Newton Recycling and ships the material to MadeUpName Garbage Service facilities or buyers. Newton Recycling does not pay rent or electricity costs, but does pay phone and water costs (among other costs).

B. DESCRIPTION OF CRV MATERIALS HANDLED

Include: Brief description of how each material type is handled from yard entry to yard exit. Include how materials are: sorted, stored, packaged, and transported (including who transports, vehicle type, Scrap Value Deduction (SVD,) and miles freighted to next facility).

1. Aluminum Beverage Containers:

The site has a one-way U-shaped driveway, with access at one end and exit at the other end to the street. Customers drive to the unloading area, where they help yard laborers place containers in plastic tubs. The scale master weighs the gross-tare of tub, uses a calculator to determine the amount owed the customer, and writes a check for the payment (if < $1, pays cash). Yard laborers empty purchased material into an AL can crusher/magnetic separator. Yard laborers empty the crushed cans into a 25-yard closed-top bin. MadeUpName Garbage Service picks up the bin, replacing it with an empty bin.

Because Newton Recycling does not own the site and does not pay rent, the survey team did not determine the square feet of storage bins (that would have otherwise been used to directly cost rent to CRV materials.

RC: RCXXXX **PR:** _____ **Name:** Newton Recycling

Site Visit Date: July 12, 2011

2. **Bi-Metal Beverage Containers:**

   Does not handle this material.

3. **Glass Beverage Containers:**

   Customers drive to the unloading area, where they help yard laborers 3-color sort and place containers in plastic tubs. The scale master weighs the gross-tare of tub, uses a calculator to determine the amount owed the customer, and writes a check for the payment (if < $1, pays cash). Yard laborers empty purchased material into a 20-yard closed-top bin (one bin each for flint, green, and amber). MadeUpName Garbage Service picks up the bins, replacing each with an empty bin.

   Because Newton Recycling does not own the site and does not pay rent, the survey team did not determine the square feet of storage bins (that would have otherwise been used to directly cost rent to CRV materials).

4. **PET #1 Plastic Beverage Containers:**

   The site has a one-way U-shaped driveway, with access and exit to the street. Customers drive to the unloading area, where they help yard laborers place containers in plastic tubs. Yard laborers unscrew caps from every container before material is weighed. The scale master weighs the gross-tare of tub, uses a calculator to determine the amount owed the customer, and writes a check for the payment (if < $1, pays cash). Yard laborers empty purchased material into a 25-yard closed-top bin. MadeUpName Garbage Service picks up the bin, replacing it with an empty bin.

   Because Newton Recycling does not own the site and does not pay rent, the survey team did not determine the square feet of storage bins (that would have otherwise been used to directly cost rent to CRV materials).

5. **HDPE #2 Plastic Beverage Containers:**

6. **PVC #3 Plastic Beverage Containers:**

7. **LDPE #4 Plastic Beverage Containers:**

8. **PP #5 Plastic Beverage Containers:**

RC: RCXXXX **PR:** _____ **Name:** Newton Recycling

Site Visit Date: July 12, 2011

9. **PS #6 Plastic Beverage Containers:**

10. **Other #7 Plastic Beverage Containers:**

C. SPECIFIC SOURCE OF PAYROLL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

Payroll summary report for CY 2010 generated by Site Manager from PC application. Mary Smith, Manager, 666-555-8258.

D. SPECIFIC SOURCE OF FINANCIAL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

FY ending Jun 30 AFS, and July – Dec 2009 and 2010 income statements generated by Site Manager from PC application. In order to estimate CY 2010, the site team subtracted Jul – Dec 2009 expenses and added July – Dec 2010 expenses to the AFS expenses. Mary Smith, Manager, 666-555-8258.

E. DESCRIPTION OF DIRECT COSTING AND SPECIAL COST CONSIDERATIONS:

Include: brief desciption of why items are direct costed, and the approaches used. For example: "Truck depreciation is direct costed between aluminum, PET, and HDPE because the owner purchased a new truck to haul only these materials. We used BCI, then the relative weights of PET and HDPE to allocate costs." Also identify and explain any unusual cost categories that you discussed with the site operator such as legal fees, consulting, travel, etc.)

F. PROBLEMS ENCOUNTERED AND SOLUTIONS: (Any problems noted MUST have a corresponding solution.)

PROBLEM 1: The payroll summary reports provided by Newton Recycling display a total of 34 hours for Mary Smith, the Site Manager, all of them in the "Bonus" category on the payroll summary. Ms. Smith explained that this is a quirk of QuickBooks and not her actual CY 2010 hours. The company pays her a bonus each quarter. The company's contract bookkeeper enters the bonus and one (1) hour into QuickBooks. QuickBooks determines the number of pay periods in the quarter (6 or 7) and puts the number in as "hours" of bonus time on Smith's records. Hence, 6 or 7 hours show as her hours of bonus each quarter. Smith's employment agreement with Newton Recycling requires that she work a minimum of 30 hours per week

SOLUTION 1: The site team calculated that she worked 1,560 hours during CY 2010. This is 30 hours per week times 52 weeks.

PROBLEM 2: The audited financial statements and internally prepared financial statements are for FY ending June 30, 2010.

SOLUTION 2: Site team requested and obtained internally generated income statements for two, 6-month periods: (1) July – December 2009, and (2) July – December 2010, then estimated CY 2010 expenses. Site team estimated CY 2010 expenses as:

FY expenses from internally prepared statements, **less** Jul-Dec 2009, **plus** Jul-Dec 2010.

The internally prepared FY statement was used instead of AFS because line item details generally mapped to the two, 6-month statements.

RC: RCXXXX **PR:** _____ **Name:** Newton Recycling

Site Visit Date: June 8, 2007

G. CONTACT PERSON(S):

Site Management		Site Information	
Name:	Mary Smith	Name:	Mary Smith
Title:	Manager	Title:	Manager
Phone #:	666-555-8258	Phone #:	666-555-8258
FAX: #:	666-555-8200	FAX: #:	666-555-8200
Labor Interview		**Financial Information**	
Name:	Mary Smith	Name:	Mary Smith
Title:	Manager	Title:	Manager
Phone #:	666-555-8258	Phone #:	666-555-8258
FAX: #:	666-555-8200	FAX: #:	666-555-8200
Labor Information		**Payroll Information**	
Name:	Mary Smith	Name:	Mary Smith
Title:	Manager	Title:	Manager
Phone #:	666-555-8258	Phone #:	666-555-8258
FAX: #:	666-555-8200	FAX: #:	666-555-8200

Work Assignment 3

Identify Terms Used at a Recycler or Processor

For problems 1-5, identify which item generally is not recycler equipment:

1. a) Bins
   b) Dumpsters
   c) Aluminum densifier
   d) Cans
   e) Washer

2. a) Plastic shredder
   b) Glass crusher
   c) Blower
   d) Densifier

3. a) Forklifts
   b) Cranes
   c) Bins
   d) Magnets
   e) Hoppers

4. a) Front-loader truck
   b) Rear-loader truck
   c) Roll off truck
   d) Cement truck
   e) Side loader truck

5. a) Conveyer
   b) Trommel screen
   c) Magnetic separator
   d) Clarifier
   e) Granulator

For problems 6-10, identify the most appropriate answer:

6. Identify which is not likely a piece of paper processing equipment:
   a) Vertical baler
   b) Horizontal baler
   c) Shredder
   d) Paper cutter
   e) Furnace

7. Identify which is not likely a piece of plastic processing equipment:
   a) Crusher
   b) Granulator
   c) Shredder
   d) Perforator
   e) Baler

8. At a small recycler, you might expect all of the following equipment, *except*:
   a) Forklift
   b) Pickup truck
   c) Large truck scale
   d) Bins
   e) Small scale

9. A dual site would most likely:
   a) Rent all of its equipment
   b) Not have a buyback center
   c) Process garbage and recyclables in the same location
   d) Cancel customers CRV materials
   e) Beneficiate glass

10. Recyclers would most likely collect all of the following, *except:*
    a) Scrap aluminum
    b) Used clothes
    c) CRV glass
    d) Tin
    e) Old cardboard

Work Assignment 3

True or False

1._____ CRV materials include aluminum, glass, plastic, and bimetal.

2. _____ Beneficiated glass means furnace-ready glass.

3. _____ During a site walkthrough, a site manager should accompany the team.

4. _____ MRF equipment is the same as that used in the processing facility.

5. _____ Curbside programs often deposit their recyclables at a buyback center.

6. _____ The mix of CRV materials estimated by site management is later compared with DOC material volumes and each material's cost per ton figures.

7. _____ Once canceled, densified, and baled, CRV aluminum then is ready for transfer to an end-user.

8. _____ Some sites process all materials using a magnetic separator and front-loader truck.

9. _____ A baler may be used for aluminum, glass, plastic, and newspaper.

10. ____ Customers are paid a CRV payment and scrap payment for newspaper and cardboard at the buyback center.

Module 6
Site Memo

Objective:

- Describe how to complete a *Site Memorandum*

Key Topics:

- What key information should be recorded in a *Site Memorandum*:
  - Description of operations (ownership, number of locations, materials handled, traffic, processes)
  - Source of payroll data and financial statements
  - Problems encountered which impact the survey process or cost calculation:
    - Payroll wages do not reconcile within five percent to financial statement wages
    - Related party transactions exist
    - Financial statements end during the calendar year, not December 31
    - No labor at a reverse vending machine site prevent allocations from being done
  - Description of items the survey team directly allocated ("direct costed") and the approaches used
  - Assumptions made (e.g., adjustments to financial statements, calculation of costs, estimating a direct CRV cost, grouping of employees' time and wages)
  - Where CRV material is shipped
  - Significant changes in the site's operations that have occurred since the 12-month time period for which costs are being measured
  - Financial contact (name, phone number)
- Reviewing summary statistics generated by the automated model to determine whether final results are reasonable

Curriculum Materials:

Reading List/Handouts:

1. *Site Memorandum*
2. Sample of a completed *Site Memorandum*
3. Summary of typical problems encountered and solutions (also provided in Volume II, Supplemental Materials)
4. Sample 1: Site memoranda descriptions of problems and solutions
5. Sample 2: Site memorandum descriptions of problems and solutions
6. Sample 3: Site memorandum descriptions of problems and solutions
7. Sample 4: Site memorandum descriptions of problems and solutions

Work Assignments:

1. Complete a sample *Site Memorandum*
2. Perform role play exercises

Key Topics

What Key Information Should be Recorded in a Site Memorandum?

A *Site Memorandum* must be completed for each site. The *Site Memorandum* allows the survey team to record his/her observations and findings from the site visit. This information provides key insight to the quality review team on results calculated for the site.

The site memo generally is organized into two parts.

- Sections A and B includes a general description of the site's operations and a description of CRV materials handled.
- Sections C through G are used to record the specific source of financial information, specific source of payroll information, problems encountered and solutions, final review, other comments, and information about the contact person(s).

A blank and sample *Site Memorandum* are provided as handouts in this module.

Where possible, the survey team should document the following information in the memo:

Sections A and B

Description of site's operations:

- Materials handled
- Overall CRV and non-CRV activity
- Ownership structure
- Number of site locations
- Number of full-time employees
- Changes from previous calendar year

Description of each CRV material handled:

- Sorting
- Weighing
- Storing
- Packaging
- Loading
- Transporting: name of buyer, who transports, process, and distance hauled.

Sections C through G

Specific source of payroll information:

- Location
- Payroll information and period
- Nature of source (e.g., W-2s)

Specific source of financial information:

- Location
- Financial information and period
- Nature of source (e.g., audited financial statements for year ending December 31, 2010).

Description of Direct Costing and Special Cost Considerations

- Brief description of why the survey team directly allocated (or "direct costed") the cost of any item from financial statement and depreciation schedule.
- Approach used for each item that the survey team direct costed. For example: "Truck depreciation is direct costed between aluminum, PET, and HDPE because the owner uses this new truck to haul only these three CRV materials. We used BCI percentages, then the relative weights of PET and HDPE to allocate costs."
- Identification and explanation of any unusual cost categories that the survey team discussed with the site operator such as:
  - Supplies (e.g., if for baling wire or plastic wrap for baled materials, what balers and which materials are processed by the baler?)
  - Legal fees (e.g., any litigation or settlement cost?)
  - Consulting payments (e.g., for what type of service?)
  - Commissions (e.g., for what?)
  - Travel costs (e.g., related to what? Rarely related to CRV materials.).

Problems encountered and solutions:

- Problem definition (each problem must have a corresponding solution). Listed as: Problem #1 and Solution #1:
  - Undefined but actual costs
  - Related party transactions
  - Fiscal year financial statements
  - Owner's draw
  - Items not on financial statements (i.e., depreciation)
- Solution.

Contact person(s):

- Financial contact name and title
- Financial contact's phone number and FAX number
- Interviewee's name and title (if different from above)
- Interviewee's phone and FAX number.

The *Site Memorandum* can be handwritten while making a site tour, but in all cases must eventually be prepared (using the MS Word template *Site Memorandum Template.dot*), printed, and filed in site file. Some information included in the *Site Memorandum* may be obtained during the site tour (module 5). Additional information should be obtained from further questioning of site management.

Describing Operations

A description of operations includes the site's ownership structure. For example, *Subsidiary Company is a small parking lot recycler that is owned by Parent Corporation*. In addition, note the number of locations. For example, *Subsidiary Company may be one of five sites located throughout the state which are owned by Parent Corporation*. Further, the description of operations summarizes all materials handled by the site. For instance, *Subsidiary Company accepts all CRV containers, scrap nonferrous metals, scrap glass, and newspaper.* General observations about yard operations, office, and general customer traffic flow should be included.

Advertisements, brochures, or publications prepared for the site may provide additional detail of site operations and materials accepted. Where available, these documents serve as a source of background to prepare the *Site Memorandum*. However, they are not meant to replace in-depth interview with site management or a written description of site operations.

Describing CRV Materials Handled

The description of CRV materials handled describes the process of how each CRV material is handled, from yard entry to yard exit. The process of CRV material flow should include how materials are sorted, stored, packaged, loaded, and transported.

A recycler will likely ship CRV material to another recycler or to a processor. Likewise, a processor will likely ship CRV material to another processor, to somewhere for a broker, or to an end-user (e.g., beverage container manufacturer). The survey team should identify locations and distance from site where CRV material is sent during the relevant calendar year. Note that CRV material may be shipped to many locations during a calendar year.

Identifying the Source of Payroll Information

The survey team must identify sources of payroll information in the *Site Memorandum*. As an example, the source of one site's payroll information might be calendar year 2010 W-2 forms and an internally prepared payroll register. Alternatively, another site may provide a calendar year 2010 ADP payroll register. This is where the survey team might exercise their judgment on how to handle payroll hours and wages (i.e., document that employees who perform similar tasks and are paid the same rate are grouped together as one employee (known as a "superemployee") for the purpose of completing the automated cost survey model).

Identifying the Source of Financial Information

The survey team must identify sources of financial information in the *Site Memorandum*, including the corresponding time period of each source. As an example, the source of one site's financial information might be a 2010 federal income tax return, Schedule C. Alternatively, another site may provide fiscal year 2010 internally prepared financial statements.

Describing Direct Costing and Special Cost Considerations

In reviewing each site's financials, a **PRIMARY** goal is to directly allocate as many cost items and costs as possible to the activity causing the cost. This is more important for large sites and dual sites (which often are large sites). You should determine what is included in each cost category, particularly items such as supplies, equipment, depreciation, fuel, transportation, travel, commissions, taxes, and auto and truck expenses. You should ask the site manager about each line item.

When you determine that an item should be direct costed, but not necessarily to a single CRV material or all to other business, and you have specific information about the cost, use the "beverage container indirect" (BCI) or the "all materials indirect" (AMI) percentages to allocate between material types as the first step. (These concepts are more fully explained in a later module.) Always start with BCI and AMI percentages, unless you obtain direct and specific documentation from the recycler.

For example, if the recycler tells you that the transportation line item on his financials is for hauling CRV aluminum and CRV glass, and he says he ships aluminum once a week and glass twice, still use the relative BCI percentages for glass and aluminum. However, if he provides documentation of specific shipping costs for each CRV material, then use this specific information to allocate the transportation costs directly to CRV aluminum and CRV glass.

In this section of the *Site Memorandum,* provide a brief description of why you directly costed items, and identify the approach you used. For example, you might write in this section: "Truck depreciation is direct costed between aluminum, PET, and HDPE because the owner purchased a new truck to haul only these three CRV materials. We used BCI, then the relative weights of PET and HDPE to allocate costs." You should also identify and explain any unusual cost categories that you discussed with the site operator such as legal fees, consulting, and travel.

Documenting and Resolving Problems Encountered and Solutions

The survey team must identify and document problems encountered in the *Site Memorandum*. Problems at a site include unidentified owner's salaries, fiscal year or partial year financial information, unavailable labor hours or wages, consolidated financial statements[1], or identified costs not included in financial statements. The survey team must describe in the *Site Memorandum* a solution for each problem. (Additional sample problem and solutions can be found in a handout in this module). Further, the survey team should describe here assumptions made about cost calculations to solve a presented problem.

If information is unavailable or does not represent a reasonable cost, the problem may be solved by imputing a cost but only if the site team confirms with site management that the company actually incurred the cost.

The survey team also must address related party transactions (RPT). A problem may exist if transactions occur between the recycler and/or its processor and affiliated companies, officers, owners, or family members, and the transaction is undervalued or overvalued. To solve RPT's, an interviewer might review the labor percentages for each employee who works for both the recycler and processor. The survey team is examining for actual costs substantiated by company documentation, but **should not impute** a "reasonable" cost should this cost not actually have been incurred by the site.

Determining What Significant Changes in the Site's Operations Have Occurred Since the 12-Month Time Period for Which Costs are Being Measured

One goal of the survey team is to conduct the survey as close as possible to the end of the calendar year for which costs are being calculated. A site often may have undergone significant changes since the 12-month time period covered by the financials up to the time the survey team visits the site. Significant process and operational changes, and the implications of these changes to the cost survey, should be noted. The survey team should determine why these changes occurred and document them in the *Site Memorandum*.

As an example, following a site tour of the current operation, the survey team may develop one perspective of how the operation works. However, during a review of relevant 12-month financial and labor data, the operation might appear different. The survey team should describe this difference and recognize that, in some cases, field observations may not always correlate with results generated by the automated cost survey model. A recycler could have added processing equipment to become certified as a dual site. Similarly, a recycler might now accept non-CRV materials, whereas, during the 12-month period for which financial statements are available, the recycler may have accepted only CRV material.

[1] The site being surveyed is one of many sites owned by the company; financial results of the site are "consolidated" into the parent company's financial statements.

Performing Final Review

Any additional information that the survey team believes is important to review with the site visit results should be included in the memorandum. Further, the survey team must describe assumptions made about cost calculations or estimations of direct CRV costs.

Documenting the Financial Contact

The name, title, telephone number, and FAX number of the contact person who provides financial information for the survey team is noted in the *Site Memorandum*. This contact is useful for follow-up questions, later references to the site's file, and future cost surveys. You must also obtain a business card from your contact, and place this business card in the site file.

Reviewing Summary Statistics Generated by the Automated Model to Determine Whether Final Results are Reasonable

The automated model provides a summary sheet of key statistics. These include the:

- Unallocated labor hours as a percent of total site hours
- Unallocated wages as a percent of total site wages
- Labor reconciliation (% unallocated difference, or % ULD, between two sources of wage information: (1) financial statements used as the source of cost information, and (2) payroll registers/W2s/ADP registers used as the source of wage information)
- Overall wage per hour
- Total costs of the site
- Wages per hour (direct yard, all other labor, and total)
- Cost per container redeemed
- Cost per ton (aluminum, bi-metal, glass, plastic)
- Recycler's mix of CRV material, as measured by: (1) containers redeemed at site, and (2) labor hours allocated from labor hour interview
- Total site costs allocated to each CRV material
- The RC's cost for each of 12 items as a percent of the RC's total cost.

A site may have a large percent of its total labor hours that are unallocated. This will impact the calculation of AMI and BCI percentages, thus misrepresenting costs. **If unallocated hours are greater than three percent of total site hours,** the survey team should question results and contact the site owner/manager, as necessary, to confirm each employee's allocation of time during the calendar year.

Because labor wages generally are a large portion of a site's cost, a high ratio of unallocated wages to total wages will skew results considerably. The interviewer also should question results if unallocated wages are greater than three percent of total site wages.

The automated model flags the user if the percent ULD is greater than five percent or less than negative five percent. Finally, an overall wage per hour of less than $8 per hour or greater than $32 per hour should lead the interviewer to review information obtained for site wages and hours.

Schedule

Estimated module time:	**2.6 Hours**	
Outline of Module	**Technique**	**Training Time** ***(including self study) (min.)***
1. Introduce module	Lecture	30
2. Read key topics and review handouts	Readings	45
3. Do work assignment #1 - Complete a sample *Site Memorandum*	Work Assignment	30
4. Do work assignment #2 - Perform role play exercises	Work Assignment	50
	Totals	**155**

Readings and Handouts

1. *Site Memorandum*
2. Sample of a completed *Site Memorandum*
3. Summary of typical problems encountered and solutions
4. Sample 1: Site memoranda descriptions of problems and solutions
5. Sample 2: Site memoranda descriptions of problems and solutions
6. Sample 3: Site memoranda descriptions of problems and solutions
7. Sample 4: Site memoranda descriptions of problems and solutions

SITE MEMORANDUM

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

SURVEY TEAM MEMBERS:

YOU ARE NOT LIMITED TO THE SPACE INDICATED ON THIS FORM!
THIS FORM MAY BE COMPLETED ON THE COMPUTER AND EXPANDED AS NEEDED.

A. GENERAL DESCRIPTION OF SITE'S LOCATION AND OPERATIONS

1. Site information

LOT SIZE	
No Sq Ft	_____
No of Acres	_____

TYPE	
____	Supermarket Site
____	Independent Facility

2. Material Types Handled:

a. CRV Aluminum____ Bi-Metal____ Glass ____ PET Plastic___

Other Plastics: HDPE (#2)___ PVC (#3) ___LDPE (#4)___ PP (#5)_____ PS (#6)___ OTHER (#7)___

b. Non-CRV Motor Oil___ Cardboard___ Clothing___ Pane Glass___ Paper/fiber___ Scrap metal___

Other: _____

3. Overall Activity Split (%)

CRV 100 Non-CRV _____

4. CRV Activity (%)

Aluminum _____ Glass _____ PET Plastic _____ HDPE Plastic _____
Bi-Metal _____ #3 to #7 Plastic _____

If the percentage in 3 & 4 above are not consistent with the BCI & AMI percentages in the model, explain:

5. Business Activity

Number of Business Locations: Recycler _____ Processor _____ Other _____
Business Ownership: Sole Proprietor _____ Corporation _____ Partnership _____

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

Estimated number of full time employees

CRV		Non-CRV		Other Business	**TOTAL**
yard	Office	yard	Office		

6. Changes from previous calendar year

a. Materials _____
b. Employees _____
c. Equipment _____
d. Yard size _____
e. Location _____
f. Volumes _____

7. Narrative description of site's location and operations

B. DESCRIPTION OF CRV MATERIALS HANDLED

Include: Brief description of how each material type is handled from yard entry to yard exit. Include how materials are: sorted, stored, packaged, and transported (including who transports, vehicle type, Scrap Value Deduction (SVD,) and miles freighted to next facility).

1. Aluminum Beverage Containers:

2. Bi-Metal Beverage Containers:

3. Glass Beverage Containers:

4. PET #1 Plastic Beverage Containers:

5. HDPE #2 Plastic Beverage Containers:

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

6. **PVC #3 Plastic Beverage Containers:**

7. **LDPE #4 Plastic Beverage Containers:**

8. **PP #5 Plastic Beverage Containers:**

9. **PS #6 Plastic Beverage Containers:**

10. **Other #7 Plastic Beverage Containers:**

C. SPECIFIC SOURCE OF PAYROLL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

D. SPECIFIC SOURCE OF FINANCIAL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

E. DESCRIPTION OF DIRECT COSTING AND SPECIAL COST CONSIDERATIONS:

Include: Brief description of why items are direct costed, and the approaches used. (For example: "Truck depreciation is direct costed between aluminum, PET, and HDPE because the owner purchased a new truck to haul only these materials. We used BCI, then the relative weights of PET and HDPE to allocate costs." Also identify and explain any unusual cost categories that you discussed with the site operator such as legal fees, consulting, travel, etc).

F. PROBLEMS ENCOUNTERED AND SOLUTIONS: (Any problems noted MUST have a corresponding solution.)

PROBLEM 1:

SOLUTION 1:

PROBLEM 2:

SOLUTION 2:

SITE MEMORANDUM

RC: _____ **PR:** _____ **Name:** _____

Site Visit Date: _____

G. CONTACT PERSON(S):

Site Management	Site Information
Name:	Name:
Title:	Title:
Phone #:	Phone #:
FAX: #:	FAX: #:
Labor Interview	**Financial Information**
Name:	Name:
Title:	Title:
Phone #:	Phone #:
FAX: #:	FAX: #:
Labor Information	**Payroll Information**
Name:	Name:
Title:	Title:
Phone #:	Phone #:
FAX: #:	FAX: #:

SITE MEMORANDUM

RC: 16345 **PR:** _____ **Name:** Miller Recycling

Site Visit Date: 9/1/11

SURVEY TEAM MEMBERS: Karl Rove
David Alexrod

YOU ARE NOT LIMITED TO THE SPACE INDICATED ON THIS FORM!
THIS FORM MAY BE COMPLETED ON THE COMPUTER AND EXPANDED AS NEEDED.

A. GENERAL DESCRIPTION OF SITE'S LOCATION AND OPERATIONS

8. Site information

LOT SIZE	
No Sq Ft	
No of Acres	

TYPE	
X	Supermarket Site
	Independent Facility

9. Material Types Handled:

a. CRV Aluminum x Bi-Metal ____ Glass x PET Plastic x

Other Plastics: HDPE (#2)___ PVC (#3) ___ LDPE (#4)___ PP (#5)_____ PS (#6)___ OTHER (#7)___

b. Non-CRV Motor Oil___ Cardboard___ Clothing___ Pane Glass___ Paper/fiber___ Scrap metal___

Other: Non-CRV glass

10. Overall Activity Split (%)

CRV 99% Non-CRV 1%

11. CRV Activity (%)

Aluminum 45% Glass 50% PET Plastic 5% HDPE Plastic _____
Bi-Metal _____ #3 to #7 Plastic _____

If the percentage in 3 & 4 above are not consistent with the BCI & AMI percentages in the model, explain:

12. Business Activity

Number of Business Locations: Recycler 426 Processor 2 Other _____
Business Ownership: Sole Proprietor _____ Corporation x Partnership _____

RC: 16345 **PR:** _____ **Name:** Miller Recycling

Site Visit Date: 9/1/11

Estimated number of full time employees

CRV		Non-CRV		Other Business	TOTAL
yard	Office	yard	Office		
1					1

13. Changes from previous calendar year

a. Materials	As a result of SB332
b. Employees	No changes
c. Equipment	No changes
d. Yard size	No changes
e. Location	No changes
f. Volumes	Increase due to new CRV containers in the program.

14. Narrative description of site's location and operations

This site is situated on the west side of a supermarket parking lot located on Country Side Lane. The site typically takes up four to five parking spaces and consists of one forty-foot roll-off bin and four igloos. The roll-off bin is used to store the UBC aluminum and plastic and the igloos hold the sorted UBC glass. One igloo is for clear glass, one for green glass, and two for brown glass. There are five 10-gallon buckets used to sort and weigh glass, and three wire mesh baskets used to sort and weigh aluminum and plastic. No baling of materials is done at this site.

There are no coverings or buildings to protect the attendant from the elements or house the equipment, with the exception of the roll-off. Utilities such as telephones, gas, electricity, water and garbage are non-existent at this location.

One attendant operates the site, which is open thirty hours per week. The attendant picks up the portable computer, printer, key for roll-off, and script, which is used to pay the customer, from the supermarket each morning. There is a 120-lb capacity scale inside the roll-off bin along with a table and chair that the attendant uses as a desk. The attendant turns on the portable computer, levels the scale and is ready for business. At the end of the day the portable computer, printer, key for roll-off bin and unused script is returned to the supermarket for storage until the next business day, as a theft precaution.

B. DESCRIPTION OF CRV MATERIALS HANDLED

Include: Brief description of how each material type is handled from yard entry to yard exit. Include how materials are: sorted, stored, packaged, Scrap Value Deduction (SVD,) and miles freighted to next facility.

1. **Aluminum Beverage Containers:** The customer and/or the attendant sort the UBC aluminum into wire mesh baskets. The site attendant visually inspects and weighs the material on a 120-lb. capacity scale. The buy-back volume is then recorded into the portable computer and the site attendant completes the script with the necessary information for payment to the customer. The customer signs for and redeems the script for cash at the supermarket within 60 days. The UBC aluminum is stored behind a barrier in the roll-off. Various processors picked up material during 2010. No SVD taken.

2. **Bi-Metal Beverage Containers:**

RC: 16345 **PR:** _____ **Name:** Miller Recycling

Site Visit Date: 9/1/11

3. **Glass Beverage Containers:** The customer and/or the attendant color sort the UBC glass into ten-gallon buckets for weighing. The site attendant visually inspects and weighs the material on a 120-lb. capacity scale. The buy-back volume is then recorded into the portable computer and the site attendant completes the script with the necessary information for payment to the customer. The customer signs for and redeems the script for cash at the supermarket within 60 days. The UBC glass is stored in the appropriate igloo according to color. Once the igloos reached capacity, various processors picked up material during 2010. No SVD taken.

4. **PET #1 Plastic Beverage Containers:** The customer and/or the attendant sort the UBC plastic into wire mesh baskets. The site attendant visually inspects and weighs the material on a 120-lb. capacity scale. The buy-back volume is then recorded into the portable computer and the site attendant completes the script with the necessary information for payment to the customer. The customer signs for and redeems the script for cash at the supermarket within 60 days. The UBC plastic is put into large plastic bags and stored inside the roll-off on top of the UBC aluminum. Various processors picked up material during 2008. No SVD taken.

5. **HDPE #2 Plastic Beverage Containers:**

6. **PVC #3 Plastic Beverage Containers:**

7. **LDPE #4 Plastic Beverage Containers:**

8. **PP #5 Plastic Beverage Containers:**

9. **PS #6 Plastic Beverage Containers:**

10. **Other #7 Plastic Beverage Containers:**

C. SPECIFIC SOURCE OF PAYROLL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

The CPA provided a payroll report obtained from their PayChex Payroll Program. This report listed department, gross pay and total hours for each non-salaried employee for the calendar year ending 12/31/10.

D. SPECIFIC SOURCE OF FINANCIAL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

The CPA provided a Statement of Earnings for the calendar year ending 12/31/10. The Statement of Earnings listed expenses separately by Operating Expenses, and General and Administrative Expenses.

RC: 16345 **PR:** _____ **Name:** Miller Recycling

Site Visit Date: 9/1/11

E. DESCRIPTION OF DIRECT COSTING AND SPECIAL COST CONSIDERATIONS:

Include: Brief description of why items are direct costed, and the approaches used. (For example: "Truck depreciation is direct costed between aluminum, PET, and HDPE because the owner purchased a new truck to haul only these materials. We used BCI, then the relative weights of PET and HDPE to allocate costs." Also identify and explain any unusual cost categories that you discussed with the site operator such as legal fees, consulting, travel, etc).

Direct Costing:

Per Guillermo Garcia, General Manager, and Linda Imel, External Accountant, the following items were directly allocated to Non-CRV activities; or split between Non-CRV and CRV using applicable AMI percentages:

Auto Lease – See 4.1 within the Cost Model for a summary and allocation of auto lease expense to Non-CRV activities. A total of $28,281 was allocated to Non-CRV.

Repairs and Maintenance – Truck – See section 4.1 within the Cost Model, for a summary and allocation of truck maintenance expense to Non-CRV activities. A total of $37,083 was allocated to Non-CRV.

Depreciation – The site team identified a total of $895,461 in Non-CRV costs per the 3/31 depreciation schedule. These costs were directly allocated to Non-CRV activities using the "recycler direct costs" tab in the cost model. See Site file section 3.1 for calculation of allocable depreciation.

See section C-6, Recycler Direct Costs, for allocations applied to the cost model.

F. PROBLEMS ENCOUNTERED AND SOLUTIONS: (Any problems noted MUST have a corresponding solution.)

PROBLEM 1: The company did not have actual hours worked by contract/temporary employees who do not work directly at the RC sites and fall into the "Other Business" category.

SOLUTION 1: The company gave number of employees and hourly rate. Rates were averaged and divided into total wages to determine hours. See Labor Reconciliation.

PROBLEM 2: The company could not give a breakdown per site for Administration wages and hours. The CPA indicated that everyone had some part of their job that had to do with Recycling.

SOLUTION 2: We determined Administrative wages and hours for the site by allocating 0.24% of total administrative wages and hours to this site (1 / 426 = 0.24%). The Cost Model will not accept less than 1%. Therefore, we entered the allocated Administrative wages and hours for this site, and entered as 100% Site time and 100% Recycler.

PROBLEM 3: Financials include wages for Corporate Officers and Salaried Employees. However, the company would not divulge any salary information for corporate officers and salaried employees.

SOLUTION 3: Balance of wages from Labor/Financial Reconciliation was used for Corporate Officers and Salaried Employees (Super Managers). Hours were determined by information provided by the CPA (2 Corporate Officers / 33 Salaried Employees).

SITE MEMORANDUM

RC: 16345 **PR:** _____ **Name:** Miller Recycling

Site Visit Date: 9/1/11

G. CONTACT PERSON(S):

Site Management		Site Information	
Name:	Joe Miller	Name:	Joe Miller
Title:	President	Title:	President
Phone #:	(916) 555-1212	Phone #:	(916) 555-1212
FAX: #:	(916) 555-1313	FAX: #:	(916) 555-1313
Labor Interview		**Financial Information**	
Name:	Jane Ayers	Name:	Jane Ayers
Title:	Controller	Title:	Controller
Phone #:	(916) 555-1888	Phone #:	(916) 555-1888
FAX: #:	(916) 555-1313	FAX: #:	(916) 555-1313
Labor Information		**Payroll Information**	
Name:		Name:	
Title:		Title:	
Phone #:		Phone #:	
FAX: #:		FAX: #:	

Summary of Typical Problems Encountered and Solutions

Problems Encountered	Solutions
Financial Information	
1. Financial data are available for fiscal year only	1. Verify with owner that fiscal year is representative for calendar year and then use fiscal year data. Use parts of each FY report to create calendar year 2010. Example, CY 2010 costs could be estimated by obtaining FY 6/30/10, then subtract 6-month costs from internally prepared statements ending 12/31/09, and add 6-month costs from internally prepared statements ending 12/31/10. 2. If fiscal year is not representative, use latest 12 months that are available, even if you need to use monthly reports. Verify with owner that the selected months are representative for calendar year 2010. Recycling volumes used must match the months used. Each step in this process must be documented so that there's no doubt what you did and why.
2. No financial records are available	Calculate costs by using check disbursements, purchase orders, vendor payment files, and any other documentation. Important - information must come from some kind of documentation; not from owner's estimates.
3. Not all costs are included in the financial statement	Ask site representative to provide documentation for all additional costs not reported in the financial statement (i.e. summary of cost of goods sold and schedules)
4. Financial statements are presented at a level that does not allow survey team to identify some cost categories, such as salaries, wages, benefits, and payroll taxes	Obtain detailed financial reports from the company that support the financial statement. Determine how close net income shown on these detailed statements is to the net income shown in the financial statement. If difference is less than 3 percent, use detailed reports to provide detail to categorize costs and distinguish labor 1 and 1b costs.
5. Financial statement provided is actually a cost center report and contains allocations for the local corporation and the parent corporation	If this is the only available source of financial information, use it. However, if the site manager cannot determine whether these corporate allocations include services for the site being surveyed, or other direct support, do not allow these allocations. Some of the costs could be direct costs of the RC, not a corporate allocation, so use them.
6. Negative costs appear in the company's financial statements	Obtain explanation from site manager or company representative. These could be the result of coding costs, then reclassifying some of them.
7. No financial data provided by the site manager before or on the day of site team visit.	Obtain financial data from the parent company or the site's CPA. Question data contained in these financials. It could be that the RC had not been a unique business reporting unit prior to July 1, 2010.
8. Some costs on FY 2010 financial statement are solely calendar year 2011 calendar year costs	Use the costs provided. Do not adjust the costs.

Summary of Typical Problems Encountered and Solutions

Problems Encountered	Solutions
Wages and Hours	
9. Salaries and wages provided on company income statement did not agree with payroll record wages.	Request that owner or financial officer resolve the difference. For example, it could be that payroll records are not correct because employees were reclassified in mid-year. Also, company could have made errors in payroll records sent to EDD.
10. Owner did not know 2010 hours for employees	Estimate hours for each employee from available records, such as EDD DE-6 quarterly reports, quarterly payroll reports produced by owner's PC, bi-weekly payroll reports produced by owner's PC, and/or hourly rates shown on the company's payroll reports. Confirm with owner what scale employees were paid for overtime (need this rate to estimate the OT hours from OT wages in those cases where OT hours not provided). Ask owner to estimate their hours at site. Assumed wages for owner are the net profit of the company during 2010. Confirmed with owner what labor rate is paid for outside and contract labor (shown as costs on company's Schedule C), and apply this rate to outside and contract labor expenses to determine hours worked.
11. All laborers paid in cash and not included on payroll records	Perform more interviewing as necessary (get to the root of where the information is documented).
12. No information for regular hours worked or overtime hours	Perform more interviewing as necessary. For each employee, determine hours from annual wages and hourly rates, and apply overtime formula (if necessary).
13. A full 12 months of hour and wage data are not available	1. Make all effort to obtain 2010 wages (at least get totals from W-2's). 2. Get latest 12 months of actual wages. 3. Extrapolate partial year data (e.g., 9 months) of wages and hours to a full calendar year.
14. Employee wages and hours for CY 2008 are not available, and data are not available to calculate CY wages and hours (as well as costs)	Used actual FY wages provided by company, and estimate FY hours based on actual CY wages and hours data provided by company. To do this, must have site manager or representative determine that no material change in operations occurred during final x months of 2010 from final x months of 2009
15. No employee names and wages for laborers	Again, make all efforts to get documentation. However, if only one employee is at the site at one time, but many work the site performing the same task, classify all employee wages as one laborer. If this is not true, still classify all employees by position types, and make sure each position reflects the correct number of persons and their total hours performing like tasks. Document problems and solutions concerning missing labor documents
16. Large portion of labor is from temporary agency employee(s)	1. Have the owner contact the temporary agency and obtain summary invoices of labor wage and hour information (regular/OT). 2. Alternatively, use contract expense as wages and extrapolate. 3. Do not have owner/operator estimate number of hours. You should be able to calculate regular and overtime hours from the information given.
17. No labor at site (e.g., at a reverse vending machine)	Make every effort to determine how material at site is collected and transported. If a driver collects material, determine wages and house for this driver, and ask what portion of the driver's time is spent driving to and servicing the site.
18. Worker's compensation insurance not included in financial statements	Confirm paid invoice and paid checks from their documented records for worker's compensation insurance
19. Owner did not have salary	This has to be determined by reviewing company's profit and loss statement. Profit of company is considered the owner's salary. **Do not** ask owner what hourly rate she would pay herself to do her job, and do not impute a salary. Obtain what percent of full-time she managed/worked the site. Hours are important. 2. Review checks or disbursement records to the owner.
20. Excessive owner's salary	Use what is documented. **Do not** adjust owner's salary to be reasonable. Interview owner to verify payment(s) received.
21. Owner takes net income after expenses out at end of year	You may use year-end income from tax return as owner's salary. Verify this with owner and by looking at and recording the vehicle used to remove the funds.

Summary of Typical Problems Encountered and Solutions

Problems Encountered	Solutions
Other Expenses	
22. Many "administrative costs" of the RC are allocations of corporate overhead costs	Disallow corporate costs not directly or indirectly related to the RC. Costs which can be indirectly tied to the RC because of services provided (e.g., accounting, legal, payroll, etc.) are allowed.
23. Some ocean freight charges to ship processed goods to end users exist on financial statement even though the site is a recycler	Cost for transportation from a recycler is allowable if the recycler delivers CRV material to an end user. Disallow these costs if they are being reimbursed by another entity through scrap value deduction or because the materials are non-CRV.
24. Owner rents property to business at unreasonably low cost	Accept actual cost as recorded. **Do not** impute any additional rent if it was not actually paid.
25. No depreciation expense, however, interviewer noted assets on site	Verify with owner that all assets are fully depreciated, leased, rented, or donated and ask accountant for a depreciation schedule (this cost is not always listed in the expenses).
26. Depreciation schedule does not match financial statement depreciation	Ask site manager to explain why they do not match and to reconcile the two statements. Decide on which schedule to use, which may be the schedule shown in tax return.
27. No property tax or rent expense	Document the reason. Appropriate if non-profit organization. If not, document the reason. **Do not** impute any additional property taxes or rent if these were not actually paid.
28. Property taxes not shown separately, but rather included in general accounts	Review paid invoices to determine appropriate property taxes paid (show breakout in workpapers)
29. Math errors found in tax return	Use numbers as reported on tax return (do not correct math errors).
30. No truck insurance, property tax, or utilities paid	Verify with owner/operator that the recycler/processor did not incur these expenses (the property or trucks might be rented [no property taxes], and the rental charge might include utilities). Ask the accountant for a breakdown if expenses are lumped together.
31. Owner could not directly allocate any financial statement line-item costs to a particular material or between the recycler/processor at a dual site	Use labor allocation methodology as basis for allocating all costs (which is what the automated cost survey model does)
32. Some financial statement line item costs could be allocated to more than one cost category	Ask the owner to estimate the percent of these costs applicable to the different cost categories. However, this is not absolutely required for completing a valid cost survey properly

Sample 1
Site Memoranda Descriptions of Problems and Solutions

Financial Information

1. Because the financial statements were ending 9/30/10, we asked the Account Manager for the current fiscal year expenses by month so we could complete calendar year expenses for 2010. She informed us that labor would be understated on the 9/30/10 financial statements. As it turned out, employee W-2's were available to complete the wages for 2010 and total wages were under 3% of unallocated wages expense for 2010.
2. The Controller stated that no costs could be specifically identified to a material type or a process. The Controller was able to provide costs to perform a few selected tasks, based on their own internal study. These are noted on the **Cost Input Sheet** of the automated cost survey model. Therefore, nearly all costs are indirect and will be allocated based on labor hours (using the automated cost survey model).
3. Calendar year financial data were not available. As a result, financial data were collected by using monthly data to make up a full 12 months.
4. The buyback center is a small portion of business and is not accounted for as a separate cost center. Efforts were made to isolate costs of the buyback center from overall site costs through inquiry with site management.
5. The financial information does not include corporate overhead expenses for accounting, executive salary, etc. Therefore, we **do not** include a corporate allocation in the expenses.
6. Although separate records are kept for most of the expenses of the recycling operation, there are a few expenses that relate to both the recycler and the parent company. For those expenses not recorded separately for the recycling operation, we had the accountant estimate the portion of each expense that was directly attributable to the recycler; we allocated the remaining percentage of these expenses to "other business."
7. Some costs on the financial statements pertain to activities which are disallowed in the cost survey, such as: lobbying expenses, brokering activities costs, and disposal costs. These costs and entered on the **Cost Input Sheet** and are excluded from the allowable costs and footnoted in the **Cost Summary** sheet of the automated cost survey model
8. Depreciation schedules provided were not useful because assets which I or the owner identified as being material specific are not being depreciated anymore and are not on the schedule. On the schedule itself, no description exists to determine what expense related to what asset, and the owner is confused as to what each asset represented. The depreciation schedule is included in our survey file, and the automated cost survey model allocates depreciation expenses by labor percentages.
9. Because all costs are not summarized on one set of financial statements, we had to manually consolidate direct and indirect costs to the site. To do this, we obtained the direct cost profile for the site, an indirect cost profile for the whole area, and the transportation costs as explained by the parent company's cost accounting department. The direct costs and the transportation costs are classified as BCI, whereas the area costs are classified as "All Locations AMI." Because labor information is housed at the Virginia headquarters, we were unable to view a W-2 or similar payroll information. Instead, the accountant provided us with wage and hour information shown of the wage and hour worksheet included in the file.

Splitting a Cost

1. Some costs, such as insurance, are consolidated into one account. This account includes all truck, auto, medical, workers compensation, and general liability. To break these costs out, the accountant prepared an insurance ledger and broke the costs out by type of insurance coverage (vehicle vs. employee). These costs are included on the **Cost Input Sheet** of the automated cost survey model.

Labor Information

1. Labor hours are not available. They are derived using a regular time and overtime pay, and an average wage per hour and average hours per week.

Imputing Costs

1. The Company is provided a can sorter/blower and a trailer for cans, by Anheuser Busch. Anheuser Busch picks up the trailer when it is filled with cans. Anheuser Busch supplies this equipment rent free. However, per the site manager, Anheuser Busch pays 2¢ a pound less for the cans it purchases from the site in exchange for the use of this equipment. Do not impute any cost from a scrap value deduction.
2. Recycling equipment owned by the owner is rented back to the company. This is a related party transaction. Additionally, the rent paid is unreasonably low and does not appear to be based on fair market value of the equipment. We do not impute a rent expense based on the fair market value of the equipment. We accept the actual cost in this instance.
3. The only related party transaction in 2010 affecting our surveyed costs is the allocation of corporate overhead from Sunrise Sanitation. As Sunrise Sanitation performs all accounting and payroll functions for Delta Paper, and because the allocation appears to be based on direct costs of the processor, we deem these allocations to be reasonable and allowable costs.
4. No payroll information exists nor is supplied for the RC, and W-2's were not available. We kept asking for documentation of wages, and the owner called his accountant who called the company's payroll service. The payroll service produced a payroll register. This information is provided on the **Labor Input Sheet** in the automated cost model and reconciled with the financial statements.

Other

1. A major issue arose during the site tour. Much non-CRV processing takes place even though the site is not certified as a processor. In order to approach how to allocate costs and labor, staff decided that all handling of materials at a single RC would be classified under the Recycling category.
2. There is another business relating to sewing of pillows and curtains which is contained in the recycling center's labor category. These employees are identified in the labor interview and are included as other business labor only.
3. The buyback area (RC) has changed since 2010. In 2010, the site had a processor "process" all of the material. In 2011, the site began to split work with the end-user or processor. The result is listed on the *Site Activity Description* form in 2011 (when survey is being done) are not representative of 2010. Note: what is viewed during the 2011 site tour may not be representative of 2010.
4. Financial data are housed at the CPA firm, which handles the accounting of the firm. The information was not ready upon our arrival causing about three hours of downtime. In addition, payroll information was not completed and needed to be generated. This resulted in about one hour of downtime.

Sample 2
Site Memoranda Descriptions of Problems and Solutions

Company A

On Tuesday, July 19, 2011, Erik and Jeff met with the General Manger, at Six Pack Recycling Center. The center is a certified recycling center, but also partakes in processing activities of non-CRV materials and PET. The recycler handles all types of materials, CRV and non-CRV, worth noting was the large amount of copper received and the large amount of labor handling it full time.

The corporation itself is wholly-owned by Six Pack Industries. A related company, Six Pack Group, leases the facility to the recycling center at a rate which was documented on Six Pack Group's financial statements.

We were given Paychex, payroll processing reports and W-2's to determine labor costs and hours and compiled financial statements for the period ending 9/30/10 as detail for costs.

Problem: Because the financial statements were ending 9/30/10, we asked June the account manager whether expenses were representative of the year ending 12/31/10. She informed us that they were, and that only labor would be understated on the 9/30 financial statements. As it turned out, labor was in fact understated on the financial statements.

Solution: We asked for and received 2010 W2s for all employees, and determined wages for each employer. The difference in wages (from the financial statements) was included in a worksheet on the automated cost survey model, and provided in the site file @ **2.1 6/28.**

Problem: A major issue arose during the site tour. It was noted that much non-CRV processing takes place even though the site is not certified.

Solution: In order to approach how to break costs and labor, we referred to the solution established at the meeting in Sacramento on 7/22/11. At this meeting it was decided that all handling of materials at a single RC would be classified under the Recycling category.

Problem: There was labor for some other business relating to sewing of pillows and curtains that was picked-up on the recycling centers labor category.

Solution: These employees were identified in the interview and allocated to "Other Business" during the labor hour interviews.

Company B

Problem: Controller would not allow financial information to be photocopied.

Solution: Created a new sheet in the cost model (tab name: AFS), and typed in the entire income statement and footnotes.

Problem: Controller stated that no costs could be specifically identified to a material type or a process.

Solution: Costs will be allocated based on model. The controller did provide costs to perform tasks based on their own internal study. See **2.1 3/5.**

Company C

Problem: Calendar year financial data were not available, but the fiscal year results was not representative of calendar year activities

Solution: Used latest 12 months that were available, using monthly reports. Verified with owner that the selected months are representative for calendar year 2010. Recycling volumes used match the months used for financial reports. Documented what we did and why @ **2.1 4/6 and 5/6.**

Problem: Buyback center is a small portion of business and is not accounted for as a separate cost center.
Solution: Efforts were made through inquiry to isolate costs.

Problem: Efficient operation makes it difficult to identify specific material costs sources.
Solution: Allocate costs based on model calculations of labor hour allocation percentages

Problem: Labor hours not available.
Solution: Derived using pay rate and overtime per week.

Company D

Problem: The buyback area (RC) has changed since 2010. Specifically, in 2010 Envipis was having Circo "process" all of the material. In 2011, Envipis began to work directly with the end-user or processor.

Solution: The estimates on the activity description are not representative of 2010.

Problem: The financial information does not include corporate overhead expenses for accounting, executive salary, etc.

Solution: We will not include a corporate allocation in our figures to remain consistent with other sites in the survey (we did not impute these costs).

Company E

Problem: The Company is provided a can sorter/blower and a trailer for cans, by Aluminum Can Buyer. Aluminum Can Buyer picks up the trailer when it is filled with cans. Aluminum Can Buyer supplies this equipment rent free. However, per Company Site Manager, Aluminum Can Buyer pays 3¢ a pound less for the cans it purchases from Company in exchange for the use of this equipment.

Solution: Even though all aluminum cans are sold to Aluminum Can Buyer, do not impute a rent for the equipment based on the volume (pounds) of cans redeemed in 2010 and the 3¢/lb reduction in price.

Company F

Problem: Although separate records are kept for most of the expenses of the recycling operation, there are a few expense categories that are only recorded for Mission Beverage Co. in total. These few expense categories are not included in the separate schedule detailing recycling expenses in the Mission Beverage Co. financial statements.

Solution: We did not include expenses that management had not recorded for the recycling operation.

Problem: Recycling equipment owned by the owner of Mission Beverage Co. is rented back to the company. This is a related party transaction. Additionally, the rent paid is unreasonably low and does not appear to be based on the fair market value of the equipment.

Solution: We used the rent expense actually charged by the owner. We did not impute a fair market value of the equipment.

Company G

Problem: The company is provided equipment and transportation out for its aluminum and glass by Alcoa and Gilton respectively. This equipment and transportation is free of charge, although there is a reduction in the purchase price of these materials by both Alcoa and Gilton.

Solution: We did not impute a cost for this equipment and transportation.

Problem: The only related party transaction in 2010 affecting our surveyed costs was the allocation of overhead from Sunrise Sanitation.

Solution: As Sunrise Sanitation performs all accounting and payroll functions for Delta Paper, and because the allocation appears to be based on direct costs of the regular/processor, we have deemed these allocations to be reasonable and allowable costs.

Company H

Problem: The financial data was being housed at the CPA firm that handles accounting of the firm. The information was not ready upon my arrival causing about 3 hours of downtime. In addition, payroll information was not completed and needed to be generated. This resulted in about 1 hour of downtime.

Solution: We re-visited the site on the following day.

Problem: The recycling manager could not estimate each employee's time to CRV and non-CRV activities. He felt as if doing so would require too much investigation and research and would not be feasible.

Solution: We reminded the recycling manager of the purpose of our visit, the need to develop costs for the calculation of a new processing fee, and the legal requirement for any site selected to fully cooperate with CalRecycle during this effort. He assisted us in allocating the time of each employee identified on his company's payroll records.

Company I

Problem: No payroll information existed or would be supplied for the RC

Solution: More interviewing was necessary to get to the root of where the information is documented. The owner called his payroll service and requested a copy of a payroll register for 2010. The owner wrote down the names of the employees provided by the payroll service over the phone. We entered these names into the cost model, and conducted the labor hour interview. In the meantime, the payroll service had faxed a copy of the register to the owner, and we recorded the wages of each employee in the model.

Company J

Problem: Because labor information is housed at the out-of-state headquarters, we were unable to view W-2 or similar payroll information

Solution: The site manager provided us with wage and hour information listed at **1.1 2/3.**

Company K

This is a handling fee recycler with over 200 sites statewide. We met with the company officers to obtain overall financial information, then visited each site to conduct a cost survey.

Problem: The Company did not track specific personnel by site. The company provided a generic site attendant's wage which accounted for the single site attendant.

Solution: The site team used the site attendant wage expense, and site hours provided by the CFO.

Problem: The area managers for the site covered 15 sites. The area manager did not spend any time working at the site.

Solution: The site team did not include the site manager's hours in the labor input. Rather, the total allocated cost for management time for the site (as provided by the CFO) is included as GBO cost in the **Cost Input Sheet.**

Company L

This is a company that operates several hundred handling fee recycler sites in California. We met with the company officers to obtain overall financial information, then visited each site to conduct the cost survey.

Problem: We were not able to get employee specific payroll information.

Solution: For those employees who worked at the sites, we obtained total wages and wage/hour, but not the total hours. We calculated total hours using total wages and wages/hour. For those overhead costs that the company allocated to the site, we included everybody in each grouping as a super employee. We were able to get total wages and total hours which we allocated to each site equally.

Problem: We were unable to obtain a depreciation schedule.

Solution: Per Janette Gorman, CFO, depreciation is allocated equally among all sites and is not allocated to each site based on the specific site equipment due to the complexity of tracking the information. As all sites have similar equipment, this method appears reasonable. We noted each site was allocated only $316 in depreciation.

Company M

Problem: The company had: (1) a pool of hourly workers who worked at different sites owned by the company, (2) a supervisor for all sites, (3) drivers who collected from all sites, and (4) two "floaters" who were available to cover sites for sickness, vacation, and holidays. The company did not necessarily assign an employee to a single site.

Solution: During 2010, the company owned a varying numbers of sites, with an average of 22 sites in operation. The site team imputed 4.6% of bookkeeper, supervisor, and "floater" time to RC12345 (i.e., 1/22 of their time because they divided their time equally between sites). Because one site (not the survey site) has two attendants, the site team imputed 4% of total site staff hours to RC12345 (i.e., 1/23 of the total hours)

Problem: Hourly employee wages includes the bookkeeper, the "floaters", and site staff. The company did not provide a written breakdown of wages per type of employee.

Solution: The site team used wage information verbally provided by the owner to impute hours and wages for the bookkeeper, floaters, and site staff (see 1.1).

Company N

Problem: During 2010, XYZ Recycling operated a total of 68 recycling sites. Consolidated financial information was provided by management. However, the company does not maintain discrete financial records for individual sites.

Solution: Based on our discussions with management, the survey team determined the most accurate method of allocation using the information available:

- Bucket 1 – Costs that do not vary significantly by location. The most appropriate method of allocation is simply to divide the total expense for each line item below by 68:
  - 1400 Cost of Goods Sold – CRV (COGS entered as non-allowable)
  - 1475 Roll-Off Hauling (scrap value deduction entered as non-allowable)
  - 6283 RVM Store Site Payments (exclusivity pmt entered as non-allowable)
  - Other Expense
  - 1449 Depreciation - Direct
  - 1460 Officer Salary
  - 1470 Office Staff
  - 1474 Payroll Tax Expense (officers' portion only)
  - 1370 Zone Supervisor
  - 1540 Healthcare Insurance (because those who elect to have benefits are in the 1460-1370 categories)
  - 1545 Dental Insurance (because those who elect to have benefits are in the 1460-1370 categories)
  - 1700 Recruiting
  - 1800 Training and Development
  - 3500 Automobile Supplies
  - 3600 Office Supplies
  - 3620 Postage and Delivery
  - 3700 Office Automation (IT)
  - 3750 Site Automation (IT)
  - 3800 Telephone
  - 3900 Utilities

- 4700 Miscellaneous
- 5000 Marketing
- 5500 Permits & Licenses
- 6120 Bank Service Charges
- 6140 Contributions
- 6160 Dues & Subscriptions
- 6240 Security Deposits
- 6270 Professional Services
- 6350 Travel & Ent.
- 6370 Gifts
- 7000 Taxes
- 7020 State
- 7021 Penalty
- 8200 Interest Expense
- 6180 Insurance (liability insurance portion)
- 6280 Rent (main office portion and storage facility portion)
- 6300 Repairs & Maintenance
- 8300 Depreciation Expense

- Bucket 2 – Costs related to just CRV material. The team determined the ratio of containers redeemed at the surveyed site divided by total containers redeemed for all sites as the method to allocate the company's cost for the following line item:
  - 4000 CZ Site Supplies

- Bucket 3 – Costs related to labor activity. Allocate by total hours of operation at each site multiplied by hourly rate of employee at site to obtain site specific payroll
  - 1500 Payroll Expense-Gross
  - 1502 Payroll Expense

- Bucket 4 – Allocate by ratio of total annual labor at the surveyed site divided by the total annual labor at all sites. Hours were obtained by total operating hours of site. The hourly rate for employee at each site was given to us by management.
  - 1474 Payroll Tax Expense (staff portion only)

- Bucket 5 – Allocate by ratio of total annual labor at the surveyed site divided by the total annual labor at all sites.
  - 6180 Insurance (workers compensation only)

- Bucket 6 – The most appropriate method of allocation is to divide the total expense by the total number of sites that the expense is used for.
  - 6280 Rent (Stater Brothers locations only are divided by 64)
  - 6280 Rent (All locations are divided by 68)
  - 6280 Rent (IVM has an IVM rent specific to the location)
  - 6040 Amortization Expense (Stater Brothers locations only are divided by 64)
  - 6040 Amortization Expense (All locations are divided by 68)

Problem: The company does not maintain information relating to wages and hours by site. Employees float between sites.

Solution: Based on our discussions with management, the most accurate method of deriving wages and hours by site given the information available is based on a site's operating hours multiplied by the estimated hourly rate which applies to that site. Total Annual Labor at 2.1 is the same as total handler wages at 1.1.

Problem: The site team did not obtain a depreciation schedule from XYZ Recycling.

Solution: Through discussion with management, all depreciation is broken out on the break-out of financials given to the team.

Problem: The survey team could not obtain hours worked for Zone Supervisors and Office Staff from XYZ Recycling.

Solution: Through discussion with XYZ Recycling management, the average hourly rate for 2010 and the annual payroll for each site for the Zone Supervisor and Office Staff was given to us (see 2.3 – 2.4), which we then used to calculate the approximate number of hours worked at each site.

Company O

Problem: The tax return information was consolidated for the operations of seven company recycling sites and records of specific site expenses were not available.

Solution: We entered tax return information, all employees, and payroll costs for all sites into the cost survey model, and then let cost survey model allocate the expenses.

Company P

Problem: Recycler allocates a management fee of $36,000 to each recycling site. This includes transportation, management employees (clerical, baling, supervisors, management), insurance, depreciation, supplies, etc. The company operates 17 recycling centers, a flea market, a glass processor, and recycling services for other recycling centers in the region.

Solution: We determined, through interviews with management, that the management fee is directly related to the operation of the RCs, and that the fee appears to be reasonable, given the overall operations of the company. We separated the $36,000 management fee into two portions: (1) costs for labor ($25,699), and (2) costs for overall operations ($10,301). The labor component is supported by W-2s for relevant employees, and an average hourly wage provided by Mr. Smith. Given the description of transportation costs for their 17 RC system, the management operations allocation is probably conservative. However, we will accept the amount specified.

Sample 3
Site Memorandum Descriptions of Problems and Solutions

General:

On Wednesday, August 12, 2011, Jeff met with John Doe, owner of Metals Recycling Company. Recycling Company is a small to medium size recycling yard which began recycling scrap metal and now also recycles CRV containers. The company pays for CRV aluminum, glass and plastic, copper, steel, and brass metals and accepts non-CRV glass as donation. The company is wholly owned by Mr. Doe and currently splits its business roughly in half between CRV and non-CRV materials, based on information provided from the site tour.

Source of Financial Information:

For payroll wages, we were given W-2's for 2010 and to compute hours we were given the hourly rates of the hourly employees. With this information, and knowing that the company maintains staggered shifts so that there is no overtime, we divided the rate into the gross wages to obtain hours. For those salaried employees, we assumed 2,080 hours worked, unless otherwise noted.

For financial information, we were provided with the 2010 Federal Income Tax Return-Schedule C and its supporting schedules.

Problems and Solutions:

Mr. Doe was unsure as to how much capital was drawn from the company in 2010. Therefore, we contacted his auditor to determine if any draw was made. The accountant provided us with documentation that Mr. Doe withdrew $32,000. We did not use this amount as Mr. Doe's salary because it was a draw. Instead, we determined the net income from this sole proprietorship to be $68,000. We used this as his compensation.

Certain costs were either understated or not listed on the tax return. The first of these is rent. According to the tax return, Mr. Doe spent $9,500 on rent in 2010. Based on the area in which the company does business and the size of the lot, this expense seemed grossly understated. I inquired with the owner as to why the rent was so low, and he explained that the owner of the land held a note for which Mr. Doe was paying off. Because of this arrangement, they had worked out a deal to keep his rent low so that he could pay off the note within the agreed upon time frame. On July 1, 2010, however, the note was paid and a new lease agreement was drafted stating that the new payment per month is $2,600 or $31,200/year. Rather than impute a rent cost during the first 6 months, I instead used actual rent paid as the rent expense. I determined total annual rent to be $25,100 ($9,500 actually paid during the first six months and $15,600 actually paid in the second six months).

In 2010, Recycling Company had a deal with an aluminum company which called for a $.02 decrease in the selling price provided that this company loaded and shipped these CRV cans away. Because scrap value deduction is not an allowable cost, we did not do anything with this information.

Within the wages category on the tax return, resides in excess of $30,000 ($600/week) for contracted labor to work on Saturdays at the yard. Although this cost is properly classified, it is a key item for reconciling labor costs.

Certain costs such as insurance and taxes contained many different categories within them. By talking with Mr. Doe, I was able to break these general costs into their more specific classes. Because of this, and the fact that a good portion of the business is dealing with other materials, we had a difficult time breaking costs out to their respectful container types. Therefore, we categorized all insurance and tax costs as All Locations AMI (with exception to a few items) and will rely on the labor hour interview to break these costs out.

Contact Person:

John Doe, Owner (818) 555-1212

Other Comments:

NONE

Sample 4
Site Memorandum Descriptions of Problems and Solutions

General:

On Friday, August 19, 2011, Jeff met with John Dough, sole owner of Meat Market. From the back of this meat market, Mr. Dough maintains a recycling center accepting CRV plastic, aluminum, and commingled glass. The recycling center is small in size and operates in the parking lot behind the store. Only one individual works at the RC, while others work inside the market. Based on an estimation resulting from the site tour, it appears as if the majority of activity in the yard relates to CRV aluminum in relation to the number of containers brought in.

Source of Financial Information:

For payroll information, we were provided with the payroll journal for the period ending 10/31/10. Because this information only included 10 months of information, we asked for full 2010 wages and for W2s. The owner did not have any of this information. Therefore, we were forced to estimate the total wages and hours for the final two months of 2010. For the payroll that we did have, we divided the total pay rate, as supplied by John Dough, into the gross wages. This calculation became reasonable when Mr. Martinez explained that he pays little or no overtime.

For financial information, we were able to review the 2010 Income Tax Return Schedule C. The information from this, and some additional information not included in the return are @ 2.1 4/6.

Problems and Solutions:

Because payroll information was incomplete for the fiscal year of 2010, we were forced to extrapolate both the hours and the wages according to the time remaining in the year (9 weeks or 360 hours). With this information, we could estimate wages earned by multiplying the wage rate by the time remaining in the period. The calculation for this information is performed @ 2.1 4/6.

In addition to all other labor, we had to calculate a salary for Mr. Dough. During the course of the year, Mr. Dough had no idea as to how much money he had drawn from the company. We did not impute a salary for him, nor ask what hourly rate he would pay himself to do his job. I asked him for his company's profit and loss statement, but he did not have one. I reviewed checks and disbursement records to the owner, and asked him what percent of full-time he managed/worked the site. I determined total disbursements to him to be $36,512 during 2010, and used this amount as the owner's salary.

Worker's compensation insurance was not included on the tax return because the invoices were not supplied to the accountant when the return was prepared. In order to include this cost, I vouched the paid invoice and the paid check from the bank. This amount will be included in the cost survey.

In order to determine whether certain assets could be identified as either related or not related to the RC, I copied the depreciation schedule from the tax return and broke certain assets and their related depreciation out. This schedule is included @ 3.2 2/2.

Because the meat market and recycler share so many costs, the only costs which could be broken out related to depreciation. All other allocations will be performed based on information provided during the labor interviews.

Contact Person:

John Dough, Owner (213) 555-1212

Other Comments:

NONE

Work Assignments

1. Complete a sample *Site Memorandum*
2. Perform role playing exercises

Work Assignment 1

Complete a Sample *Site Memorandum*

Prepare a *Site Memorandum* from information listed below. All information to prepare the memorandum is included in bullet form, but it is not ordered. The objective is to organize the information provided into a clear and descriptive *Site Memorandum*.

Newcastle Metals

- Owner is Bob Roberts.
- Visited July 15, 2011.
- Primarily a metals processor. Located on 2.5 acres in Hopston.
- A recycler and processor (dual certified), the recycler was picked for survey.
- Have a buyback area where the following materials are accepted:
  - Ferrous metals
  - Non-ferrous metals
  - All CRV materials
  - Newspaper and cardboard.
- The company is a subsidiary of Weinhardt Corporation.
- The owner provided fiscal year 2010 compiled financial statements.
- The owner provided 2010 payroll information and W-2 forms.
- The financial contact is the owner. His phone number is (800) 555-1212.
- Fiscal year 2010 financial data was provided. The owner indicated that this information approximates calendar year 2010 results.
- Weinhardt Corporation provides an aluminum can crusher to Newcastle at a scrap value deduction, and this is the only related party transaction.
- The owner provided 2010 payroll information and W-2 forms.
- The owner was paid a salary of $5,000 per month.

Perform Role Play Exercises

(2-3 Persons: One-Two Interviewer and One Site Manager)

For the following role play exercise, one or more individuals should interview one other person playing the site manager. Only the site manager should access the completed *Site Memorandum* for details about the site. The site manager should use the *Site Memorandum* as a guide, but also can create answers to any additional questions posed by the interviewer. Interviewers should gather as much information as possible to complete the *Site Memorandum*, while practicing good active listening, clarification, and note taking skills.

Information for this exercise is to be provided only to the person playing the role of the Site Manager. This information is from actual site memoranda from prior site visits. Reverse roles for each recycler.

- Recycler A
- Recycler B.

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SITE MEMORANDUM

RC: RCYYYY **PR:** _____ **Name:** Recycler A

Site Visit Date: August 10, 2011

SURVEY TEAM MEMBERS: Jon Doe
Jane Smith

YOU ARE NOT LIMITED TO THE SPACE INDICATED ON THIS FORM!
THIS FORM MAY BE COMPLETED ON THE COMPUTER AND EXPANDED AS NEEDED.

A. GENERAL DESCRIPTION OF SITE'S LOCATION AND OPERATIONS

1. Site information

LOT SIZE	
No Sq Ft	
No of Acres	2.5

	TYPE
	Supermarket Site
X	Independent Facility

2. Material Types Handled:

a. CRV Aluminum X Bi-Metal ____ Glass X PET Plastic X

Other Plastics: HDPE (#2)___ PVC (#3) ___ LDPE (#4)___ PP (#5)_____ PS (#6)___ OTHER (#7)___

b. Non-CRV Motor Oil___ Cardboard___ Clothing___ Pane Glass___ Paper/fiber___ Scrap metal X

Other: Autos, Tires, Extruded Aluminum, White Goods; does not accept flammable material

3. Overall Activity Split (%)

CRV 40% Non-CRV 60%

4. CRV Activity (%)

Aluminum 60% Glass 30% PET Plastic 10% HDPE Plastic _____
Bi-Metal _____ #3 to #7 Plastic _____

If the percentage in 3 & 4 above are not consistent with the BCI & AMI percentages in the model, explain:

5. Business Activity

Number of Business Locations: Recycler 1 Processor _____ Other 1
Business Ownership: Sole Proprietor X Corporation _____ Partnership _____

RC: RCYYYY **PR:** _____ **Name:** Recycler A

Site Visit Date: August 10, 2011

Estimated number of full time employees

CRV		Non-CRV		Other Business	TOTAL
yard	Office	yard	Office		
1.0	0.5	9.0	0.5	5.0	16.0

6. Changes from previous calendar year

a. Materials	CRV Plastics 2-7
b. Employees	Same
c. Equipment	2-3 Trucks purchased this year
d. Yard size	Same
e. Location	Same
f. Volumes	Up, due to promotions

7. Narrative description of site's location and operations

Recycler A is part of Reclamation, Inc., a company consisting of a recycling center and a demolition business. The recycling center has been operating since 1980. The facility primarily handles scrap metal and other non-CRV type material.

The 2.5 acre yard in ToonTown is owned by the company and the loan is completely paid off. The area originally rural in character has become a fast growing area surrounded by new subdivisions. The use of the property as a scrap yard is grandfathered by the county; most other industrial and agricultural property in the area is being converted to single-family residential and shopping centers.

As a general note, the contact person did not allow the survey team access to financial records and gave authorization for the survey team to inspect records at the accountant's office only under a threat of adverse action. Given the difficulty of this survey, the survey team did not request to obtain copies of the financials.

B. DESCRIPTION OF CRV MATERIALS HANDLED

Include: Brief description of how each material type is handled from yard entry to yard exit. Include how materials are: sorted, stored, packaged, and transported (including who transports, vehicle type, Scrap Value Deduction (SVD,) and miles freighted to next facility).

1. **Aluminum Beverage Containers:** Customer loads of CRV aluminum are transferred into wire baskets with employee assistance and weighed on a floor scale. After weighing, the attendant completes a ticket that the customer takes to the cashier for payment; Recycler A pays cash or issues checks for all transactions over $20. The wire baskets are then dumped into a briquetter with a magnetic separator. The briquettes, approximately 30 pounds each, are palletized into lots consisting of 64 briquettes. Aluminum is picked up and purchased by Salvage Recovers in Alameda and Recycler A receives a scrap value deduction.

2. **Bi-Metal Beverage Containers:**

RC: RCYYYY **PR:** _____ **Name:** Recycler A

Site Visit Date: August 10, 2011

3. **Glass Beverage Containers:** Glass is three-color sorted. Customers generally sort the glass into small black plastic buckets with holes on the bottom to drain contaminants. The buckets are then weighed on a platform scale. After weighing, the buckets are dumped into roll-over bins, and then the roll-over bins are forklifted into a 30-yard roll-off used for shipping. Recycler A self-hauls glass to Beneficiator, Inc,. located in Stockton.

4. **PET #1 Plastic Beverage Containers:** Customer loads of PET are transferred into wire baskets that are then weighed on a floor scale. After weighing, the plastic is emptied in a dumpster and then baled into 600 pound bales by a vertical baler. The bales are self-hauled by Recycler A to Acer in Santa Clara or PET Recovery in Piedmont.

5. **HDPE #2 Plastic Beverage Containers:**

6. **PVC #3 Plastic Beverage Containers:**

7. **LDPE #4 Plastic Beverage Containers:**

8. **PP #5 Plastic Beverage Containers:**

9. **PS #6 Plastic Beverage Containers:**

10. **Other #7 Plastic Beverage Containers:**

C. SPECIFIC SOURCE OF PAYROLL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

Mr. Perry Mason, the accountant for Reclamation, Inc., phone (999) 555-6666, provided W-2's for each employee on payroll in 2010 plus a schedule showing gross pay for each employee by week. A schedule showing employee hours was not available (see problem 1/solution 1 below).

D. SPECIFIC SOURCE OF FINANCIAL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

Mr. Perry Mason, the accountant for Reclamation, Inc., phone (999) 555-6666, provided an income statement showing expenses for 2010. The survey team entered the expense information directly into the model while visiting the office of the accountant.

RC: RCYYYY **PR:** _____ **Name:** Recycler A

Site Visit Date: August 10, 2011

E. DESCRIPTION OF DIRECT COSTING AND SPECIAL COST CONSIDERATIONS:

Include: Brief description of why items are direct costed, and the approaches used. (For example: "Truck depreciation is direct costed between aluminum, PET, and HDPE because the owner purchased a new truck to haul only these materials. We used BCI, then the relative weights of PET and HDPE to allocate costs." Also identify and explain any unusual cost categories that you discussed with the site operator such as legal fees, consulting, travel, etc).

E. PROBLEMS ENCOUNTERED AND SOLUTIONS: (Any problems noted MUST have a corresponding solution.)

PROBLEM 1: A schedule showing employee hours was not available.

SOLUTION 1: The number of hours was calculated by determining the number of weeks that the employee worked in 2008 assuming that the employee worked 40 hours per week. If weekly wages were not available, hours were calculated by dividing the gross wage by $6.75, the starting wage rate as stated by the contact person for the labor interview.

PROBLEM 2: Utilities (~7.3% of allowable costs), Insurance (~5.5% of allowable costs), and Maintenance (~12.3% of allowable costs) are higher than average.

SOLUTION 2: In general, the higher average costs are attributable to the demolition business which is included in the financials. Over 80% of the utilities cost are disposal fees. Insurance costs are for liability coverage which is higher for demolition than for a CRV redemption center. Maintenance costs are high due to expenses for spare parts amounting to almost $100,000 for trucks, cranes, and other heavy equipment.

F. CONTACT PERSON(S):

Site Management		Site Information	
Name:	John McEnroe	Name:	John McEnroe
Title:	Owner	Title:	Owner
Phone #:	999.555.1000	Phone #:	999.555.1000
FAX: #:	999.555.1002	FAX: #:	999.555.1002
Labor Interview		**Financial Information**	
Name:	Juan Gomez	Name:	Perry Mason
Title:	Yard Manager	Title:	Accountant
Phone #:	999.555.1000	Phone #:	999.555.6666
FAX: #:	999.555.1002	FAX: #:	999.555.6670
Labor Information		**Payroll Information**	
Name:	Juan Gomez	Name:	Perry Mason
Title:	Yard Manager	Title:	Accountant
Phone #:	999.555.1000	Phone #:	999.555.6666
FAX: #:	999.555.1002	FAX: #:	999.555.6670

RC: RCZZZZ **PR:** _____ **Name:** Recycler B

Site Visit Date: August 17, 2011

SURVEY TEAM MEMBERS: Mike Smith
Jane Anderson

YOU ARE NOT LIMITED TO THE SPACE INDICATED ON THIS FORM!
THIS FORM MAY BE COMPLETED ON THE COMPUTER AND EXPANDED AS NEEDED.

A. GENERAL DESCRIPTION OF SITE'S LOCATION AND OPERATIONS

1. Site information

LOT SIZE	
No Sq Ft	
No of Acres	2+

	TYPE
	Supermarket Site
X	Independent Facility

2. Material Types Handled:

a. CRV Aluminum X Bi-Metal ____ Glass X PET Plastic X

Other Plastics: HDPE (#2)___ PVC (#3) ___ LDPE (#4)___ PP (#5)_____ PS (#6)___ OTHER (#7)___

b. Non-CRV Motor Oil___ Cardboard X Clothing___ Pane Glass X Paper/fiber X Scrap metal X

Other: Appliances

3. Overall Activity Split (%)

CRV 1% Non-CRV 99%

4. CRV Activity (%)

Aluminum 25% Glass 55% PET Plastic 20% HDPE Plastic _____
Bi-Metal _____ #3 to #7 Plastic _____

If the percentage in 3 & 4 above are not consistent with the BCI & AMI percentages in the model, explain:

5. Business Activity

Number of Business Locations: Recycler 1 Processor _____ Other _____
Business Ownership: Sole Proprietor _____ Corporation X Partnership _____

RC: RCZZZZ **PR:** **Name:** Recycler B

Site Visit Date: August 17, 2011

Estimated number of full time employees

CRV		Non-CRV		Other Business	TOTAL
yard	Office	yard	Office		
0.5	0.5	15.0			16.0

6. Changes from previous calendar year

a. Materials	Resins 2-7
b. Employees	Same
c. Equipment	Same
d. Yard size	Same
e. Location	Same
f. Volumes	Same

7. Narrative description of site's location and operations

Recycler B is a large recycling company located in a medium-sized building in the industrial area of near the San Francisco airport. Recycler B is a subsidiary of Big Salvage Company. This center handles CRV, non-CRV, and curbside material from the city of San Mateo and surrounding communities. Recycler B is open from 8:00 a.m. to 5:00 p.m. Monday through Friday and closed Saturday and Sunday. There are sixteen employees working this center daily. Of the sixteen full-time employees, only one is dedicated to handling the material that comes in through the CRV buyback center. The extreme majority of material handled at this location is curbside and non-CRV.

CRV customers enter the yard from Busy Blvd. and proceed to the buyback center located inside the large building. The attendant helps the customer sort material and inspects the load during the transfer. The material is weighed, customer is paid, and the material is stored in one of several places. The processor picks up aluminum and plastic while the glass is self-hauled to the parent company, mixed with curbside, and prepared for processing.

B. DESCRIPTION OF CRV MATERIALS HANDLED

Include: Brief description of how each material type is handled from yard entry to yard exit. Include how materials are: sorted, stored, packaged, and transported (including who transports, vehicle type, Scrap Value Deduction (SVD,) and miles freighted to next facility).

1. **Aluminum Beverage Containers:** Customers enter the yard with their load of CRV aluminum. The attendant assists in the transfer of material into wire baskets. The load is inspected for non-CRV and removed if any is found. The attendant lifts the basket onto the platform scale and weighed. The attendant records the weight and payment amounts on log-sheets and pays the customer in cash. The material is crushed and blown into a trailer owned by Another Salvager. When the trailer is full, approximately once a day, Another Salvager, located in San Mateo, picks up the load.

2. **Bi-Metal Beverage Containers:**

RC: RCZZZZ **PR:** _____ **Name:** Recycler B

Site Visit Date: August 17, 2011

3. **Glass Beverage Containers:** Customers enter the yard with their load of CRV glass. The customer three-color sorts the material and transfers to plastic barrels. The attendant inspects the load and removes any non-CRV material that is found. The attendant lifts the barrel onto the platform scale and weighed. The attendant records the weight and payment amount on log-sheets that the customer must sign prior to cash payment. The material is stored in a 20-yard three compartment roll-off bin. The roll-off bin is self-hauled to the parent company, mixed with curbside and prepared for processing. The material is self-hauled to Cullet Recoveries, approximately once a day, in San Mateo.

4. **PET #1 Plastic Beverage Containers:** Customers enter the yard with their load of CRV PET. The customer and the attendant will transfer the load to wire baskets. The attendant inspects the load for non-CRV, different resin types and removed if present. The attendant lifts the basket onto the platform scale and weighed. The attendant records the weight and payment amount on log-sheets that the customer signs prior to cash payment. The material is stored in a 40-yard roll-off bin, owned by the broker, and baled. When enough bales are created, approximately once a week, the broker is notified and picks up the material.

5. **HDPE #2 Plastic Beverage Containers:**

6. **PVC #3 Plastic Beverage Containers:**

7. **LDPE #4 Plastic Beverage Containers:**

8. **PP #5 Plastic Beverage Containers:**

9. **PS #6 Plastic Beverage Containers:**

10. **Other #7 Plastic Beverage Containers:**

C. SPECIFIC SOURCE OF PAYROLL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

James Madden, the Chief Financial Officer, supplied the employee list that included hours and wages for the calendar year 2010.

D. SPECIFIC SOURCE OF FINANCIAL INFORMATION: (Include: location, type, nature of source, as well as name, title and phone number of person interviewed for this information.)

James Madden, the Chief Financial Officer, supplied a prepared Income Statement for the calendar year 2010. Their fiscal year is from November to October. We received the financials from 11/1/09 to 10/31/10 current period actuals and also the 11/09 and 12/09 current period actuals, which we subtracted, and 11/10 and 12/10 which we added to the 11/1/09 to 10/31/10 fiscal year.

RC: RCZZZZ **PR:** _____ **Name:** Recycler B

Site Visit Date: August 17, 2011

E. DESCRIPTION OF DIRECT COSTING AND SPECIAL COST CONSIDERATIONS:

Include: Brief description of why items are direct costed, and the approaches used. (For example: "Truck depreciation is direct costed between aluminum, PET, and HDPE because the owner purchased a new truck to haul only these materials. We used BCI, then the relative weights of PET and HDPE to allocate costs." Also identify and explain any unusual cost categories that you discussed with the site operator such as legal fees, consulting, travel, etc).

F. PROBLEMS ENCOUNTERED AND SOLUTIONS: (Any problems noted MUST have a corresponding solution.)

PROBLEM 1: No depreciation schedule was available.

SOLUTION 1: No depreciation schedule was obtained because per James Madden, all equipment on the depreciation schedule was for non-CRV materials. The buyback center consists of several wire baskets and plastic barrels and a platform scale. The buyback center is a small portion of the overall operation and they generally only get one customer a day. Due to time constraints and no buyback equipment on the schedule, the issue was not pursued. All depreciation was put to other on the Direct Cost sheet.

PROBLEM 2:

SOLUTION 2:

G. CONTACT PERSON(S):

Site Management		Site Information	
Name:	James Madden	Name:	James Madden
Title:	Chief Financial Officer	Title:	Chief Financial Officer
Phone #:	(530) 555-4020	Phone #:	(530) 555-4020
FAX: #:	None	FAX: #:	None
Labor Interview		**Financial Information**	
Name:	James Madden	Name:	James Madden
Title:	Chief Financial Officer	Title:	Chief Financial Officer
Phone #:	(530) 555-4020	Phone #:	(530) 555-4020
FAX: #:	None	FAX: #:	None
Labor Information		**Payroll Information**	
Name:	James Madden	Name:	James Madden
Title:	Chief Financial Officer	Title:	Chief Financial Officer
Phone #:	(530) 555-4020	Phone #:	(530) 555-4020
FAX: #:	None	FAX: #:	None

Module 7
Understanding Financial Statements

Objective:

- Describe how to recognize and understand financial statements

Key Topics:

- What are financial statements?
- The accounting equation (assets, liabilities, and owner's equity)
- Hierarchy of financial statements used for the cost survey
- Types of financial statements
- Categories of financial results
- Scrap value and costs-of-goods sold
- Year-end data (calendar versus fiscal year)
- Footnotes to financial statements
- Depreciation
- Owner's draw
- Accrual versus cash basis

Curriculum Materials:

Reading List/Handouts:

1. *Financial Statements: The Starting Point in the Study of Accounting* – provided in training manual Volume II – Supplemental Materials
2. *Measuring Business Income* – provided in training manual Volume II – Supplemental Materials
3. Standard opinion language used for reported financial statements
4. Illustrations of financial statements
5. Sample note concerning selection of a site's compiled versus audited financial statements
6. Sample depreciation schedule
7. Sample depreciation schedule
8. *Long-Lived Assets and Depreciation* – provided in training manual Volume II – Supplemental Materials
9. *Accrual Basis and Cash Basis of Accounting* – provided in training manual Volume II – Supplemental Materials

Work Assignments:

1. Classify financial statements
2. Prepare a balance sheet
3. Prepare an income statement
4. Identify financial statement terms
5. Complete financial statement and transaction exercises

Key Topics

What are Financial Statements?

Financial statements communicate financial information to those outside a business. Financial statements are designed to: (1) provide information for investors and creditors and other users in making rational investments, credit, and similar decisions, (2) provide information to help outsiders assess amounts, timing, and uncertainty of cash inflows to an enterprise, and (3) provide information about a business' economic resource, claims to those resources, and changes in claims to those resources.

Elements included in financial statements include a business' assets, liabilities, equity, owner investments, distributions to owners, income, and components of income (revenues, expenses, gains, and losses). Financial statements generally include the following:

- An income statement
- A balance sheet
- A statement of cash flow
- A statement of comprehensive income (total non-owner changes in equity)
- A statement of investments by and distributions to owners.

Financial statements typically are generated from a business' accounting records. They often are combined into a separate report.

The Accounting Equation

An equation used in the context of financial statements (particularly with a balance sheet) is known as the accounting equation. The accounting equation is as follows:

Assets = Liabilities + Owner's Equity.

Exhibit 7.1, at the end of this section, provides examples of accounts supporting this equation. At all times, a business' assets must equal its liabilities plus its owner's equity. Each component of the accounting equation is discussed below.

- **Assets** are economic resources expected to increase future cash inflows or reduce future cash outflows. They may be monetary or non-monetary, tangible or intangible, owned or not owned. A recycler or processor's assets may include such items as cash, equipment, and land.
- **Liabilities** are economic obligations of the business to pay money and to provide goods or services to outsiders. A recycler or processor's liabilities may include such items as notes payable, accounts payable, and accrued wages payable. Liabilities are either short-term, if the period involved is less than one year, or long-term if the period is greater than one year.
- **Owner's equity** is the residual interest in the organization's assets after deducting liabilities. At a business' inception, owner's equity is equal to the total owner's investments. As a business matures, owner's equity consists of total investments by the owner (paid-in capital) plus cumulative profits retained in the business (retained income). Retained income is equal to a business' revenues less its expenses.

In performing the cost survey, interviewers should focus on the expenses (costs) of the business. However, the interviewers also should understand assets, liabilities, and owner's equity. For example, because a business depreciates assets over time, recyclers and processors almost always incur a depreciation expense as part of their cost of recycling. Similarly, business owners sometimes take cash draws from the company, which are shown on the balance sheet as decreases to owner's equity.

Hierarchy of Financial Statements Used for the Cost Survey

Interviewers should attempt to obtain a copy of a site's financial statements. Financial statements are critical because they are used to identify a site's allowable costs of recycling (module 8). Types of financial statements include audited, reviewed, and compiled financial statements.

Different sites will have different types of financial statements. Further, accuracy and reliability of financial information contained in these statements will vary between sites. The relative importance of different financial statements that an interviewer should use is provided as a hierarchy in **Exhibit 7.2** at the end of this section. This hierarchy serves as a guide for interviewers to use in determining which of a site's available financial statements are most accurate, reliable, and desirable for conducting cost surveys. In cases where financial statements are unavailable, an interviewer can obtain either federal or state tax returns, on certain other verifiable and reasonable source documents.

Note that for purposes of conducting cost surveys, federal or state tax returns are higher in the hierarchy than compiled financial statements. Further, source documents should only be used when no other source is available (i.e., because they are lowest in the hierarchy). The characteristics of each layer of the hierarchy of financial statements are discussed below:

Audited financial statements

Audited financial statements are reviewed by a CPA in accordance with standard professional procedures. Common procedures performed include a review of the system of internal controls, tests of compliance of the system of internal controls, and verification tests of financial data included in the financial statements (i.e., inventory observations, confirmations of amounts due from others, and examinations of invoices to support recorded amounts).

The culmination of an audit is the expression by the CPA of an opinion that the financial statements are fairly presented (a handout in this module provides an example of "audit" opinion language). Key phrases used in this opinion are the words "*we have audited the accompanying [*statements*]*," and "*we conducted our audit in accordance with auditing standards generally accepted in the United States of America*." In addition, the opinion states that the financial statements are "*in conformity with accounting principals generally accepted in the United States of America*."

Reviewed financial statements

Reviewed financial statements are not subjected to as thorough and rigorous a review as audited financial statements. In a reviewed financial statement, a CPA performs certain required procedures, including making inquiries about the business' accounting principles and practices, and performing analytical procedures designed to identify unusual relationships (e.g., ratio analysis).

The CPA then reports that he/she did not become aware of any changes needed for the financial statements to conform with generally accepted accounting principles. A standard three-paragraph review report is generally issued. This report includes language stating that "*we have reviewed the accompanying* [financial statements]," and that "*we are not aware of any material modifications that should be made to* [the financial statements]..." (A handout in this module provides an example of "reviewed" opinion language). This language is referred to as "limited assurance."

Federal and state tax returns

Federal and state tax returns can be used in the absence of financial statements. Both federal and state returns are prepared for sole proprietorships, partnerships, and corporations. Sample returns are provided as handouts in this module. Federal returns include:

- *Sole Proprietorship* - Form 1040
- *Partnership* - Form 1065
- *Corporation* - Form 1120.

State returns include:

- *Sole Proprietorship* - Form 540
- *Partnership* - Form 565
- *Corporation* - Form 100.

Note that all supporting schedules and forms that detail line item income and expense amounts on these returns should be obtained. These include depreciation schedules, other income schedules, and other expense (or deductions) schedules.

If tax returns are the only available financial records, the survey team needs to obtain either the federal or state tax return. However, the survey team should use judgment to determine which return provides the most detail. Because the tax return format is likely to change over time, samples in this module serve only as guides for interviewers. The survey team should make certain they obtain the relevant calendar year's tax returns.

Compiled Financial Statements

Compiled financial statements require the least amount of involvement from a CPA. A compilation is nothing more than taking a summary of an entity's financial records and preparing financial statements from the data. The CPA assists in preparing compiled financial statements, but no inquiries or analytical procedures are required and the accountant report provides no opinion or assurance. This level of reporting is most commonly used when an entity needs financial statements, but does not have the internal capability to prepare them.

To distinguish a compiled financial statement from an audited or reviewed financial statement, a compilation report includes language which states that "*we have compiled the accompanying* [financial statements] ...", and that "*the information presented is the representation of management*." Further, the report states that "*we have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them*" (a handout in this module provides an example of "compilation" opinion language).

Source documents that are verifiable and reasonable

When no financial statements or federal and state tax returns are available, verifiable, and reasonable source documents provided by site management may be substituted. These include the following:

- Federal W-2 and State DE-3 salary and labor cost documents
- Actual bills for such items as property taxes, utilities, supplies, fuel, insurance, and overhead
- Fixed asset invoices and depreciation schedules
- Bank interest statements
- Facility or equipment rental or lease agreements
- Documents or invoices pertaining to various maintenance and transportation expenses.

Types of Financial Statements

As mentioned, five basic financial statements are used in financial reporting. Of these five, financial statements that will most likely include information needed for the allowable cost survey are the income statement, balance sheet, and cash flow statement.

The income statement is a record of all business income and expenses for a given period. The income statement measures operating performance of the company (profits) by relating its accomplishments (revenues from customers) to its efforts (cost-of-goods sold and other expenses). It measures this performance for a span of time, whether it be a month, quarter, or year. Therefore, the income statement must always indicate the exact period covered. **Exhibit 7.3,** at the end of this section, shows a sample income statement. Other names for the income statement include:

- Statement of income
- Statement of operations
- Results of operations
- Statement of earnings
- Operating statement
- Statement of revenues and expenses
- Profit and loss (P&L) statement.

The balance sheet provides a summary of the financial condition of the firm at a given point of time. The balance sheet provides a "snapshot" of the business at an instant in time. A balance sheet consists of listing the assets, liabilities, and owner's equity at a particular date. Other names used for the balance sheet include:

- Statement of financial position.
- Statement of financial condition.

A sample balance sheet is shown in **Exhibit 7.4,** at the end of this section.

The statement of cash flows reports cash receipts and cash payments of an entity over a period of time. It lists activities that increased and decreased cash during a period. The statement places each cash inflow and outflow into either operating, investing, or financing activities. It provides explanations for why balance sheet items change. A sample statement of cash flows is shown in **Exhibit 7.5,** at the end of this section.

Categories of Financial Results

Categories of financials results include revenues, cost-of-goods sold, expenses, and net income. Each is discussed below.

- **Revenues** are the price of goods sold and services rendered to customers by a business. They are equal to the inflow of cash and receivables from sales made in a period. Revenues generally are gross increases in owner's equity arising from gross increases in assets from the delivery of goods or services to customers. Other names used for revenue include sales, and sales revenues. For recycling operations, a majority of revenues are typically generated from scrap value received on the sale of recyclable material.
- **Cost-of-goods sold** generally includes the actual, direct costs of the goods sold during a period. For a recycler or processor, this amount is typically the scrap payment. For purposes of the cost survey, **scrap payments are not on allowable cost.**

- **Expenses** are the costs used in obtaining revenues. For a recycler or processor, expenses are costs required to recycle or process materials and are not those related to the acquisition of the materials (cost-of-goods sold). In recycling, expenses include such costs as salaries for employees, charges for advertising and telephone services, depreciation of buildings and equipment, insurance, space rental, transportation, and overhead.
- **Net income** (profit, earnings) is simply revenues minus expenses. It is the excess of the price of goods sold and services rendered over the costs of goods and services used up during a given time period. The allowable cost surveys do not examine or include a recycling center's net income.

Scrap Value and the Cost-of-Goods Sold

A recycler or processor must incur costs to obtain recyclable materials. These costs are generally identified in the cost-of-goods sold category of the financial statements, and may include scrap payments, freight costs, handling costs, labor costs, weighing fees, etc. For purposes of cost surveys, **scrap payments are not an allowable cost.** However, the survey team may determine through interviews that other costs identified in the cost-of-goods sold category, such as some freight or labor costs, are allowable for a particular recycler or processor.

Year-end Data (calendar versus fiscal year)

Public Resources Code Section 14575 requires that calendar year data be used to determine actual costs of recycling centers and processors. Therefore, every attempt should be made to obtain calendar year financial data from each site being surveyed. Calendar year is the most popular time span for measuring the financial performance of a company. However, in the past, approximately 21 percent of recycling centers prepare statements using a fiscal year, which is the year established for accounting purposes that ends on some date other than December 31.

The survey team should confirm that the business' fiscal year results fairly reflect calendar year results. If fiscal year statements do not reflect calendar year results, the survey team should attempt to reconcile any major differences (e.g., large equipment purchases or significant changes in volumes of CRV material handles) with the two accounting cycles. The survey team should adjust fiscal year statements to reflect any of these discrepancies.

Footnotes to Financial Statements

Footnotes often are added at the end of financial statements. These footnotes should be reviewed to determine if any additional information concerning the financial statements is available. For example, footnotes might provide detailed descriptions of items such as income tax expenses, related party transactions, owner's draws, and insurance proceeds.

Depreciation

Depreciation is the systematic allocation of the acquisition costs of plant and equipment assets to the expense accounts of the particular periods benefiting from their use. For recyclers and processors, items such as equipment, trucks, and building are depreciated.

There are a variety of methods for depreciating an asset. As an example, a $ 100,000 truck expense with a five year useful life could be depreciated at $20,000 per year on a straight-line method. The reader should refer to "*Long-Lived Assets and Depreciation*" (a reading in this module) for a full discussion of depreciation and depreciation methods.

Lesser cost items (such as administrative and maintenance supplies) are typically not depreciated but instead are fully expensed during the period. In other words, because these small assets are used up during the period benefiting from their use, they are fully allocated (or expensed) during that period.

A business often creates a depreciation schedule which details each asset's purchase price, depreciation method, current period depreciation, and cumulative depreciation. The survey team should attempt to obtain a copy of a site's depreciation schedule (a handout in this module provides more discussion). Totals from depreciation schedules **should reconcile** with depreciation expenses shown on the income statement. These schedules will be used to identify plant and equipment items relating to CRV and non-CRV materials, and other business.

Owner's Draw

An owner of an unincorporated business may withdraw cash from the business for personal use. These withdrawals are in anticipation of profits and are not regarded as a business expense nor salary. An owner's draw account is typically created and is reported in the owner's equity portion of the balance sheet.

Accrual versus Cash Basis

The accrual basis of accounting recognizes the impact of transactions on the financial statements in the time periods when revenues and expenses occur (a handout in this module provides more discussion of this issue). Revenue is recorded as it is earned and expenses as they are incurred, not necessarily when cash changes hands. The accrual basis is the principal framework of relating accomplishments (revenues) with efforts (expenses). Accrual accounting is used by most businesses.

Alternatively, the cash basis of accounting recognizes the impact of transactions on financial statements only when cash is received or dispersed.

Exhibit 7.1

The Accounting Equation

Assets		Liabilities		Owner's Equity
Items of value owned by a firm		Debts or expenses that must be paid by a firm		The amount of an owner's net investment in a business, plus profits from successful operations retained by the business
Examples: Cash Notes receivable Accounts receivable Land Building Equipment Truck/auto Prepaid expenses Machinery Furniture Inventory Depreciable assets	=	**Examples:** Accounts payable Accrued liabilities Income taxes payable Notes payable	+	**Examples:** Common stock Retained earnings Owner capital

Exhibit 7.2

Hierarchy of Financial Statements Used for Allowable Cost Surveys

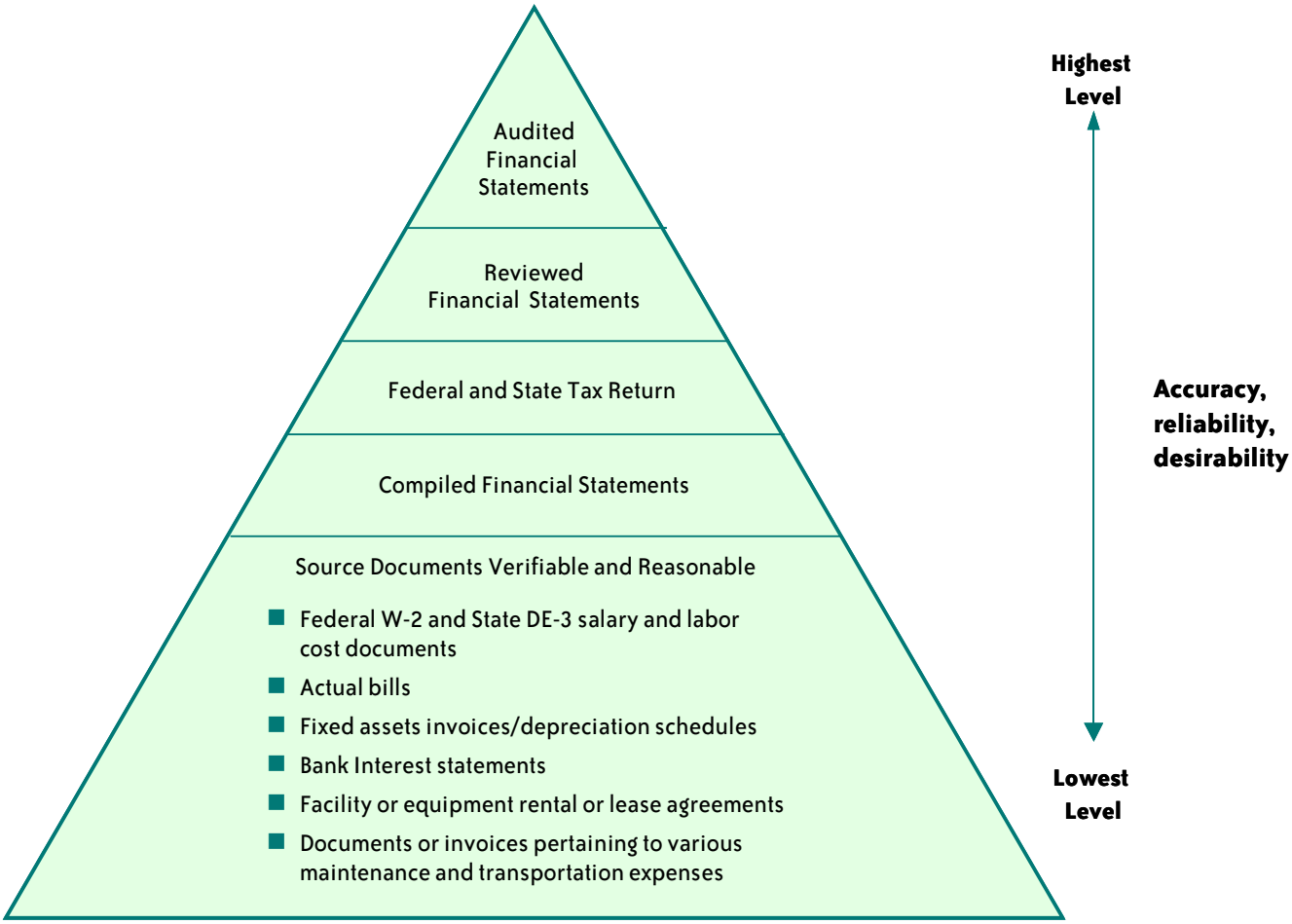


Exhibit 7.3

A Sample Income Statement

Revenues			
Gross sales		$500,000	
Returns		(10,000)	
Net Sales			$490,000
Cost of goods sold			
Scrap payments		160,000	
Other		10,000	
Total Cost of Goods Sold			170,000
Gross profit			$320,000
Expenses			
Insurance	$3,200		
Wages	200,000		
Rent	20,000		
Fuel	2,000		
Utilities	10,000		
Payroll taxes	50,000		
Miscellaneous expenses	5,000		
Total Expenses			$290,000
NET INCOME			**$30,000**

Exhibit 7.4

A Sample Balance Sheet

Assets			
Current assets			
Cash	$10,000		
Notes receivable	0		
Accounts receivable	50,000		
Inventory	2,000		
Total current assets		$62,000	
Plant assets			
Land	$40,000		
Buildings	70,000		
Equipment and fixtures	30,000		
Total plant assets		$140,000	
TOTAL ASSETS			**$202,000**
Liabilities and Owner's Equity			
Current liabilities			
Notes payable	$3,000		
Accounts payable	10,000		
Total current liabilities		$13,000	
Long-term liabilities			
Mortgages payable	$60,000		
Long-term notes payable	10,000		
Total long-term liabilities		$70,000	
TOTAL LIABILITIES			$83,000
Owner's equity			119,000
TOTAL LIABILITIES AND OWNER'S EQUITY			**$202,000**

Exhibit 7.5

A Sample Cash Flow Statement

Cash Flows from Operating Activities		
Cash collections from customers		$370,000
Cash payments:		
To suppliers (e.g., returning CRV containers)	$160,000	
To employees	190,000	
For interest	2,000	
For taxes	40,000	
Total cash payments		362,000
Net cash provided by operating activities		$8,000
Cash Flows for Investing Activities		
Purchases of fixed assets	$10,000	
Proceeds from sale of fixed assets	(1,000)	
Net cash used in investing activities		$9,000
Cash Flows from Financing Activities		
Proceeds from issue of long-term debt	$5,000	
Proceeds from issue of common stock	0	
Dividends paid		
Net cash provided by financing activities		4,000
Net increase (decrease) in cash		$3,000
Cash, December 31, 2007		7,000
Cash, December 31, 2008		$10,000

Schedule

Estimated module time:	**1.9 Hours**	
Outline of Module	**Technique**	**Training Time *(including self study) (min.)***
1. Attend discussion of financial statements	Lecture	15
2. Read key topics and any handouts	Readings/Self Study	20
3. Do work assignment #1 - Classify financial statements	Work Assignment	5
4. Review results and check answers	Self Review	5
5. Do work assignment #2 - Prepare a balance sheet	Work Assignment	15
6. Review results and check answers	Self Review	5
7. Do work assignment #3 - Prepare an income statement	Work Assignment	15
8. Review results and check answers	Self Review	5
9. Do work assignment #4 - Identify financial statement terms	Work Assignment	10
10. Review results and check answers	Self Review	5
11. Do work assignment #5 - Complete financial statement and transaction exercises	Work Assignment	10
12. Review results and check answers	Self Review	5
	Totals	**115**

Readings and Handouts

1. *Financial Statements: The Starting Point in the Study of Accounting* – provided in training manual Volume II – Supplemental Materials
2. *Measuring Business Income* – provided in training manual Volume II – Supplemental Materials
3. Standard opinion language used for reporting financial statements:
   - Audited
   - Reviewed
   - Compiled
4. Illustrations of financial statements:
   a. Audited Financial Statement
   b. Reviewed Financial Statement
   c. Compiled Financial Statement
   d. Sample Federal Tax Return, Sole Proprietorship Form 1040
   e. Sample Federal Tax Return, Partnership Form 1065
   f. Sample Federal Tax Return, Corporation Form 1120
   g. Sample California Tax Return, Sole Proprietorship Form 540
   h. Sample California Tax Return, Partnership Form 565
   i. Sample California Tax Return, Corporation Form 100
   j. Other Sample Statements
5. Sample note concerning a site's compiled versus audited financial statements
6. Sample depreciation schedule
7. Sample depreciation schedule
8. *Long-Lived Assets and Depreciation* – provided in training manual Volume II – Supplemental Materials
9. *Accrual Basis and Cash Basis of Accounting* – provided in training manual Volume II – Supplemental Materials

Standard Opinion Language Used for Audited Financial Statements

Introductory Paragraph:

We have audited the accompanying (consolidated) balance sheets of XYZ Company (and subsidiaries) as of December 31, 20xx and 20yy, and the related (consolidated) statements of income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion of these financial statements based on our audit.

Scope Paragraph:

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Opinion Paragraph:

In our opinion, the financial statements referred to above present fairly, in all material respects, the (consolidated) financial position of XYZ Company (and subsidiaries) at December 31, 20xx and 20yy, and the (consolidated) results of its (their) operations and its (their) cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Standard Opinion Language Used for Reviewed Financial Statements

Introductory paragraph:

We have reviewed the accompanying balance sheets of XYZ Company as of December 31, 20xx and 20yy, and the related statements of income, retained earnings, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

Disclaimer paragraph:

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Negative assurance paragraph:

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Notes

1. Authority – SSARS No. 1, AR 100.35
2. Normally, all reports should be addressed to the board of directors and/or stockholders if the entity is a corporation.
3. The authors believe that the type of legal entity, if not obvious from the name, should be disclosed parenthetically after the name of the company.
4. The report should be dated as of the completion of the accountant's inquiry and analytical procedures (SSARS No. 1, AR 100.34). The representation letter from management should also have the same date as the report (implied by SAS No. 19, AU 333.09, and Appendix F of SSARS No. 1).
5. If the accountant is to issue an unmodified review report, the financial statements must be accompanied by all disclosures required by GAAP.
6. Each page of the financial statements and notes should be appropriately headed, such as:

XYZ COMPANY BALANCE SHEET December 31, 20xx	XYZ COMPANY STATEMENT OF INCOME AND RETAINED EARNINGS Year Ended December 31, 20xx
XYZ COMPANY STATEMENT OF CASH FLOW Year Ended December 31, 20xx	XYZ COMPANY NOTES TO FINANCIAL STATEMENTS December 31, 20xx

Standard Opinion Language Used for Compiled Financial Statements

Introductory paragraph:

We have compiled the accompanying balance sheets of XYZ Company as of December 31, 20xx and 20yy, and the related statements of income, retained earnings, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Disclaimer paragraph:

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

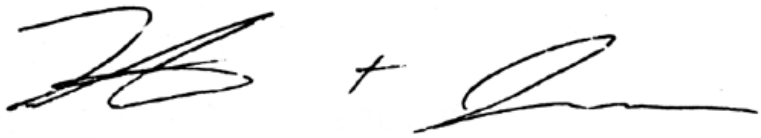
INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

We have audited the accompanying balance sheet of , Inc. as of December 31, 2010, and the related statements of earnings, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of , Inc. as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principals generally accepted in the United States of America.



February 11, 2011

BALANCE SHEET

December 31, 2010

ASSETS		
CURRENT ASSETS		
Cash		$19,933
Accounts receivable		625,728
Inventory (note 1)		38,790
Prepaid expenses		10,500
Other receivables (note 6)		48,815
Total current assets		743,766
FIXED ASSETS (note 1)		
Machinery and equipment	356,429	
Office furniture and equipment	7,396	
Automotive equipment	17,274	
	381,099	
Accumulated depreciation	115,408	265,691
OTHER ASSETS		
Deposits		33,957
		$1,043,414
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable		$ 150,835
Accrued liabilities		28,853
Income taxes payable		1,845
Contract payable (note 2)		558
Due to stockholder		2,100
Total current liabilities		184,191
STOCKHOLDERS' EQUITY		
Common stock	20,000	
Retained earnings	839,223	859,223
		$1,043,414

The accompanying notes are an integral part of these statements.

STATEMENT OF STOCKHOLDERS' EQUITY

For The Year Ended December 31, 2010

	Shares Outstanding	Common Stock	Retained Earnings	Total
BALANCE, JANUARY 1,2010	20,000	$20,000	$722,107	$742,107
DIVIDENDS			(300,000)	(300,000)
NET INCOME			417,116	417,116
BALANCE, DECEMBER 31, 2010	20,000	$20,000	$839,223	$859,223

Authorized - 1,000,000 shares, no par value

The accompanying notes are an integral part of these statements.

STATEMENT OF EARNINGS

For The Year Ended December 31, 2010

Sales		$7,299,103
Cost of goods sold		5,765,714
Gross profit		1,533,389
Operating expenses		1,184,825
Operating income		348,564
Other income (expense)		
Insurance proceeds (note 6)	$48,815	
Miscellaneous income	41,389	
Interest expense	(3,514)	
Miscellaneous expense	(9,500)	77,190
Income before provision for income taxes		425,754
Provision for income taxes (note 3)		8,638
NET INCOME		$417,116

The accompanying notes are an integral part of these statements.

SCHEDULE OF OPERATING EXPENSES

For The Year Ended December 31, 2010

Freight out	$279,210
Rent - Plant	184,171
salaries - Office	170,135
Repairs	142,689
Workers compensation	75,027
Trash removal	61,313
Office expense	38,822
Depreciation	37,405
Insurance	34,821
Rent - Equipment	34,242
Accounting	26,715
Utilities	25,202
Tax and license	15,595
Miscellaneous	14,480
Payroll taxes	13,878
Advertising	7,940
Bank charges	6,480
Telephone	6,121
Outside consultants	4,974
Meals and entertainment	4,360
Selling expense	1,245
Total operating expenses	$1,184,825

See Independent Auditors' Report on Supplemental Information.

STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2010

OPERATING ACTIVITIES	
Net income	$417,116
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	37,405
Changes in operating assets and liabilities:	
Decrease in accounts receivable	182,130
Decrease in inventory	23,118
Increase in prepaid expenses	(2,559)
Decrease in other receivables	312,272
Decrease in deposits	2,740
Decrease in accounts payable	(53,321)
Decrease in accrued liabilities	(355,310)
Decrease in income taxes payable	(7,122)
Decrease in other liabilities	(10,000)
Decrease in due to stockholder	(225,918)
Net cash provided by operations	320,551
INVESTING ACTIVITIES	
Fixed assets purchased	(25,961)
Net cash used in investing activities	(25,961)
FINANCING ACTIVITIES	
Payments under contract payable	(657)
Dividends paid	(300,000)
Net cash used in financing activities	(300,657)
Decrease in cash	(6,067)
Cash at January 1, 2010	26,000
Cash at December 31, 2010	$19,333
SUPPLEMENTAL DISCLOSURES	
Cash paid during the year for:	
Income taxes	$16,742
Interest	3,514

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The Company's significant accounting policies applied in the preparation of the accompanying financial statements are summarized as follows.

Depreciation

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives, using the straight-line method.

Machinery and equipment	4 - 10 Years
Office furniture and equipment	2 - 7 Years
Automotive equipment	3 Years

Inventories

Inventories are stated at the lower of cost or market with cost being determined by the first-in, first-out method.

Statement of Cash Flows

For purposes of the statement of cash flows, the Company defines cash as currency on hand and demand deposits with banks or other financial institutions.

NOTE 2 - CONTRACT PAYABLE

The company is obligated under an installment contract for the purchase of a telephone system. The contract requires monthly payments of principal and interest, and carries an interest rate of 11%. The contract originally called for sixty monthly payments of $86. The last payment is due in November 2011.

NOTE 3 - INCOME TAXES

Effective January 1, 1999 the Company made a valid Subchapter S election under Section 1362 (a) of the Internal Revenue Code. Under section 1362 (a), the shareholders have elected to not pay any Federal corporate tax on their corporation's income and to have the shareholders pay taxes on it instead, even though such income may not be distributed. As a result, no provision is made in these financial statements for Federal corporate tax.

The State of California has conformed to the Federal treatment of Subchapter S corporations, except that a corporate level franchise tax of 2.5% of net income is assessed, rather than the regular franchise tax of 9.3%. No deferred taxes have been provided by the Company as such amounts are immaterial.

The current provision for income taxes consists of the following for the year ended December 31, 2010:

State provision for income taxes	$8,638

In December 1987 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." This Statement mandates the liability method for computing deferred income taxes. The Company has determined that these effects will not be material.

NOTE 4 - COMMITMENTS

The Company leased warehouse space under a three year noncancellable lease agreement. The agreement, which expired at the end of December 2009, required monthly payments of $15,900. The Company elected to exercise a two year option to renew the agreement. The total expense relating to this lease for the year ended December 31, 2010 was $184,171.

NOTE 5 - RELATED PARTY TRANSACTIONS

Approximately 40% of the Company's sales are made to Allan Company. Allan Company is principally owned by a shareholder owning 55% of the stock of the Company. Accounts receivable due from Allan Company at December 31, 2010 were approximately $230,000.

NOTE 6 - INSURANCE PROCEEDS

During January 2009 the Company received insurance proceeds of $48,815, which represented the final settlement of certain claims the Company had filed with respect to a fire in the Company's main yard on October 8, 2009. Accordingly, the accompanying financial statements include income and a corresponding receivable for $48,815 to reflect the receipt of the insurance proceeds.

I have reviewed the accompanying balance sheet of Recycling Co., Inc. as of December 31, 2010 and the related statements of income and retained earnings and cash flows for the year then ended. My review was performed in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Recycling Co., Inc.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion.

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Los Angeles, California
January 31, 2011

RECYCLING

STATEMENT OF INCOME
SUPPORTING SCHEDULES
FOR THE PERIOD
January 1, 2010 thru December 31, 2010

	CURRENT PERIOD	%	YEAR TO DATE	%
BUSINESS TAXES & LICENSES				
TAX- PERSONAL PROPERTY	$ .00	0.0	$ 2,665.41 (10)	0.2
TAX- BUSINESS LICENSES	.00	0.0	523.65 (2)	0.0
TAX- EMPLOYER SHARE FICA	310.28	0.3	(A) 5,868.75 (1)	0.4
TAX- UNEMP. FUTA & SUI	.00	0.0	(A) 1,780.20 (1)	0.1
TOTAL	$ 310.28	0.3	$ 10,838.01 E2.1	0.7
INSURANCE				
INS- UNALLOCATED	$ .00	0.0	$ 436.53 (10)	0.0
INS- WORKERS COMP.	2,046.04	2.3	12,596.56 (1) E3	0.8
INS- FIRE & LIABILITY	2,400.58	2.6	15,294.91 (10)	1.0
TOTAL	$ 4,446.62	4.9	$ 28,328.00 E2.1	1.8
AUTO & TRUCK ☐				
AUTO- FUEL	$ 367.44	0.4	$ 5,085.17 *	0.3
AUTO- MAINT. & REPAIR	.00	0.0	966.35 (2)	0.1
AUTO- DMV	1,776.00	2.0	4,750.00 (2)	0.3
AUTO- INSURANCE	.00	0.0	970.00 (2)	0.1
AUTO- LEASE PAYMENTS	.00	0.0	4,590.84 (2)	0.3
TOTAL	$ 2,143.44	2.4	$ 16,362.36 E2.1	1.1
MISCELLANEOUS INCOME				
~~INCOME- INTEREST~~	~~$ 226.46~~	~~0.3~~	~~$ 2,690.30~~	~~0.2~~
~~TOTAL~~	~~$ 226.46~~	~~0.3~~	~~$ 2,690.30~~	~~0.2~~

☐ ALL expenses relate solely to MR BOYD's company car and are treated as ADMIN COSTS.

* THIS FUEL EXPENSE RELATES TO BOTH MR BOYD'S CAR FUEL which he says is $20/wk or $1040 and yard fuel which is (5085-1040 = 4045 (9))

RECYCLING

STATEMENT OF INCOME
FOR THE PERIOD
January 1, 2010 thru December 31, 2010

	CURRENT PERIOD	%	YEAR TO DATE	%
PROFIT (LOSS) BEFORE DEPRECIATION	(18,444.18)	-20.2	112,485.93	7.3
DEPRECIATION	392.58	0.4	4,710.96 (5) ☐	0.3
NET INCOME (LOSS)	$ (18,836.76)	-20.7	$ 107,774.97	7.0

☐ ONLY THE BUILDING WAS BEING DEPRECIATED DURING 2010 ACCORDING TO DEPRECIATION SCHEDULE on TAX RETURN. Verified this with 2010 TAX RETURN DEPRECIATION SCHEDULE NOT INCLUDED IN PACKET.

[illegible] pays 225/mo on maintenance ($2700) and the rest for security (41,000 - 2700) = 38,960

RECYCLING

STATEMENT OF INCOME
FOR THE PERIOD
January 1, 2010 thru December 31, 2010

	CURRENT PERIOD	%	YEAR TO DATE	%
SALES				
ALUMINUM	$ 3,283.00	3.6	$ 103,009.31	6.7
NEWSPAPER	.00	0.0	554.60	0.0
WHITE & MIXED METALS	.00	0.0	2,825.14	0.2
RED METALS	11,661.64	12.8	129,383.87	8.4
ALUMINUM CANS	65,948.35	72.4	1,111,807.41	72.3
STAINLESS STEEL	.00	0.0	14,647.11	1.0
GLASS	5,915.32	6.5	116,472.90	7.6
P.E.T. PLASTIC	4,314.81	4.7	58,525.80	3.8
SCALE FEES	.00	0.0	1,232.00	0.1
TOTAL SALES	91,123.12	100.0	1,538,458.14	100.0
COST OF SALES				
CASH PAYMENT - SCRAP	86,268.13	94.7	1,183,959.66	77.0
CHECK PAYMENT - SCRAP	2,631.35	2.9	15,336.70	1.0
SCRAP HAULING FEES	1,150.00	1.3	13,376.35	0.9
SCRAP SALE WEIGHING FEES	.00	0.0	37.50	0.0
WAGES	3,120.00	3.4	65,034.00	4.2
OPERATING SUPPLIES	.00	0.0	1,211.70	0.1
TOTAL COST OF SALES	93,169.48	102.3	1,278,955.91	83.1
GROSS PROFIT	(2,046.36)	-2.3	259,502.23	16.9
OPERATING EXPENSES				
BUSINESS TAXES & LICENSES	310.28	0.3	10,838.01	0.7
YARD SECURITY & MAINTENANCE	2,675.96	2.9	41,660.45	2.7
OVER/SHORT - income	(188.65)	-0.2	(6,790.53)	-0.4
GROSS EMPLOYEE SALARIES	936.00	1.0	11,682.00	0.8
INSURANCE	4,446.62	4.9	28,328.00	1.8
PROFESSIONAL FEES - Accounting Fees	1,498.50	1.6	5,615.00	0.4
INTEREST	1,208.33	1.3	14,499.96	0.9
BANK CHARGES	104.00	0.1	161.83	0.0
ADVERTISING - Yellow Pages, Flyers	.00	0.0	5,680.77	0.4
AUTO & TRUCK	2,143.44	2.4	16,362.36	1.1
DUES & SUBSCRIPTIONS	.00	0.0	80.16	0.0
OFFICE EXPENSE	316.75	0.4	5,609.06	0.4
TELEPHONE & ANS. SERVICE	1,141.66	1.3	7,254.60	0.5
UTILITIES	956.69	1.1	5,694.09	0.4
EDUCATION & TRAINING	1,074.70	1.2	1,074.70	0.1
CONTRACT SERVICES - Equipment rental	.00	0.0	320.00	0.0
MISCELLANEOUS	.00	0.0	259.25	0.0
FREIGHT & UPS	.00	0.0	1,376.89	0.1
TOTAL OPERATING EXPENSES	16,624.28	18.2	149,706.60	9.7
BUSINESS PROFIT (LOSS)	(18,670.64)	-20.5	109,795.63	7.1
MISCELLANEOUS INCOME	226.46	0.3	2,690.30	0.2

RECYCLING

BALANCE SHEET
December 31, 2010

ASSETS

CURRENT ASSETS			
CASH	$ 62,154.59		
INVENTORY	29,500.00		
TOTAL CURRENT ASSETS		$	91,654.59
FIXED ASSETS			
DEPRECIABLE ASSETS	234,836.20		
DEPRECIATION	(84,042.52)		
TOTAL FIXED ASSETS			150,793.68
OTHER ASSETS			
REFUNDABLE DEPOSITS	2,000.00		
TOTAL OTHER ASSETS			2,000.00
TOTAL ASSETS		$	244,448.27

LIABILITIES AND NET WORTH

CURRENT LIABILITIES			
NOTES PAYABLE-UNDER 12 MONTHS	$ 4,408.44		
PAYROLL WITHHOLDING PAYABLE	1,146.94		
TOTAL CURRENT LIABILITIES		$	5,555.38
LONG TERM LIABILITIES			
NOTES PAYABLE - OVER 12 MONTHS	107,306.27		
TOTAL LONG TERM LIABILITIES			107,306.27
NET WORTH			
NET WORTH START	77,358.65		
DRAW	(53,547.00) *		
NET INCOME (LOSS)	107,774.97		
TOTAL NET WORTH			131,586.62
TOTAL LIABILITIES AND NET WORTH		$	244,448.27

Prepared by
Thomas D Hughes

JANUARY 3, 2011

The Board of Directors Recycling, Inc.
Corona, California 91719

The accompanying balance sheet of Recycling, Inc. as of September 30, 2010, and the related statements of income and retained earnings for the year then ended and the accompanying supporting schedules have been compiled by me in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. I have not audited or performed a review service of the accompanying statements and, accordingly, do not express an opinion or any other form of assurance on them.

A statement of cash flows and other disclosures required by generally accepted accounting principles have been omitted; accordingly, these financial statements are not designed for those who are not informed about such matters.

RECYCLING, INC.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES
SEPTEMBER 30, 2010

SCHEDULE 2

Accounting	$3,406
Advertising	6,754
Bank Charges	11,790
Business licenses and taxes	5,580
Consulting	2,604
Custom duty	10,444
Dues and subscriptions	145
Equipment rentals	2,493
Insurance - life	3,034
Insurance - other	16,856
Licenses and permits	9,829
Miscellaneous	4,522
Office salaries	50,728
Office supplies	13,461
Payroll taxes	8,817
Security	286
Telephone and utilities	16,420
Travel	13,304
Uniforms	5,520
	$185,993

See accountant's compilation report.

RECYCLING, INC.

BALANCE SHEET
SEPTEMBER 30, 2010

ASSETS

Current assets		
Cash	$31,522	
Accounts receivable, trade	196,456	
Inventories	255,284	
Prepaid expenses	24,343	
Total current assets		$507,605
Plant, property and equipment		
Cost	764,661	
Less accumulated depreciation	545,834	
Plant, property and equipment, net		218,827
Other assets		
Deposits	1,750	
Notes receivable from stockholders	95,769	
Total other assets		97,519
		$823,951

See accountant's compilation report.

RECYCLING, INC.

BALANCE SHEET
SEPTEMBER 30, 2010

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Current maturities of long-term debt	$22,309	
Note payable	50,000	
Accounts payable, trade	402,297	
Payroll taxes payable	2,277	
Rent payable	58,235	
Accrued liabilities	40,431	
Total current liabilities		$575,549
Long-term liabilities		
Long-term debt, net of current maturities		38,100
Stockholders' equity		
Common stock	125,697	
Retained earnings	84,605	
Stockholders' equity		210,302
		$823,951

See accountant's compilation report.

RECYCLING, INC.

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Income		
Net sales, metals	$5,760,599	
Miscellaneous	204,621	
Total income		$5,965,220
Costs and expenses		
Cost of sales (schedule 1)	6,101,188	
Selling, general and administrative (schedule 2)	185,993	
Interest	26,258	
Total costs and expenses		6,313,439
Income (loss) from operations		(348,219)
Other income		
Interest	7,776	
Gain on sale of assets	32,056	
		39,832
Net income-(loss) before taxes		(308,387)
California Franchise tax		800
Net income (loss)		(309,187)
Retained earnings, September 30, 2009		393,792
Retained earnings, September 30, 2010		$84,605

See accountant's compilation report.

RECYCLING, INC.

COST OF SALES
SEPTEMBER 30, 2010

SCHEDULE 1

Inventory, September 30, 2009	$485,387
Purchases	5,236,324
Direct labor	105,936
Metal processing	30,419
Salaries - other	38,861
Special handling	3,830
Insurance - workman's compensation	27,812
Insurance - medical	11,654
Insurance - general	29,004
Telemarket	3,072
Registrations	5,850
Delivery charges	25,875
Depreciation	85,417
Disposal service	3,460
Payroll taxes	13,441
Equipment repairs	36,054
Forklift	12,045
Officers salaries	59,754
Rent	42,000
Small tools and supplies	27,122
Truck and fuel expenses	54,576
Utilities	18,509
	6,356,472
Inventory, September 30, 2010	255,284
Cost of sales	$6,101,188

See accountant's compilation report.

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 2010

(99) IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2010, or other tax year beginning , 2010, ending , 20 OMB No. 1545-0074

Label

(See instructions on page 21.)

Use the IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial	Last name	Your social security number
If a joint return, spouse's first name and initial	Last name	Spouse's social security number
Home address (number and street). If you have a P.O. box, see page 21.	Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, see page 21.		

Important! You **must** enter your SSN(s) above.

Presidential Election Campaign (See page 21.)

Note. Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if filing a joint return, want $3 to go to this fund? . . . You ☐ Yes ☑ No Spouse ☐ Yes ☑ No

Filing Status

Check only one box.

1 ☐ Single
2 ☑ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. _____
4 ☐ Head of household (with qualifying person). (See page 21.) If the qualifying person is a child but not your dependent, enter this child's name here. _____
5 ☐ Qualifying widow(er) with dependent child (year spouse died). (See page 21.)

Exemptions

6a ☑ **Yourself.** If your parent (or someone else) can claim you as a dependent on his or her tax return, **do not** check box 6a . . . .
b ☑ **Spouse** . . . .
c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if qualifying child for child tax credit (see page 22)
			☐
			☐
			☐
			☐
			☐

If more than five dependents, see page 22.

No. of boxes checked on 6a and 6b: 2
No. of children on 6c who: lived with you: 3
did not live with you due to divorce or separation (see page 22):
Dependents on 6c not entered above:
Add numbers on lines above: 5

d Total number of exemptions claimed . . . .

Income

Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see page 23.

Enclose, but do not attach, any payment. Also, please use **Form 1040-V.**

7	Wages, salaries, tips, etc. Attach Form(s) W-2		7	
8a	**Taxable** interest. Attach Schedule B if required		8a	
b	**Tax-exempt** interest. **Do not** include on line 8a	8b		
9	Ordinary dividends. Attach Schedule B if required		9	
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 24)		10	
11	Alimony received		11	
12	Business income or (loss). Attach Schedule C or C-EZ		12	30,572 00
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐		13	
14	Other gains or (losses). Attach Form 4797		14	
15a	IRA distributions	15a	b Taxable amount (see page 25)	15b
16a	Pensions and annuities	16a	b Taxable amount (see page 25)	16b
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17	
18	Farm income or (loss). Attach Schedule F		18	
19	Unemployment compensation		19	
20a	Social security benefits	20a	b Taxable amount (see page 27)	20b
21	Other income. List type and amount (see page 29)		21	
22	Add the amounts in the far right column for lines 7 through 21. This is your **total income**		22	30,572 00

Adjusted Gross Income

23	Educator expenses (see page 29)	23		
24	IRA deduction (see page 29)	24		
25	Student loan interest deduction (see page 31)	25		
26	Tuition and fees deduction (see page 32)	26		
27	Archer MSA deduction. Attach Form 8853	27		
28	Moving expenses. Attach Form 3903	28		
29	One-half of self-employment tax. Attach Schedule SE	29	2,160	
30	Self-employed health insurance deduction (see page 33)	30		
31	Self-employed SEP, SIMPLE, and qualified plans	31		
32	Penalty on early withdrawal of savings	32		
33a	Alimony paid b Recipient's SSN	33a		
34	Add lines 23 through 33a		34	2,160 00
35	Subtract line 34 from line 22. This is your **adjusted gross income**		35	28,412 00

Form 1040 (2010)

Tax and Credits

Standard Deduction for—
People who checked any box on line 37a or 37b **or** who can be claimed as a dependent, see page 34.
All others:
Single, $4,700
Head of household, $6,900
Married filing jointly or Qualifying widow(er), $7,850
Married filing separately, $3,925

36	Amount from line 35 (adjusted gross income)		36	28,412	00
37a	Check if: ☐ **You** were 65 or older, ☐ Blind; ☐ **Spouse** was 65 or older, ☐ Blind. Add the number of boxes checked above and enter the total here 37a				
b	If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see page 34 and check here 37b ☐				
38	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)		38	7,850	00
39	Subtract line 38 from line 36		39	20,562	00
40	If line 36 is $103,000 or less, multiply $3,000 by the total number of exemptions claimed on line 6d. If line 36 is over $103,000, see the worksheet on page 35		40	15,000	00
41	**Taxable income.** Subtract line 40 from line 39. If line 40 is more than line 39, enter -0-		41	5,562	00
42	**Tax** (see page 36). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972		42	558	00
43	**Alternative minimum tax** (see page 37). Attach Form 6251		43	0	00
44	Add lines 42 and 43		44	558	00
45	Foreign tax credit. Attach Form 1116 if required	45			
46	Credit for child and dependent care expenses. Attach Form 2441	46			
47	Credit for the elderly or the disabled. Attach Schedule R	47			
48	Education credits. Attach Form 8863	48			
49	Retirement savings contributions credit. Attach Form 8880	49			
50	Child tax credit (see page 39)	50			
51	Adoption credit. Attach Form 8839	51			
52	Credits from: **a** ☐ Form 8396 **b** ☐ Form 8859	52			
53	Other credits. Check applicable box(es): **a** ☐ Form 3800 **b** ☐ Form 8801 **c** ☐ Specify _____	53			
54	Add lines 45 through 53. These are your **total credits**		54		
55	Subtract line 54 from line 44. If line 54 is more than line 44, enter -0-		55	558	00

Other Taxes

56	Self-employment tax. Attach Schedule SE	56	2,160	00
57	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	57		
58	Tax on qualified plans, including IRAs, and other tax-favored accounts. Attach Form 5329 if required	58		
59	Advance earned income credit payments from Form(s) W-2	59		
60	Household employment taxes. Attach Schedule H	60		
61	Add lines 55 through 60. This is your **total tax**	61	2,718	00

Payments

If you have a qualifying child, attach Schedule EIC.

62	Federal income tax withheld from Forms W-2 and 1099	62			
63	2010 estimated tax payments and amount applied from 2009 return	63			
64	**Earned income credit (EIC)**	64	1,212	00	
65	Excess social security and tier 1 RRTA tax withheld (see page 56)	65			
66	Additional child tax credit. Attach Form 8812	66			
67	Amount paid with request for extension to file (see page 56)	67			
68	Other payments from: **a** ☐ Form 2439 **b** ☐ Form 4136 **c** ☐ Form 8885	68			
69	Add lines 62 through 68. These are your **total payments**			69	1,212 00

Refund

Direct deposit? See page 56 and fill in 71b, 71c, and 71d.

70	If line 69 is more than line 61, subtract line 61 from line 69. This is the amount you **overpaid**	70	
71a	Amount of line 70 you want **refunded to you**	71a	
b	Routing number ☐☐☐☐☐☐☐☐☐ **c** Type: ☐ Checking ☐ Savings		
d	Account number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐		
72	Amount of line 70 you want **applied to your 2011 estimated tax** 72		

Amount You Owe

73	**Amount you owe.** Subtract line 69 from line 61. For details on how to pay, see page 57	73	1,506 00
74	Estimated tax penalty (see page 57) 74		

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see page 58)? ☐ **Yes.** Complete the following. ☑ **No**

Designee's name | Phone no. ( ) | Personal identification number (PIN) ☐☐☐☐☐

Sign Here

Joint return? See page 21. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation	Daytime phone number
		Contractor	(555) 555-5555
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation: None	

Paid Preparer's Use Only

Preparer's signature	Date	Check if self-employed ☑	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code		EIN	
		Phone no. ( )	

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Business

(Sole Proprietorship)

Partnerships, joint ventures, etc., must file Form 1065 or 1065-B.

Attach to Form 1040 or 1041. See Instructions for Schedule C (Form 1040).

2010
Attachment Sequence No. **09**

Name of proprietor | Social security number (SSN)

A Principal business or profession, including product or service (see page C-1 of the instructions) | **B** Enter code from pages C-7, 8, & 9

C Business name. If no separate business name, leave blank. | **D** Employer ID number (EIN), if any

E Business address (including suite or room no.)
City, town or post office, state, and ZIP code

F Accounting method: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify)

G Did you "materially participate" in the operation of this business during 2010? If "No," see page C-3 for limit on losses . ☑ **Yes** ☐ **No**

H If you started or acquired this business during 2010, check here . . . . . ☐

Part I Income

1	Gross receipts or sales. **Caution.** If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-3 and check here ☐	1	160,000 00
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42 on page 2)	4	77,322 00
5	**Gross profit.** Subtract line 4 from line 3	5	
6	Other income, including Federal and state gasoline or fuel tax credit or refund (see page C-3)	6	
7	**Gross income.** Add lines 5 and 6	7	82,678 00

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		19	Pension and profit-sharing plans	19	00
9	Bad debts from sales or services (see page C-3)	9		20	Rent or lease (see page C-5):		
				a	Vehicles, machinery, and equipment	20a	
10	Car and truck expenses (see page C-3)	10		b	Other business property	20b	
				21	Repairs and maintenance	21	
11	Commissions and fees	11	72 00	22	Supplies (not included in Part III)	22	
12	Depletion	12		23	Taxes and licenses	23	
13	Depreciation and section 179 expense deduction (not included in Part III) (see page C-4)	13	100 00	24	Travel, meals, and entertainment:		
				a	Travel	24a	
14	Employee benefit programs (other than on line 19)	14		b	Meals and entertainment		
15	Insurance (other than health)	15		c	Enter nondeductible amount included on line 24b (see page C-5)		
16	Interest:						
a	Mortgage (paid to banks, etc.)	16a		d	Subtract line 24c from line 24b	24d	
b	Other	16b		25	Utilities	25	
17	Legal and professional services	17		26	Wages (less employment credits)	26	
18	Office expense	18	30,400 00	27	Other expenses (from line 48 on page 2)	27	

28	**Total expenses** before expenses for business use of home. Add lines 8 through 27 in columns	28	30,572 00
29	Tentative profit (loss). Subtract line 28 from line 7	29	52,106 00
30	Expenses for business use of your home. Attach **Form 8829**	30	
31	**Net profit or (loss).** Subtract line 30 from line 29. If a profit, enter on **Form 1040, line 12,** and **also** on **Schedule SE, line 2** (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3. If a loss, you **must** go to line 32.	31	

32 If you have a loss, check the box that describes your investment in this activity (see page C-6).
If you checked 32a, enter the loss on **Form 1040, line 12,** and **also** on **Schedule SE, line 2** (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3.
If you checked 32b, you **must** attach **Form 6198.**

32a ☐ All investment is at risk.
32b ☐ Some investment is not at risk.

Part III Cost of Goods Sold (see page C-6)

33 Method(s) used to value closing inventory: a ☐ Cost b ☐ Lower of cost or market c ☐ Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation . . . ☐ Yes ☐ No

35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35	28,412 00
36	Purchases less cost of items withdrawn for personal use	36	7,850 00
37	Cost of labor. Do not include any amounts paid to yourself	37	20,500 00
38	Materials and supplies	38	15,000 00
39	Other costs	39	5,560 00
40	Add lines 35 through 39	40	77,322 00
41	Inventory at end of year	41	00 0
42	**Cost of goods sold.** Subtract line 41 from line 40. Enter the result here and on page 1, line 4	42	77,322 00

Part IV Information on Your Vehicle.

Complete this part **only** if you are claiming car or truck expenses on line 10 and are not required to file Form 4562 for this business. See the instructions for line 13 on page C-4 to find out if you must file.

43 When did you place your vehicle in service for business purposes? (month, day, year) 00 / / .

44 Of the total number of miles you drove your vehicle during 2010, enter the number of miles you used your vehicle for:

a Business b Commuting c Other

45 Do you (or your spouse) have another vehicle available for personal use? ☐ Yes ☐ No

46 Was your vehicle available for personal use during off-duty hours? ☐ Yes ☐ No

47a Do you have evidence to support your deduction? ☐ Yes ☐ No

b If "Yes," is the evidence written? ☐ Yes ☐ No

Part V Other Expenses.

List below business expenses not included on lines 8–26 or line 30.

	558	00
2,160	00	
48 **Total other expenses.** Enter here and on page 1, line 27	48	2,718 00

SCHEDULE SE
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

Attach to Form 1040. See Instructions for Schedule SE (Form 1040).

2010
Attachment Sequence No. **17**

Name of person with **self-employment** income (as shown on Form 1040)	Social security number of person with **self-employment** income

Who Must File Schedule SE

You must file Schedule SE if:

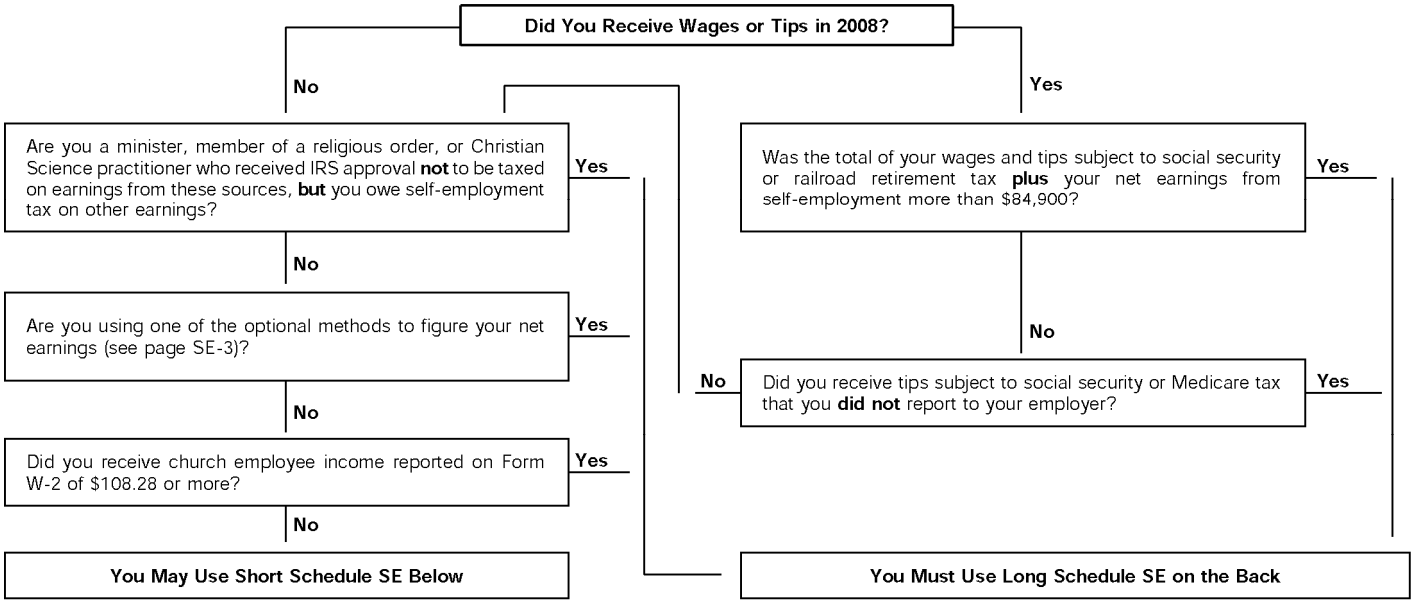
You had net earnings from self-employment from **other than** church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) of $400 or more **or**

You had church employee income of $108.28 or more. Income from services you performed as a minister or a member of a religious order **is not** church employee income. See page SE-1.

Note. Even if you had a loss or a small amount of income from self-employment, it may be to your benefit to file Schedule SE and use either "optional method" in Part II of Long Schedule SE. See page SE-3.

Exception. If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361 and received IRS approval not to be taxed on those earnings, **do not** file Schedule SE. Instead, write "Exempt–Form 4361" on Form 1040, line 56.

May I Use Short Schedule SE or Must I Use Long Schedule SE?



Section A—Short Schedule SE. Caution. Read above to see if you can use Short Schedule SE.

1	Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a	1	
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report	2	
3	Combine lines 1 and 2	3	
4	**Net earnings from self-employment.** Multiply line 3 by 92.35% (.9235). If less than $400, **do not** file this schedule; you do not owe self-employment tax	4	
5	**Self-employment tax.** If the amount on line 4 is: $84,900 or less, multiply line 4 by 15.3% (.153). Enter the result here and on **Form 1040, line 56.** More than $84,900, multiply line 4 by 2.9% (.029). Then, add $10,527.60 to the result. Enter the total here and on **Form 1040, line 56.**	5	
6	**Deduction for one-half of self-employment tax.** Multiply line 5 by 50% (.5). Enter the result here and on **Form 1040, line 29**	6	

Schedule SE (Form 1040) 2010 Attachment Sequence No. **17**

Name of person with **self-employment** income (as shown on Form 1040)	Social security number of person with **self-employment** income		
28,412	00		7,850

Section B—Long Schedule SE

Part I Self-Employment Tax

Note. If your only income subject to self-employment tax is **church employee income,** skip lines 1 through 4b. Enter -0- on line 4c and go to line 5a. Income from services you performed as a minister or a member of a religious order **is not** church employee income. See page SE-1.

A If you are a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361, but you had $400 or more of **other** net earnings from self-employment, check here and continue with Part I . . . . . ☐

1	Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a. **Note.** Skip this line if you use the farm optional method. See page SE-3		1	20,562 00
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report. **Note.** Skip this line if you use the nonfarm optional method. See page SE-4		2	15,000 00
3	Combine lines 1 and 2		3	5,562 00
4a	If line 3 is more than zero, multiply line 3 by 92.35% (.9235). Otherwise, enter amount from line 3		4a	558 00
b	If you elect one or both of the optional methods, enter the total of lines 15 and 17 here		4b	00 00
c	Combine lines 4a and 4b. If less than $400, **do not** file this schedule; you do not owe self-employment tax. **Exception.** If less than $400 and you had **church employee income,** enter -0- and continue		4c	558 00
5a	Enter your **church employee income** from Form W-2. **Caution.** See page SE-1 for definition of church employee income	5a 00		
b	Multiply line 5a by 92.35% (.9235). If less than $100, enter -0-		5b	
6	**Net earnings from self-employment.** Add lines 4c and 5b		6	
7	Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2010		7	84,900 00
8a	Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation	8a		
b	Unreported tips subject to social security tax (from Form 4137, line 9)	8b		
c	Add lines 8a and 8b		8c	
9	Subtract line 8c from line 7. If zero or less, enter -0- here and on line 10 and go to line 11		9	
10	Multiply the **smaller** of line 6 or line 9 by 12.4% (.124)		10	
11	Multiply line 6 by 2.9% (.029)		11	
12	**Self-employment tax.** Add lines 10 and 11. Enter here and on **Form 1040, line 56**		12	
13	**Deduction for one-half of self-employment tax.** Multiply line 12 by 50% (.5). Enter the result here and on **Form 1040, line 29**	13		

Part II Optional Methods To Figure Net Earnings (See page SE-3.)

Farm Optional Method. You may use this method **only** if: Your gross farm income[1] was not more than $2,400 **or** Your net farm profits[2] were less than $1,733.			
14	Maximum income for optional methods	14	1,600 00
15	Enter the **smaller** of: two-thirds (⅔) of gross farm income[1] (not less than zero) **or** $1,600. Also include this amount on line 4b above	15	558 00
Nonfarm Optional Method. You may use this method **only** if: Your net nonfarm profits[3] were less than $1,733 and also less than 72.189% of your gross nonfarm income[4] **and** You had net earnings from self-employment of at least $400 in 2 of the prior 3 years. **Caution.** You may use this method no more than five times.			
16	Subtract line 15 from line 14	16	2,160 00
17	Enter the **smaller** of: two-thirds (⅔) of gross nonfarm income[4] (not less than zero) **or** the amount on line 16. Also include this amount on line 4b above	17	

[1]From Sch. F, line 11, and Sch. K-1 (Form 1065), line 15b.
[2]From Sch. F, line 36, and Sch. K-1 (Form 1065), line 15a.
[3]From Sch. C, line 31; Sch. C-EZ, line 3; Sch. K-1 (Form 1065), line 15a; and Sch. K-1 (Form 1065-B), box 9.
[4]From Sch. C, line 7; Sch. C-EZ, line 1; Sch. K-1 (Form 1065), line 15c; and Sch. K-1 (Form 1065-B), box 9.

SCHEDULE EIC
(Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service (99)

Earned Income Credit

Qualifying Child Information

Complete and attach to Form 1040A or 1040 only if you have a qualifying child.

OMB No. 1545-0074

2010

Attachment Sequence No. **43**

Name(s) shown on return

Your social security number

Before you begin: See the instructions for Form 1040A, line 41, or Form 1040, line 64, to make sure that **(a)** you can take the EIC and **(b)** you have a qualifying child.

CAUTION

If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.

It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.

Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

Qualifying Child Information	Child 1	Child 2
1 Child's name If you have more than two qualifying children, you only have to list two to get the maximum credit.	First name Last name	First name Last name
2 Child's SSN The child must have an SSN as defined on page 44 of the Form 1040A instructions or page 46 of the Form 1040 instructions unless the child was born and died in 2010. If your child was born and died in 2010 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.		
3 Child's year of birth	Year ____ ____ ____ ____ *If born after January 1, 1991, skip lines 4a and 4b; go to line 5.*	Year ____ ____ 2 ____ *If born after January 1, 1991, skip lines 4a and 4b; go to line 5.*
4 If the child was born before January 2, 1992— **a** Was the child under age 24 at the end of 2010 and a student?	☐ **Yes.** *Go to line 5.* ☑ **No.** *Continue*	☐ **Yes.** *Go to line 5.* ☐ **No.** *Continue*
b Was the child permanently and totally disabled during any part of 2010?	☐ **Yes.** *Continue* ☑ **No.** The child is not a qualifying child.	☑ **Yes.** *Continue* ☐ **No.** The child is not a qualifying child.
5 Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)		
6 Number of months child lived with you in the United States during 2006 If the child lived with you for more than half of 2010 but less than 7 months, enter "7". If the child was born or died in 2010 and your home was the child's home for the entire time he or she was alive during 2010, enter "12".	_____ months *Do not enter more than 12 months.*	_____ months *Do not enter more than 12 months.*

TIP

You may also be able to take the additional child tax credit if your child **(a)** was under age 17 at the end of 2008, **(b)** is claimed as your dependent on line 6c of Form 1040A or Form 1040, **and (c)** is a U.S. citizen or resident alien. For more details, see the instructions for line 42 of Form 1040A or line 66 of Form 1040.

A Change To Note

Beginning in 2010, new rules apply to determine who is a qualifying child for purposes of the EIC. For details, see Qualifying Child below.

Purpose of Schedule

The purpose of this schedule is to give the IRS information about your qualifying child after you have figured your earned income credit (EIC).

To figure the amount of your credit or to have the IRS figure it for you, see the instructions for Form 1040A, line 41, or Form 1040, line 64.

Taking the EIC When Not Eligible. If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

Qualifying Child

A qualifying child is a child who is . . .

Your son, daughter, adopted child, stepchild, or grandchild

or

Your brother, sister, stepbrother, stepsister, or a descendant of your brother, sister, stepbrother, or stepsister (for example, your niece or nephew), whom you cared for as your own child

or

A foster child (any child placed with you by an authorized placement agency whom you cared for as your own child)

AND

was at the end of 2010 . . .

Under age 19

or

Under age 24 and a student

or

Any age and permanently and totally disabled

AND

who . . .

Lived with you in the United States for more than half of 2010. If the child did not live with you for the required time, see Exception to "Time Lived With You" Condition on page 43 of the Form 1040A instructions or page 45 of the Form 1040 instructions.

Note. If the child was married or meets the conditions to be a qualifying child of another person (other than your spouse if filing a joint return), special rules apply. For details, see page 44 of the Form 1040A instructions or page 46 of the Form 1040 instructions.

Do you want part of the EIC added to your take-home pay in 2011? To see if you qualify, get Form W-5 from your employer, call the IRS at 1-800-TAX-FORM (1-800-829-3676), or go to www.irs.gov.

Form **1065**
Department of the Treasury
Internal Revenue Service

U.S. Return of Partnership Income

For calendar year 2010, or tax year beginning _____, 2010, and ending _____, 20____.
▶ See separate instructions.

2010

A Principal business activity: Manufacturing	Use the IRS label. Otherwise, print or type. Name of partnership: B&J Computers	D Employer identification number: 38 0801478
B Principal product or service: Computer Equip	Number, street, and room or suite no. If a P.O. box, see page 14 of the instructions.: 20 Michigan Avenue	E Date business started: 1/1/86
C Business code number: 3815	City or town, state, and ZIP code: Ann Arbor, Michigan	F Total assets (see page 14 of the instructions): $ 2,977,525 00

G Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change (5) ☐ Amended return
H Check accounting method: (1) ☐ Cash (2) ☑ Accrual (3) ☐ Other (specify) ▶
I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶ 3

Caution: *Include **only** trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.*

Income	1a Gross receipts or sales	1a	8,869,212 00			
	b Less returns and allowances	1b	10,500 00	1c	8,858,712	00
	2 Cost of goods sold (Schedule A, line 8)			2	5,825,892	00
	3 Gross profit. Subtract line 2 from line 1c			3	3,032,820	00
	4 Ordinary income (loss) from other partnerships, estates, and trusts *(attach schedule)*			4	14,561	00
	5 Net farm profit (loss) *(attach Schedule F (Form 1040))*			5		
	6 Net gain (loss) from Form 4797, Part II, line 18			6	3,000	00
	7 Other income (loss) *(attach schedule)*			7	100,000	00
	8 **Total income (loss).** Combine lines 3 through 7			8	3,150,381	00
Deductions (see page 15 of the instructions for limitations)	9 Salaries and wages (other than to partners) (less employment credits)			9	1,526,104	00
	10 Guaranteed payments to partners			10	403,000	00
	11 Repairs and maintenance			11	76,341	00
	12 Bad debts			12	25,000	00
	13 Rent			13	301,000	00
	14 Taxes and licenses			14	194,088	00
	15 Interest			15	89,335	00
	16a Depreciation (if required, attach Form 4562)	16a	97,047 00			
	b Less depreciation reported on Schedule A and elsewhere on return	16b	94,905 00	16c	2,142	00
	17 Depletion **(Do not deduct oil and gas depletion.)**			17	0	00
	18 Retirement plans, etc.			18	60,000	00
	19 Employee benefit programs			19	88,975	00
	20 Other deductions *(attach schedule)*			20	225,313	00
	21 **Total deductions.** Add the amounts shown in the far right column for lines 9 through 20			21	2,991,298	00
	22 **Ordinary income (loss)** from trade or business activities. Subtract line 21 from line 8			22	159,083	00

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member) is based on all information of which preparer has any knowledge.

▶ Signature of general partner or limited liability company member ▶ Date

May the IRS discuss this return with the preparer shown below (see instructions)? ☐ Yes ☑ No

Paid Preparer's Use Only

Preparer's signature	Date	Check if self-employed ▶ ☑	Preparer's SSN or PTIN: 130-40-8861
Firm's name (or yours if self-employed), address, and ZIP code ▶	Alan Young, CPA 1633 Broadway, New York, NY 10019	EIN ▶ Phone no. ( )	

Form 1065 (2010)

Schedule A Cost of Goods Sold (see page 19 of the instructions)

1	Inventory at beginning of year	1	383,097 00
2	Purchases less cost of items withdrawn for personal use	2	2,823,089 00
3	Cost of labor	3	2,174,809 00
4	Additional section 263A costs *(attach schedule)*	4	0 00
5	Other costs *(attach schedule)*	5	692,762 00
6	**Total.** Add lines 1 through 5	6	6,073,757 00
7	Inventory at end of year	7	247,865 00
8	**Cost of goods sold.** Subtract line 7 from line 6. Enter here and on page 1, line 2	8	5,825,892 00

9a Check all methods used for valuing closing inventory:
- **(i)** ☑ Cost as described in Regulations section 1.471-3
- **(ii)** ☐ Lower of cost or market as described in Regulations section 1.471-4
- **(iii)** ☐ Other (specify method used and attach explanation) ▶

b Check this box if there was a writedown of "subnormal" goods as described in Regulations section 1.471-2(c) ▶ ☐

c Check this box if the LIFO inventory method was adopted this tax year for any goods *(if checked, attach Form 970)* ▶ ☐

d Do the rules of section 263A (for property produced or acquired for resale) apply to the partnership? ☑ Yes ☐ No

e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☑ No
If "Yes," attach explanation.

Schedule B Other Information

		Yes	No
1	What type of entity is filing this return? Check the applicable box:		
	a ☑ Domestic general partnership **b** ☐ Domestic limited partnership		
	c ☐ Domestic limited liability company **d** ☐ Domestic limited liability partnership		
	e ☐ Foreign partnership **f** ☐ Other ▶		
2	Are any partners in this partnership also partnerships?		✔
3	During the partnership's tax year, did the partnership own any interest in another partnership or in any foreign entity that was disregarded as an entity separate from its owner under Regulations sections 301.7701-2 and 301.7701-3? If yes, see instructions for required attachment	✔	
4	Is this partnership subject to the consolidated audit procedures of sections 6221 through 6233? If "Yes," see **Designation of Tax Matters Partner** below	✔	
5	Does this partnership meet **all three** of the following requirements?		
	a The partnership's total receipts for the tax year were less than $250,000;		
	b The partnership's total assets at the end of the tax year were less than $600,000; **and**		
	c Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return.		
	If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; or Item J on Schedule K-1		✔
6	Does this partnership have any foreign partners? If "Yes," the partnership may have to file Forms 8804, 8805 and 8813. See page 20 of the instructions		✔
7	Is this partnership a publicly traded partnership as defined in section 469(k)(2)?		✔
8	Has this partnership filed, or is it required to file, **Form 8264,** Application for Registration of a Tax Shelter?		✔
9	At any time during calendar year 2010, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See page 20 of the instructions for exceptions and filing requirements for Form TD F 90-22.1. If "Yes," enter the name of the foreign country. ▶		✔
10	During the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520. See page 20 of the instructions		✔
11	Was there a distribution of property or a transfer (e.g., by sale or death) of a partnership interest during the tax year? If "Yes," you may elect to adjust the basis of the partnership's assets under section 754 by attaching the statement described under **Elections Made By the Partnership** on page 8 of the instructions		✔
12	Enter the number of **Forms 8865**, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return ▶		

Designation of Tax Matters Partner (see page 21 of the instructions)

Enter below the general partner designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP ▶ Bill Benson

Identifying number of TMP ▶ 502-80-3458

Address of designated TMP ▶ 12 Arbor Boulevard, Ann Arbor, MI, 48239

Form 1065 (2010)

Schedule K Partners' Shares of Income, Credits, Deductions, etc.

	(a) Distributive share items		(b) Total amount	
Income (Loss)	1 Ordinary income (loss) from trade or business activities (page 1, line 22)	1	159,083	00
	2 Net income (loss) from rental real estate activities *(attach Form 8825)*	2	6,405	00
	3a Gross income from other rental activities (3a)			
	b Expenses from other rental activities *(attach schedule)* (3b)			
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c		
	4 Portfolio income (loss): a Interest income	4a	12,560	00
	b Ordinary dividends	4b	8,900	00
	c Royalty income	4c		
	d Net short-term capital gain (loss) *(attach Schedule D (Form 1065))*	4d		
	e (1) Net long-term capital gain (loss) *(attach Schedule D (Form 1065))*	4e(1)	111,000	00
	(2) 28% rate gain (loss) ▶ (3) Qualified 5-year gain ▶			
	f Other portfolio income (loss) *(attach schedule)*	4f		
	5 Guaranteed payments to partners	5	403,000	00
	6 Net section 1231 gain (loss) (other than due to casualty or theft) *(attach Form 4797)*	6		
	7 Other income (loss) *(attach schedule)*	7		
Deductions	8 Charitable contributions *(attach schedule)*	8	2,950	00
	9 Section 179 expense deduction *(attach Form 4562)*	9		
	10 Deductions related to portfolio income (itemize)	10		
	11 Other deductions *(attach schedule)*	11		
Credits	12a Low-income housing credit:			
	(1) From partnerships to which section 42(j)(5) applies	12a(1)		
	(2) Other than on line 12a(1)	12a(2)		
	b Qualified rehabilitation expenditures related to rental real estate activities *(attach Form 3468)*	12b		
	c Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities	12c		
	d Credits related to other rental activities	12d		
	13 Other credits	13		
Investment Interest	14a Interest expense on investment debts	14a	2,000	00
	b (1) Investment income included on lines 4a, 4b, 4c, and 4f above	14b(1)		
	(2) Investment expenses included on line 10 above	14b(2)		
Self-Employment	15a Net earnings (loss) from self-employment	15a	220,266	00
	b Gross farming or fishing income	15b		
	c Gross nonfarm income	15c		
Adjustments and Tax Preference Items	16a Depreciation adjustment on property placed in service after 1994	16a	22,000	00
	b Adjusted gain or loss	16b		
	c Depletion (other than oil and gas)	16c		
	d (1) Gross income from oil, gas, and geothermal properties	16d(1)		
	(2) Deductions allocable to oil, gas, and geothermal properties	16d(2)		
	e Other adjustments and tax preference items *(attach schedule)*	16e		
Foreign Taxes	17a Name of foreign country or U.S. possession ▶			
	b Gross income from all sources	17b		
	c Gross income sourced at partner level	17c		
	d Foreign gross income sourced at partnership level:			
	(1) Passive ▶ (2) Listed categories *(attach schedule)* ▶ (3) General limitation ▶	17d(3)		
	e Deductions allocated and apportioned at partner level:			
	(1) Interest expense ▶ (2) Other ▶	17e(2)		
	f Deductions allocated and apportioned at partnership level to foreign source income:			
	(1) Passive ▶ (2) Listed categories *(attach schedule)* ▶ (3) General limitation ▶	17f(3)		
	g Total foreign taxes (check one): ▶ Paid ☐ Accrued ☐	17g		
	h Reduction in taxes available for credit *(attach schedule)*	17h		
Other	18 Section 59(e)(2) expenditures: a Type ▶ b Amount ▶	18b		
	19 Tax-exempt interest income	19		
	20 Other tax-exempt income	20		
	21 Nondeductible expenses	21		
	22 Distributions of money (cash and marketable securities)	22		
	23 Distributions of property other than money	23		
	24 Other items and amounts required to be reported separately to partners *(attach schedule)*			

Form 1065 (2010)

Analysis of Net Income (Loss)

1	Net income (loss). Combine Schedule K, lines 1 through 7 in column (b). From the result, subtract the sum of Schedule K, lines 8 through 11, 14a, 17g, and 18b	1	695,998	00

2 Analysis by partner type:	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt organization	(vi) Nominee/Other
a General partners	363,400.00	209,848.00	122,750			
b Limited partners						

Note: Schedules L, M-1 and M-2 are not required if Question 5 of Schedule B is answered "Yes."

Schedule L Balance Sheets per Books

Assets	Beginning of tax year (a)	Beginning of tax year (b)	End of tax year (c)	End of tax year (d)
1 Cash		38,989		275,960
2a Trade notes and accounts receivable	284,512		313,586	
b Less allowance for bad debts		284,512		313,586
3 Inventories		383,097		247,865
4 U.S. government obligations		100,000		125,000
5 Tax-exempt securities				74,000
6 Other current assets *(attach schedule)*		96,000		
7 Mortgage and real estate loans				
8 Other investments *(attach schedule)*				
9a Buildings and other depreciable assets	960,000		1,240,000	
b Less accumulated depreciation	98,200	861,800	162,247	1,077,753
10a Depletable assets				
b Less accumulated depletion				
11 Land (net of any amortization)		420,000		770,000
12a Intangible assets (amortizable only)			36,000	
b Less accumulated amortization			7,200	28,800
13 Other assets *(attach schedule)*		50,000		64,561
14 **Total** assets		2,234,398		2,977,525
Liabilities and Capital				
15 Accounts payable		428,698		323,827
16 Mortgages, notes, bonds payable in less than 1 year		125,000		
17 Other current liabilities *(attach schedule)*				
18 All nonrecourse loans				900,000
19 Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities *(attach schedule)*				
21 Partners' capital accounts		1,680,700		1,753,698
22 **Total** liabilities and capital		2,234,398		2,977,525

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return

1 Net income (loss) per books	292,998	6 Income recorded on books this year not included on Schedule K, lines 1 through 7 (itemize): a Tax-exempt interest $	
2 Income included on Schedule K, lines 1 through 4, 6, and 7, not recorded on books this year (itemize):			
3 Guaranteed payments (other than health insurance)	400,000	7 Deductions included on Schedule K, lines 1 through 11, 14a, 17g, and 18b, not charged against book income this year (itemize): a Depreciation $	
4 Expenses recorded on books this year not included on Schedule K, lines 1 through 11, 14a, 17g, and 18b (itemize): a Depreciation $			
b Travel and entertainment $	3,000	8 Add lines 6 and 7	0
5 Add lines 1 through 4	695,998	9 Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5	695,998

Schedule M-2 Analysis of Partners' Capital Accounts

1 Balance at beginning of year	1,680,700	6 Distributions: a Cash	220,000
2 Capital contributed: a Cash	0	b Property	
b Property	292,998	7 Other decreases (itemize):	
3 Net income (loss) per books			
4 Other increases (itemize):		8 Add lines 6 and 7	220,000
5 Add lines 1 through 4	1,976,698	9 Balance at end of year. Subtract line 8 from line 5	1,753,698

SCHEDULE D (Form 1065)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

► Attach to Form 1065.

2010

Name of partnership: B&J Computers

Employer identification number: 38 0801478

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (e.g., 100 shares of "Z" Co.)	(b) Date acquired (month, day, year)	(c) Date sold (month, day, year)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain or (loss) ((d) minus (e))
1					

2	Short-term capital gain from installment sales from Form 6252, line 26 or 37	2	
3	Short-term capital gain (loss) from like-kind exchanges from Form 8824	3	
4	Partnership's share of net short-term capital gain (loss), including specially allocated short-term capital gains (losses), from other partnerships, estates, and trusts	4	
5	**Net short-term capital gain or (loss).** Combine lines 1 through 4 in column (f). Enter here and on Form 1065, Schedule K, line 4d or 7	5	

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

	(a) Description of property (e.g., 100 shares of "Z" Co.)	(b) Date acquired (month, day, year)	(c) Date sold (month, day, year)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain or (loss) ((d) minus (e))	(g) 28% rate gain or (loss) *(see instr. below)
6	6-8 acres in Bad Axe, MI	2/15/95	3/23/02	225,000	150,000	75,000	
	10,000 shares Abinion Modem, Inc	3/5/92	4/2/02	58,000	22,000	36,000	

7	Long-term capital gain from installment sales from Form 6252, line 26 or 37	7		
8	Long-term capital gain (loss) from like-kind exchanges from Form 8824	8		
9	Partnership's share of net long-term capital gain (loss), including specially allocated long-term capital gains (losses), from other partnerships, estates, and trusts	9		
10	Capital gain distributions	10		
11	Combine lines 6 through 10 in column (g). Enter here and on Form 1065, Schedule K, line 4e(2) or 7	11		
12	**Net long-term capital gain or (loss).** Combine lines 6 through 10 in column (f). Enter here and on Form 1065, Schedule K, line 4e(1) or 7	12	111,000	

***28% rate gain or (loss)** includes **all** "collectibles gains and losses" (as defined in the instructions).

SCHEDULE K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

Partner's Share of Income, Credits, Deductions, etc.

▶ See separate instructions.

For calendar year 2010 or tax year beginning , 2010, and ending , 20

2010

Partner's identifying number ▶ 502-80-3458

Partnership's identifying number ▶ 38 : 0801478

Partner's name, address, and ZIP code

Bill Benson
12 Arbor Boulevard
Ann Arbor, MI 48239

Partnership's name, address, and ZIP code

B&J Computers
20 Michigan Avenue
Ann Arbor, MI 48239

A This partner is a ☑ general partner ☐ limited partner
☐ limited liability company member

B What type of entity is this partner? ▶ Individual

C Is this partner a ☑ domestic or a ☐ foreign partner?

D Enter partner's percentage of:	(i) Before change or termination	(ii) End of year
Profit sharing	%	55 %
Loss sharing	%	55 %
Ownership of capital	%	55 %

E IRS Center where partnership filed return: Cincinnati, OH

F Partner's share of liabilities (see instructions):
Nonrecourse $ 495,000
Qualified nonrecourse financing $
Other $ 178,105

G Tax shelter registration number ▶ n/a

H Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2) ☐

I Check applicable boxes: (1) ☐ Final K-1 (2) ☐ Amended K-1

J Analysis of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of lines 3, 4, and 7, Form 1065, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine columns (a) through (d))
312,200		146,848	(121,000)	338,048

		(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Income (Loss)	1	Ordinary income (loss) from trade or business activities	1	87,496	See page 6 of Partner's Instructions for Schedule K-1 (Form 1065).
	2	Net income (loss) from rental real estate activities	2	3,522	
	3	Net income (loss) from other rental activities	3		
	4	Portfolio income (loss):			
	a	Interest	4a	6,908	Sch. B, Part I, line 1
	b	Ordinary dividends	4b	4,895	Sch. B, Part II, line 5
	c	Royalties	4c		Sch. E, Part I, line 4
	d	Net short-term capital gain (loss)	4d		Sch. D, line 5, col. (f)
	e	(1) Net long-term capital gain (loss)	4e(1)	46,750	Sch. D, line 12, col. (f)
		(2) 28% rate gain (loss)	4e(2)		Sch. D, line 12, col. (g)
		(3) Qualified 5-year gain	4e(3)		Line 5 of worksheet for Sch. D, line 29
	f	Other portfolio income (loss) *(attach schedule)*	4f		Enter on applicable line of your return.
	5	Guaranteed payments to partner	5	63,000	See page 6 of Partner's Instructions for Schedule K-1 (Form 1065).
	6	Net section 1231 gain (loss) (other than due to casualty or theft)	6		
	7	Other income (loss) *(attach schedule)*	7		Enter on applicable line of your return.
Deductions	8	Charitable contributions (see instructions) *(attach schedule)*	8	1,623	Sch. A, line 15 or 16
	9	Section 179 expense deduction	9		See pages 7 and 8 of Partner's Instructions for Schedule K-1 (Form 1065).
	10	Deductions related to portfolio income *(attach schedule)*	10		
	11	Other deductions *(attach schedule)*	11		
Credits	12a	Low-income housing credit:			
		(1) From section 42(j)(5) partnerships	12a(1)		Form 8586, line 5
		(2) Other than on line 12a(1)	12a(2)		
	b	Qualified rehabilitation expenditures related to rental real estate activities	12b		See page 8 of Partner's Instructions for Schedule K-1 (Form 1065).
	c	Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities	12c		
	d	Credits related to other rental activities	12d		
	13	Other credits	13		

		(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Investment Interest	14a	Interest expense on investment debts	14a	1,100	Form 4952, line 1
	b	(1) Investment income included on lines 4a, 4b, 4c, and 4f	14b(1)		See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
		(2) Investment expenses included on line 10	14b(2)		
Self-employment	15a	Net earnings (loss) from self-employment	15a	147,496	Sch. SE, Section A or B
	b	Gross farming or fishing income	15b		See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	c	Gross nonfarm income	15c		
Adjustments and Tax Preference Items	16a	Depreciation adjustment on property placed in service after 1992	16a	12,100	See page 9 of Partner's Instructions for Schedule K-1 (Form 1065) and Instructions for Form 6251.
	b	Adjusted gain or loss	16b		
	c	Depletion (other than oil and gas)	16c		
	d	(1) Gross income from oil, gas, and geothermal properties	16d(1)		
		(2) Deductions allocable to oil, gas, and geothermal properties	16d(2)		
	e	Other adjustments and tax preference items *(attach schedule)*	16e		
Foreign Taxes	17a	Name of foreign country or U.S. possession ▶			Form 1116, Part I
	b	Gross income from all sources	17b		
	c	Gross income sourced at partner level	17c		
	d	Foreign gross income sourced at partnership level:			
		(1) Passive	17d(1)		
		(2) Listed categories *(attach schedule)*	17d(2)		
		(3) General limitation	17d(3)		
	e	Deductions allocated and apportioned at partner level:			
		(1) Interest expense	17e(1)		
		(2) Other	17e(2)		
	f	Deductions allocated and apportioned at partnership level to foreign source income:			
		(1) Passive	17f(1)		
		(2) Listed categories *(attach schedule)*	17f(2)		
		(3) General limitation	17f(3)		
	g	Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued	17g		Form 1116, Part II
	h	Reduction in taxes available for credit *(attach schedule)*	17h		Form 1116, line 12
Other	18	Section 59(e)(2) expenditures: a Type ▶			See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	b	Amount	18b		
	19	Tax-exempt interest income	19		Form 1040, line 8b
	20	Other tax-exempt income	20		See pages 9 and 10 of Partner's Instructions for Schedule K-1 (Form 1065).
	21	Nondeductible expenses	21		
	22	Distributions of money (cash and marketable securities)	22		
	23	Distributions of property other than money	23		
	24	Recapture of low-income housing credit:			
	a	From section 42(j)(5) partnerships	24a		Form 8611, line 8
	b	Other than on line 24a	24b		

Supplemental Information

25 Supplemental information required to be reported separately to each partner *(attach additional schedules if more space is needed)*:

Note: Guaranteed payments include $3,000 for medical/health insurance.

SCHEDULE K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

Partner's Share of Income, Credits, Deductions, etc.

▶ See separate instructions.

For calendar year 2010 or tax year beginning , 2010, and ending , 20

2010

Partner's identifying number ▶ 70-0809172

Partnership's identifying number ▶ 38 0801478

Partner's name, address, and ZIP code

Premier Capital
1020 Madison Street
Fargo, North Dakota 58211

Partnership's name, address, and ZIP code

B&J Computers
20 Michigan Avenue
Ann Arbor, MI 48239

A This partner is a ☑ general partner ☐ limited partner
☐ limited liability company member

B What type of entity is this partner? ▶ Corporation

C Is this partner a ☑ domestic or a ☐ foreign partner?

D Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	%	20 %
Loss sharing	%	20 %
Ownership of capital	%	20 %

E IRS Center where partnership filed return: Cincinnati, OH

F Partner's share of liabilities (see instructions):
Nonrecourse $ 180,000
Qualified nonrecourse financing $
Other $ 64,765

G Tax shelter registration number ▶ n/a

H Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2) ☐

I Check applicable boxes: (1) ☐ Final K-1 (2) ☐ Amended K-1

J Analysis of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of lines 3, 4, and 7, Form 1065, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine columns (a) through (d))
1,240		53,400	(44,000)	1,249,400

		(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Income (Loss)	1	Ordinary income (loss) from trade or business activities	1	31,817	See page 6 of Partner's Instructions for Schedule K-1 (Form 1065).
	2	Net income (loss) from rental real estate activities	2	1,281	
	3	Net income (loss) from other rental activities	3		
	4	Portfolio income (loss):			
	a	Interest	4a	2,512	Sch. B, Part I, line 1
	b	Ordinary dividends	4b	1,780	Sch. B, Part II, line 5
	c	Royalties	4c		Sch. E, Part I, line 4
	d	Net short-term capital gain (loss)	4d		Sch. D, line 5, col. (f)
	e	(1) Net long-term capital gain (loss)	4e(1)	17,000	Sch. D, line 12, col. (f)
		(2) 28% rate gain (loss)	4e(2)		Sch. D, line 12, col. (g)
		(3) Qualified 5-year gain	4e(3)		Line 5 of worksheet for Sch. D, line 29
	f	Other portfolio income (loss) *(attach schedule)*	4f		Enter on applicable line of your return.
	5	Guaranteed payments to partner	5	310,000	See page 6 of Partner's Instructions for Schedule K-1 (Form 1065).
	6	Net section 1231 gain (loss) (other than due to casualty or theft)	6		
	7	Other income (loss) *(attach schedule)*	7		Enter on applicable line of your return.
Deductions	8	Charitable contributions (see instructions) *(attach schedule)*	8	590	Sch. A, line 15 or 16
	9	Section 179 expense deduction	9		See pages 7 and 8 of Partner's Instructions for Schedule K-1 (Form 1065).
	10	Deductions related to portfolio income *(attach schedule)*	10		
	11	Other deductions *(attach schedule)*	11		
Credits	12a	Low-income housing credit:			
		(1) From section 42(j)(5) partnerships	12a(1)		Form 8586, line 5
		(2) Other than on line 12a(1)	12a(2)		
	b	Qualified rehabilitation expenditures related to rental real estate activities	12b		See page 8 of Partner's Instructions for Schedule K-1 (Form 1065).
	c	Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities	12c		
	d	Credits related to other rental activities	12d		
	13	Other credits	13		

		(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Investment Interest	14a	Interest expense on investment debts	14a	400	Form 4952, line 1
	b	(1) Investment income included on lines 4a, 4b, 4c, and 4f	14b(1)		See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
		(2) Investment expenses included on line 10	14b(2)		
Self-employment	15a	Net earnings (loss) from self-employment	15a		Sch. SE, Section A or B
	b	Gross farming or fishing income	15b		See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	c	Gross nonfarm income	15c		
Adjustments and Tax Preference Items	16a	Depreciation adjustment on property placed in service after 1994	16a	4,400	See page 9 of Partner's Instructions for Schedule K-1 (Form 1065) and Instructions for Form 6251.
	b	Adjusted gain or loss	16b		
	c	Depletion (other than oil and gas)	16c		
	d	(1) Gross income from oil, gas, and geothermal properties	16d(1)		
		(2) Deductions allocable to oil, gas, and geothermal properties	16d(2)		
	e	Other adjustments and tax preference items *(attach schedule)*	16e		
Foreign Taxes	17a	Name of foreign country or U.S. possession ▶			Form 1116, Part I
	b	Gross income from all sources	17b		
	c	Gross income sourced at partner level	17c		
	d	Foreign gross income sourced at partnership level:			
		(1) Passive	17d(1)		
		(2) Listed categories *(attach schedule)*	17d(2)		
		(3) General limitation	17d(3)		
	e	Deductions allocated and apportioned at partner level:			
		(1) Interest expense	17e(1)		
		(2) Other	17e(2)		
	f	Deductions allocated and apportioned at partnership level to foreign source income:			
		(1) Passive	17f(1)		
		(2) Listed categories *(attach schedule)*	17f(2)		
		(3) General limitation	17f(3)		
	g	Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued	17g		Form 1116, Part II
	h	Reduction in taxes available for credit *(attach schedule)*	17h		Form 1116, line 12
Other	18	Section 59(e)(2) expenditures: a Type ▶			See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	b	Amount	18b		
	19	Tax-exempt interest income	19		Form 1040, line 8b
	20	Other tax-exempt income	20		See pages 9 and 10 of Partner's Instructions for Schedule K-1 (Form 1065).
	21	Nondeductible expenses	21		
	22	Distributions of money (cash and marketable securities)	22		
	23	Distributions of property other than money	23		
	24	Recapture of low-income housing credit:			
	a	From section 42(j)(5) partnerships	24a		Form 8611, line 8
	b	Other than on line 24a	24b		

Supplemental Information

25 Supplemental information required to be reported separately to each partner *(attach additional schedules if more space is needed)*:

SCHEDULE K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

Partner's Share of Income, Credits, Deductions, etc.

▶ See separate instructions.

For calendar year 2010 or tax year beginning , 2010, and ending , 20

2010

Partner's identifying number ▶ 309-89-8675

Partnership's identifying number ▶ 38 0801478

Partner's name, address, and ZIP code

John Jackson
318 Pontiac
Novi, MI 48250

Partnership's name, address, and ZIP code

B&J Computers
20 Michigan Avenue
Ann Arbor, MI 48239

A This partner is a ☑ general partner ☐ limited partner
☐ limited liability company member

B What type of entity is this partner? ▶ Individual

C Is this partner a ☑ domestic or a ☐ foreign partner?

D Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	%	25 %
Loss sharing	%	25 %
Ownership of capital	%	25 %

E IRS Center where partnership filed return: Cincinnati, OH

F Partner's share of liabilities (see instructions):
Nonrecourse $ 225,000
Qualified nonrecourse financing $
Other $ 80,957

G Tax shelter registration number ▶ n/a

H Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2) ☐

I Check applicable boxes: (1) ☐ Final K-1 (2) ☐ Amended K-1

J Analysis of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of lines 3, 4, and 7, Form 1065, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine columns (a) through (d))
128,500		92,750	(55,000)	166,250

		(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Income (Loss)	1	Ordinary income (loss) from trade or business activities	1	39,770	See page 6 of Partner's Instructions for Schedule K-1 (Form 1065).
	2	Net income (loss) from rental real estate activities	2	1,602	
	3	Net income (loss) from other rental activities	3		
	4	Portfolio income (loss):			
	a	Interest	4a	3,140	Sch. B, Part I, line 1
	b	Ordinary dividends	4b	2,225	Sch. B, Part II, line 5
	c	Royalties	4c		Sch. E, Part I, line 4
	d	Net short-term capital gain (loss)	4d		Sch. D, line 5, col. (f)
	e	(1) Net long-term capital gain (loss)	4e(1)	47,250	Sch. D, line 12, col. (f)
		(2) 28% rate gain (loss)	4e(2)		Sch. D, line 12, col. (g)
		(3) Qualified 5-year gain	4e(3)		Line 5 of worksheet for Sch. D, line 29
	f	Other portfolio income (loss) *(attach schedule)*	4f		Enter on applicable line of your return.
	5	Guaranteed payments to partner	5	30,000	See page 6 of Partner's Instructions for Schedule K-1 (Form 1065).
	6	Net section 1231 gain (loss) (other than due to casualty or theft)	6		
	7	Other income (loss) *(attach schedule)*	7		Enter on applicable line of your return.
Deductions	8	Charitable contributions (see instructions) *(attach schedule)*	8	737	Sch. A, line 15 or 16
	9	Section 179 expense deduction	9		See pages 7 and 8 of Partner's Instructions for Schedule K-1 (Form 1065).
	10	Deductions related to portfolio income *(attach schedule)*	10		
	11	Other deductions *(attach schedule)*	11		
Credits	12a	Low-income housing credit:			
		(1) From section 42(j)(5) partnerships	12a(1)		Form 8586, line 5
		(2) Other than on line 12a(1)	12a(2)		
	b	Qualified rehabilitation expenditures related to rental real estate activities	12b		See page 8 of Partner's Instructions for Schedule K-1 (Form 1065).
	c	Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities	12c		
	d	Credits related to other rental activities	12d		
	13	Other credits	13		

		(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Investment Interest	14a	Interest expense on investment debts	14a	500	Form 4952, line 1
	b	(1) Investment income included on lines 4a, 4b, 4c, and 4f	14b(1)		See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
		(2) Investment expenses included on line 10	14b(2)		
Self-employment	15a	Net earnings (loss) from self-employment	15a	69,770	Sch. SE, Section A or B
	b	Gross farming or fishing income	15b		See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	c	Gross nonfarm income	15c		
Adjustments and Tax Preference Items	16a	Depreciation adjustment on property placed in service after 1994	16a	5,500	See page 9 of Partner's Instructions for Schedule K-1 (Form 1065) and Instructions for Form 6251.
	b	Adjusted gain or loss	16b		
	c	Depletion (other than oil and gas)	16c		
	d	(1) Gross income from oil, gas, and geothermal properties	16d(1)		
		(2) Deductions allocable to oil, gas, and geothermal properties	16d(2)		
	e	Other adjustments and tax preference items *(attach schedule)*	16e		
Foreign Taxes	17a	Name of foreign country or U.S. possession ▶			Form 1116, Part I
	b	Gross income from all sources	17b		
	c	Gross income sourced at partner level	17c		
	d	Foreign gross income sourced at partnership level:			
		(1) Passive	17d(1)		
		(2) Listed categories *(attach schedule)*	17d(2)		
		(3) General limitation	17d(3)		
	e	Deductions allocated and apportioned at partner level:			
		(1) Interest expense	17e(1)		
		(2) Other	17e(2)		
	f	Deductions allocated and apportioned at partnership level to foreign source income:			
		(1) Passive	17f(1)		
		(2) Listed categories *(attach schedule)*	17f(2)		
		(3) General limitation	17f(3)		
	g	Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued	17g		Form 1116, Part II
	h	Reduction in taxes available for credit *(attach schedule)*	17h		Form 1116, line 12
Other	18	Section 59(e)(2) expenditures: a Type ▶			See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	b	Amount	18b		
	19	Tax-exempt interest income	19		Form 1040, line 8b
	20	Other tax-exempt income	20		See pages 9 and 10 of Partner's Instructions for Schedule K-1 (Form 1065).
	21	Nondeductible expenses	21		
	22	Distributions of money (cash and marketable securities)	22		
	23	Distributions of property other than money	23		
	24	Recapture of low-income housing credit:			
	a	From section 42(j)(5) partnerships	24a		Form 8611, line 8
	b	Other than on line 24a	24b		

Supplemental Information

25 Supplemental information required to be reported separately to each partner *(attach additional schedules if more space is needed)*:

Form **4562**

Department of the Treasury
Internal Revenue Service

Depreciation and Amortization
(Including Information on Listed Property)

▶ See separate instructions. ▶ Attach to your tax return.

2010
Attachment Sequence No. **67**

Name(s) shown on return	Business or activity to which this form relates	Identifying number
B&J Computers	Manufacturing	38-08081478

Part I **Election To Expense Certain Tangible Property Under Section 179**
Note: *If you have any listed property, complete Part V before you complete Part I.*

1	Maximum amount. See page 2 of the instructions for a higher limit for certain businesses	1	$24,000
2	Total cost of section 179 property placed in service (see page 2 of the instructions)	2	
3	Threshold cost of section 179 property before reduction in limitation	3	$200,000
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see page 2 of the instructions	5	

	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
6			
7	Listed property. Enter the amount from line 29	7	

8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	
9	Tentative deduction. Enter the **smaller** of line 5 or line 8	9	
10	Carryover of disallowed deduction from line 13 of your 2009 Form 4562.	10	
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	
13	Carryover of disallowed deduction to 2010. Add lines 9 and 10, less line 12 ▶	13	

Note: *Do not use Part II or Part III below for listed property. Instead, use Part V.*

Part II **Special Depreciation Allowance and Other Depreciation (Do not** include listed property.**)**

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see page 3 of the instructions)	14	92,647
15	Property subject to section 168(f)(1) election (see page 4 of the instructions)	15	
16	Other depreciation (including ACRS) (see page 4 of the instructions)	16	

Part III **MACRS Depreciation (Do not** include listed property.**)** (See page 4 of the instructions.)

Section A

17	MACRS deductions for assets placed in service in tax years beginning before 2010	17	
18	If you are electing under section 168(i)(4) to group any assets placed in service during the tax year into one or more general asset accounts, check here ▶ ☐		

Section B—Assets Placed in Service During 2010 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property		22,000	5-macros	1/2 yr.	DDB	4,400
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
			27.5 yrs.	MM	S/L	
i Nonresidential real property			39 yrs.	MM	S/L	
				MM	S/L	

Section C—Assets Placed in Service During 2010 Tax Year Using the Alternative Depreciation System

20a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part IV **Summary** (see page 6 of the instructions)

21	Listed property. Enter amount from line 28	21	
22	**Total.** Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instr.	22	97,047
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

Part V **Listed Property** (Include automobiles, certain other vehicles, cellular telephones, certain computers, and property used for entertainment, recreation, or amusement.)

Note: *For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete* ***only*** *24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.*

Section A—Depreciation and Other Information (Caution: *See page 8 of the instructions for limits for passenger automobiles.*)

24a Do you have evidence to support the business/investment use claimed? ☐ **Yes** ☐ **No** **24b** If "Yes," is the evidence written? ☐ **Yes** ☐ **No**

(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/ investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/ Convention	(h) Depreciation deduction	(i) Elected section 179 cost
25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see page 7 of the instructions)						**25**		
26 Property used more than 50% in a qualified business use (see page 7 of the instructions):								
		%						
		%						
		%						
27 Property used 50% or less in a qualified business use (see page 7 of the instructions):								
		%				S/L –		
		%				S/L –		
		%				S/L –		
28 Add amounts in column (h), lines 25 through 27. Enter here and on line 21, page 1						**28**		
29 Add amounts in column (i), line 26. Enter here and on line 7, page 1							**29**	

Section B—Information on Use of Vehicles

Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person.
If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a) Vehicle 1		(b) Vehicle 2		(c) Vehicle 3		(d) Vehicle 4		(e) Vehicle 5		(f) Vehicle 6	
30 Total business/investment miles driven during the year (**do not** include commuting miles—see page 2 of the instructions)												
31 Total commuting miles driven during the year												
32 Total other personal (noncommuting) miles driven												
33 Total miles driven during the year. Add lines 30 through 32												
	Yes	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
34 Was the vehicle available for personal use during off-duty hours?												
35 Was the vehicle used primarily by a more than 5% owner or related person?												
36 Is another vehicle available for personal use?												

Section C—Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who **are not** more than 5% owners or related persons (see page 8 of the instructions).

	Yes	**No**
37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?		
38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See page 8 of the instructions for vehicles used by corporate officers, directors, or 1% or more owners		
39 Do you treat all use of vehicles by employees as personal use?		
40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received?		
41 Do you meet the requirements concerning qualified automobile demonstration use? (See page 9 of the instructions.)		

Note: *If your answer to 37, 38, 39, 40, or 41 is "Yes," do not complete Section B for the covered vehicles.*

Part VI **Amortization**

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
42 Amortization of costs that begins during your 2010 tax year (see page 9 of the instructions):					
Loan costs	1/3/87	36,000	461	10 yrs	3,600
43 Amortization of costs that began before your 2010 tax year				**43**	
44 **Total.** Add amounts in column (f). See page 9 of the instructions for where to report				**44**	3,600

Form **4797**

Department of the Treasury
Internal Revenue Service (99)

Sales of Business Property

(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))

▶ Attach to your tax return. ▶ See separate instructions.

O

2010

Attachment Sequence No. **27**

Name(s) shown on return: B&J Computers

Identifying number: 38-0801478

1 Enter the gross proceeds from sales or exchanges reported to you for 2010 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions) . . . 1

Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year (See instructions.)

	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
2							

3	Gain, if any, from Form 4684, line 39	3	
4	Section 1231 gain from installment sales from Form 6252, line 26 or 37	4	
5	Section 1231 gain or (loss) from like-kind exchanges from Form 8824	5	
6	Gain, if any, from line 32, from other than casualty or theft	6	
7	Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows: **Partnerships (except electing large partnerships) and S corporations.** Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 6, or Form 1120S, Schedule K, line 5. Skip lines 8, 9, 11, and 12 below **All others.** If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on Schedule D and skip lines 8, 9, 11, and 12 below.	7	
8	Nonrecaptured net section 1231 losses from prior years (see instructions)	8	
9	Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on Schedule D (see instructions)	9	

Part II Ordinary Gains and Losses

10 Ordinary gains and losses not included on lines 11 through 17 (include property held 1 year or less):

11	Loss, if any, from line 7	11	( )
12	Gain, if any, from line 7 or amount from line 8, if applicable	12	
13	Gain, if any, from line 31	13	3,000
14	Net gain or (loss) from Form 4684, lines 31 and 38a	14	
15	Ordinary gain from installment sales from Form 6252, line 25 or 36	15	
16	Ordinary gain or (loss) from like-kind exchanges from Form 8824	16	
17	Recapture of section 179 expense deduction for partners and S corporation shareholders from property dispositions by partnerships and S corporations (see instructions)	17	
18	Combine lines 10 through 17. Enter the gain or (loss) here and on the appropriate line as follows:	18	3,000
a	**For all except individual returns.** Enter the gain or (loss) from line 18 on the return being filed.		
b	**For individual returns:**		
(1)	If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 27, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 22. Identify as from "Form 4797, line 18b(1)." See instructions	18b(1)	
(2)	Redetermine the gain or (loss) on line 18 excluding the loss, if any, on line 18b(1). Enter here and on Form 1040, line 14	18b(2)	

Form 4797 (2010)

Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255

19 (a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)
A Automatic assembly rebot	1/13/90	6/18/93
B		
C		
D		

These columns relate to the properties on lines 19A through 19D. ▶		Property A	Property B	Property C	Property D
20 Gross sales price (**Note:** *See line 1 before completing.*)	20	95,400			
21 Cost or other basis plus expense of sale	21	220,000			
22 Depreciation (or depletion) allowed or allowable	22	127,600			
23 Adjusted basis. Subtract line 22 from line 21	23	92,400			
24 Total gain. Subtract line 23 from line 20	24	3,000			
25 **If section 1245 property:**					
a Depreciation allowed or allowable from line 22	25a	127,600			
b Enter the **smaller** of line 24 or 25a	25b	3,000			
26 **If section 1250 property:** If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.					
a Additional depreciation after 1975 (see instructions)	26a				
b Applicable percentage multiplied by the **smaller** of line 24 or line 26a (see instructions)	26b				
c Subtract line 26a from line 24. If residential rental property **or** line 24 is not more than line 26a, skip lines 26d and 26e	26c				
d Additional depreciation after 1969 and before 1976	26d				
e Enter the **smaller** of line 26c or 26d	26e				
f Section 291 amount (corporations only)	26f				
g Add lines 26b, 26e, and 26f	26g				
27 **If section 1252 property:** Skip this section if you did not dispose of farmland or if this form is being completed for a partnership (other than an electing large partnership).					
a Soil, water, and land clearing expenses	27a				
b Line 27a multiplied by applicable percentage (see instructions)	27b				
c Enter the **smaller** of line 24 or 27b	27c				
28 **If section 1254 property:**					
a Intangible drilling and development costs, expenditures for development of mines and other natural deposits, and mining exploration costs (see instructions)	28a				
b Enter the **smaller** of line 24 or 28a	28b				
29 **If section 1255 property:**					
a Applicable percentage of payments excluded from income under section 126 (see instructions)	29a				
b Enter the **smaller** of line 24 or 29a (see instructions)	29b				

Summary of Part III Gains. Complete property columns A through D through line 29b before going to line 30.

30 Total gains for all properties. Add property columns A through D, line 24	30	3,000
31 Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31	3,000
32 Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 33. Enter the portion from other than casualty or theft on Form 4797, line 6	32	0

Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less (See instructions.)

		(a) Section 179	(b) Section 280F(b)(2)
33 Section 179 expense deduction or depreciation allowable in prior years	33		
34 Recomputed depreciation. See instructions	34		
35 Recapture amount. Subtract line 34 from line 33. See the instructions for where to report	35		

Form **8825**

Department of the Treasury
Internal Revenue Service

Rental Real Estate Income and Expenses of a Partnership or an S Corporation

▶ See instructions on back.
▶ Attach to Form 1065, Form 1065-B, or Form 1120S.

O

2010

Name: B&J Computers

Employer identification number: 38 0801478

1 Show the kind and location of each property. See page 2 for additional properties.

A Manufacturing and distribution building, Ann Arbor, Michigan

B

C

D

		Properties							
		A		B		C		D	
Rental Real Estate Income									
2 Gross rents	2	18,560	00						
Rental Real Estate Expenses									
3 Advertising	3								
4 Auto and travel	4								
5 Cleaning and maintenance	5								
6 Commissions	6								
7 Insurance	7								
8 Legal and other professional fees	8								
9 Interest	9	8,250	00						
10 Repairs	10								
11 Taxes	11	2,000	00						
12 Utilities	12								
13 Wages and salaries	13								
14 Depreciation (see instructions)	14	1,905	00						
15 Other (list) ▶	15								
16 Total expenses for each property. Add lines 3 through 15	16	12,155	00						

17	Total gross rents. Add gross rents from line 2, columns A through H	17	18,560 00
18	Total expenses. Add total expenses from line 16, columns A through H	18	(12,155 00)
19	Net gain (loss) from Form 4797, Part II, line 18, from the disposition of property from rental real estate activities	19	
20a	Net income (loss) from rental real estate activities from partnerships, estates, and trusts in which this partnership or S corporation is a partner or beneficiary (from Schedule K-1)	20a	

b Identify below the partnerships, estates, or trusts from which net income (loss) is shown on line 20a. Attach a schedule if more space is needed:

(1) Name	(2) Employer identification number

21	Net income (loss) from rental real estate activities. Combine lines 17 through 20a. Enter the result here and on: • **Form 1065 or 1120S:** Schedule K, line 2, or • **Form 1065-B:** Part I, line 4	21	6,405 00

1	Show the kind and location of each property.
E	
F	
G	
H	

			Properties							
			E		F		G		H	
	Rental Real Estate Income									
2	Gross rents	2								
	Rental Real Estate Expenses									
3	Advertising	3								
4	Auto and travel	4								
5	Cleaning and maintenance	5								
6	Commissions	6								
7	Insurance	7								
8	Legal and other professional fees	8								
9	Interest	9								
10	Repairs	10								
11	Taxes	11								
12	Utilities	12								
13	Wages and salaries	13								
14	Depreciation (see instructions)	14								
15	Other (list) ▶	15								
16	Total expenses for each property. Add lines 3 through 15	16								

Instructions

Section references are to the Internal Revenue Code.

Purpose of form. Partnerships and S corporations use Form 8825 to report income and deductible expenses from rental real estate activities, including net income (loss) from rental real estate activities that flow through from partnerships, estates, or trusts.

Before completing this form, be sure to read:

- **Passive Activity Limitations** in the instructions for Form 1065 or Form 1120S, or **Passive Loss Limitation Activities** in the Instructions for Form 1065-B, especially for the definition of "rental activity."
- **Extraterritorial Income Exclusion** in the instructions for Form 1065, 1065-B, or 1120S.

Lines 1 through 21. Form 8825 provides space for up to eight properties. If there are more than eight properties, complete and attach additional Forms 8825.

The number of columns to be used for reporting income and expenses on this form may differ from the number of rental real estate activities the partnership or S corporation has for purposes of the passive activity limitations. For example, a partnership owns two apartment buildings, each located in a different city. For purposes of the passive activity limitations, the partnership grouped both buildings into a single activity. Although the partnership has only one rental real estate activity, it must report the income and deductions for each building in separate columns.

However, if the partnership or S corporation has more than one rental real estate activity, attach a statement to Schedule K that reports the net income (loss) for each separate activity. Also, attach a statement to each Schedule K-1 that reports each partner's or shareholder's share of the net income (loss) for each separate activity (except for limited partners in an electing large partnership). See **Passive Activity Reporting Requirements** in the instructions for Form 1065, Form 1065-B, or Form 1120S for additional information that must be provided for each activity.

Complete lines 1 through 16 for each property. But complete lines 17 through 21 on only one Form 8825. The figures on lines 17 and 18 should be the combined totals of all forms.

Do not report on Form 8825 any:

- Income or deductions from a trade or business activity or a rental activity other than rental real estate.
- Portfolio income or deductions.
- Section 179 expense deduction.
- Other items that must be reported separately to the partners or shareholders.

Line 1. Show the kind of property rented out (e.g., "apartment building"). Give the street address, city or town, and state.

Line 14. The partnership or S corporation may claim a depreciation deduction each year for rental property (except for land, which is not depreciable). If the partnership or S corporation placed property in service during the current tax year or claimed depreciation on any vehicle or other listed property, complete and attach **Form 4562,** Depreciation and Amortization. See Form 4562 and its instructions to figure the depreciation deduction.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping,** 6 hr., 27 min.; **Learning about the law or the form,** 34 min.; **Preparing the form,** 1 hr., 37 min.; **Copying, assembling, and sending the form to the IRS,** 16 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

Form **1120**
Department of the Treasury
Internal Revenue Service

U.S. Corporation Income Tax Return

For calendar year 2010 or tax year beginning _____, 2010, ending _____, 20____
▶ Instructions are separate. See page 20 for Paperwork Reduction Act Notice.

2010

A Check if a:
1 Consolidated return (attach Form 851) ☐
2 Personal holding co. (attach Sch. PH) ☐
3 Personal service corp. (as defined in Regulations sec. 1.441-3(c)— see instructions) ☐

Use IRS label. Otherwise, print or type.

Name: James Brothers' Men's Wear, Inc.
Number, street, and room or suite no. (If a P.O. box, see page 7 of instructions.): 4321 South Main Street
City or town, state, and ZIP code: Atlanta, Georgia 63284

B Employer identification number: 73 0068478
C Date incorporated: 4/1/65
D Total assets (see page 8 of instructions): $ 685,553 00

E Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change

Income	1a	Gross receipts or sales	b Less returns and allowances	c Bal ▶	1c	1,465,580 00
	2	Cost of goods sold (Schedule A, line 8)			2	768,780 00
	3	Gross profit. Subtract line 2 from line 1c			3	696,800 00
	4	Dividends (Schedule C, line 19)			4	8,000 00
	5	Interest			5	11,000 00
	6	Gross rents			6	
	7	Gross royalties			7	
	8	Capital gain net income (attach Schedule D (Form 1120))			8	8,250 00
	9	Net gain or (loss) from Form 4797, Part II, line 18 (attach Form 4797)			9	3,200 00
	10	Other income (see page 9 of instructions—attach schedule)			10	
	11	**Total income.** Add lines 3 through 10 ▶			11	727,250 00
Deductions (See instructions for limitations on deductions.)	12	Compensation of officers (Schedule E, line 4)			12	90,000 00
	13	Salaries and wages (less employment credits)			13	112,800 00
	14	Repairs and maintenance			14	1,200 00
	15	Bad debts			15	
	16	Rents			16	52,500 00
	17	Taxes and licenses			17	41,000 00
	18	Interest			18	33,000 00
	19	Charitable contributions (see page 11 of instructions for 10% limitation)			19	10,000 00
	20	Depreciation (attach Form 4562)	20	26,800 00		
	21	Less depreciation claimed on Schedule A and elsewhere on return	21a		21b	26,800 00
	22	Depletion			22	
	23	Advertising			23	24,000 00
	24	Pension, profit-sharing, etc., plans			24	
	25	Employee benefit programs			25	7,200 00
	26	Other deductions (attach schedule)			26	26,000 00
	27	**Total deductions.** Add lines 12 through 26 ▶			27	424,500 00
	28	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11			28	302,750 00
	29	**Less:** a Net operating loss (NOL) deduction (see page 13 of instructions)	29a			
		b Special deductions (Schedule C, line 20)	29b	6,400 00	29c	6,400 00
Tax and Payments	30	**Taxable income.** Subtract line 29c from line 28			30	296,350 00
	31	**Total tax** (Schedule J, line 11)			31	98,827 00
	32	Payments: a 2009 overpayment credited to 2010	32a			
	b	2010 estimated tax payments	32b	100,000 00		
	c	Less 2010 refund applied for on Form 4466	32c	( )	d Bal ▶ 32d	
	e	Tax deposited with Form 7004			32e	
	f	Credit for tax paid on undistributed capital gains (attach Form 2439)			32f	
	g	Credit for Federal tax on fuels (attach Form 4136). See instructions			32g	32h 100,000 00
	33	Estimated tax penalty (see page 14 of instructions). Check if Form 2220 is attached ▶ ☐			33	
	34	**Tax due.** If line 32h is smaller than the total of lines 31 and 33, enter amount owed			34	
	35	**Overpayment.** If line 32h is larger than the total of lines 31 and 33, enter amount overpaid			35	1,173 00
	36	Enter amount of line 35 you want: **Credited to 2011 estimated tax** ▶ **Refunded** ▶			36	1,173 00

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer ▶ Date ▶ Title

May the IRS discuss this return with the preparer shown below (see instructions)? ☐ Yes ☑ No

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ☑	Preparer's SSN or PTIN 130-40-8861
Firm's name (or yours if self-employed), address, and ZIP code ▶	Alan Young, CPA 1633 Broadway, New York, NY 10019	EIN	
		Phone no. ( )	

Schedule A Cost of Goods Sold (see page 14 of instructions)

1	Inventory at beginning of year	1	356,925	00
2	Purchases	2	711,625	00
3	Cost of labor	3		
4	Additional section 263A costs (attach schedule)	4		
5	Other costs (attach schedule)	5	22,060	00
6	**Total.** Add lines 1 through 5	6	1,090,610	00
7	Inventory at end of year	7	321,830	00
8	**Cost of goods sold.** Subtract line 7 from line 6. Enter here and on line 2, page 1	8	768,780	00

9a Check all methods used for valuing closing inventory:
- (i) ☑ Cost as described in Regulations section 1.471-3
- (ii) ☐ Lower of cost or market as described in Regulations section 1.471-4
- (iii) ☐ Other (Specify method used and attach explanation.) ▶

b Check if there was a writedown of subnormal goods as described in Regulations section 1.471-2(c) ▶ ☐

c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ▶ ☐

d If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO — 9d

e If property is produced or acquired for resale, do the rules of section 263A apply to the corporation? ☐ Yes ☑ No

f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation ☐ Yes ☑ No

Schedule C Dividends and Special Deductions (see instructions beginning on page 15)

		(a) Dividends received	(b) %	(c) Special deductions (a) × (b)
1	Dividends from less-than-20%-owned domestic corporations that are subject to the 70% deduction (other than debt-financed stock)		70	
2	Dividends from 20%-or-more-owned domestic corporations that are subject to the 80% deduction (other than debt-financed stock)	8,000	80	6,400
3	Dividends on debt-financed stock of domestic and foreign corporations (section 246A)		see instructions	
4	Dividends on certain preferred stock of less-than-20%-owned public utilities		42	
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities		48	
6	Dividends from less-than-20%-owned foreign corporations and certain FSCs that are subject to the 70% deduction		70	
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs that are subject to the 80% deduction		80	
8	Dividends from wholly owned foreign subsidiaries subject to the 100% deduction (section 245(b))		100	
9	**Total.** Add lines 1 through 8. See page 16 of instructions for limitation			6,400
10	Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11	Dividends from certain FSCs that are subject to the 100% deduction (section 245(c)(1))		100	
12	Dividends from affiliated group members subject to the 100% deduction (section 243(a)(3))		100	
13	Other dividends from foreign corporations not included on lines 3, 6, 7, 8, or 11			
14	Income from controlled foreign corporations under subpart F (attach Form(s) 5471)			
15	Foreign dividend gross-up (section 78)			
16	IC-DISC and former DISC dividends not included on lines 1, 2, or 3 (section 246(d))			
17	Other dividends			
18	Deduction for dividends paid on certain preferred stock of public utilities			0
19	**Total dividends.** Add lines 1 through 17. Enter here and on line 4, page 1 ▶	8,000		
20	**Total special deductions.** Add lines 9, 10, 11, 12, and 18. Enter here and on line 29b, page 1 ▶			6,400

Schedule E Compensation of Officers (see instructions for line 12, page 1, on page 10 of instructions)

Note: *Complete Schedule E only if total receipts (line 1a plus lines 4 through 10 on page 1) are $500,000 or more.*

	(a) Name of officer	(b) Social security number	(c) Percent of time devoted to business	Percent of corporation stock owned (d) Common	(e) Preferred	(f) Amount of compensation
1	Tom James	397-44-6320	100 %	33 %	%	42,000
	Sam James	386-36-5918	100 %	33 %	%	30,000
	Mary James	332-14-1960	100 %	%	%	18,000
			%	%	%	
			%	%	%	

2	Total compensation of officers	90,000
3	Compensation of officers claimed on Schedule A and elsewhere on return	
4	Subtract line 3 from line 2. Enter the result here and on line 12, page 1	90,000

Schedule J Tax Computation (see page 17 of instructions)

1	Check if the corporation is a member of a controlled group (see sections 1561 and 1563) ▶ ☐ **Important:** Members of a controlled group, see instructions on page 17.			
2a	If the box on line 1 is checked, enter the corporation's share of the $50,000, $25,000, and $9,925,000 taxable income brackets (in that order): (1) $ (2) $ (3) $			
b	Enter the corporation's share of: (1) Additional 5% tax (not more than $11,750) $ (2) Additional 3% tax (not more than $100,000) $			
3	Income tax. Check if a qualified personal service corporation under section 448(d)(2) (see page 17) ▶ ☐	3	98,827	00
4	Alternative minimum tax (attach Form 4626)	4	0	00
5	Add lines 3 and 4	5	98,827	00
6a	Foreign tax credit (attach Form 1118)	6a		
b	Possessions tax credit (attach Form 5735)	6b		
c	Check: ☐ Nonconventional source fuel credit ☐ QEV credit (attach Form 8834)	6c		
d	General business credit. Check box(es) and indicate which forms are attached. ☐ Form 3800 ☐ Form(s) (specify) ▶	6d		
e	Credit for prior year minimum tax (attach Form 8827)	6e		
f	Qualified zone academy bond credit (attach Form 8860)	6f		
7	**Total credits.** Add lines 6a through 6f	7	0	00
8	Subtract line 7 from line 5	8	98,827	00
9	Personal holding company tax (attach Schedule PH (Form 1120))	9		
10	Other taxes. Check if from: ☐ Form 4255 ☐ Form 8611 ☐ Form 8697 ☐ Form 8866 ☐ Other (attach schedule)	10		
11	**Total tax.** Add lines 8 through 10. Enter here and on line 31, page 1	11	98,827	00

Schedule K Other Information (see page 19 of instructions)

		Yes	No
1	Check method of accounting: a ☐ Cash b ☑ Accrual c ☐ Other (specify) ▶		
2	See page 21 of the instructions and enter the:		
a	Business activity code no. ▶ 5,600		
b	Business activity ▶ Retail Sales		
c	Product or service ▶ Men's Clothing		
3	At the end of the tax year, did the corporation own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).) If "Yes," attach a schedule showing: **(a)** name and employer identification number (EIN), **(b)** percentage owned, and **(c)** taxable income or (loss) before NOL and special deductions of such corporation for the tax year ending with or within your tax year.		✓
4	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? If "Yes," enter name and EIN of the parent corporation ▶		✓
5	At the end of the tax year, did any individual, partnership, corporation, estate, or trust own, directly or indirectly, 50% or more of the corporation's voting stock? (For rules of attribution, see section 267(c).) If "Yes," attach a schedule showing name and identifying number. (Do not include any information already entered in **4** above.) Enter percentage owned ▶		✓
6	During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.) If "Yes," file **Form 5452,** Corporate Report of Nondividend Distributions. If this is a consolidated return, answer here for the parent corporation and on **Form 851,** Affiliations Schedule, for each subsidiary.		✓
7	At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of **(a)** the total voting power of all classes of stock of the corporation entitled to vote or **(b)** the total value of all classes of stock of the corporation? If "Yes," enter: **(a)** Percentage owned ▶ and **(b)** Owner's country ▶		✓
c	The corporation may have to file **Form 5472,** Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter number of Forms 5472 attached ▶		
8	Check this box if the corporation issued publicly offered debt instruments with original issue discount ▶ ☐ If checked, the corporation may have to file **Form 8281,** Information Return for Publicly Offered Original Issue Discount Instruments.		
9	Enter the amount of tax-exempt interest received or accrued during the tax year ▶ $ 6,000		
10	Enter the number of shareholders at the end of the tax year (if 75 or fewer) ▶ 3		
11	If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here ▶ ☐ If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3)(i) or (ii) must be attached or the election will not be valid.		
12	Enter the available NOL carryover from prior tax years (Do not reduce it by any deduction on line 29a.) ▶ $		
13	Are the corporation's total receipts (line 1a plus lines 4 through 10 on page 1) for the tax year **and** its total assets at the end of the tax year less than $250,000? If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2 on page 4. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year. ▶ $		✓

Note: *If the corporation, at any time during the tax year, had assets or operated a business in a foreign country or U.S. possession, it may be required to attach* ***Schedule N (Form 1120),*** *Foreign Operations of U.S. Corporations, to this return. See Schedule N for details.*

Note: *The corporation is not required to complete Schedules L, M-1, and M-2 if Question 13 on Schedule K is answered "Yes."*

Schedule L Balance Sheets per Books

		Beginning of tax year		End of tax year	
	Assets	(a)	(b)	(c)	(d)
1	Cash		21,870		36,910
2a	Trade notes and accounts receivable	47,680		83,070	
b	Less allowance for bad debts	( )	47,680	( )	83,070
3	Inventories		356,925		321,830
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				116,618
6	Other current assets (attach schedule)				
7	Loans to shareholders				
8	Mortgage and real estate loans				
9	Other investments (attach schedule)		16,010		94,800
10a	Buildings and other depreciable assets	89,500		93,500	
b	Less accumulated depreciation	(56,750)	32,750	(66,175)	27,325
11a	Depletable assets				
b	Less accumulated depletion	( )		( )	
12	Land (net of any amortization)		5,000		5,000
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization	( )		( )	
14	Other assets (attach schedule)		4,000		
15	Total assets		484,235		685,553
	Liabilities and Shareholders' Equity				
16	Accounts payable		59,245		45,540
17	Mortgages, notes, bonds payable in less than 1 year		297,500		288,600
18	Other current liabilities (attach schedule)				
19	Loans from shareholders				
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (attach schedule)				
22	Capital stock: a Preferred stock				
	b Common stock	30,000	30,000	30,000	30,000
23	Additional paid-in capital		10,000		10,000
24	Retained earnings—Appropriated (attach schedule)				
25	Retained earnings—Unappropriated		87,490		311,413
26	Adjustments to shareholders' equity (attach schedule)				
27	Less cost of treasury stock		( )		( )
28	Total liabilities and shareholders' equity		485,235		685,553

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return (see page 20 of instructions)

1	Net income (loss) per books	223,923	7	Income recorded on books this year not included on this return (itemize): Tax-exempt interest $ 6,000 Appreciated Land - $6,000	12,000
2	Federal income tax per books	98,827			
3	Excess of capital losses over capital gains				
4	Income subject to tax not recorded on books this year (itemize):		8	Deductions on this return not charged against book income this year (itemize): a Depreciation $ 8,000 b Charitable contributions $	8,000
5	Expenses recorded on books this year not deducted on this return (itemize): a Depreciation $ b Charitable contributions $ c Travel and entertainment $		9	Add lines 7 and 8	20,000
6	Add lines 1 through 5	322,750	10	Income (line 28, page 1)—line 6 less line 9	302,750

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1	Balance at beginning of year	87,490	5	Distributions: a Cash	
2	Net income (loss) per books	223,923		b Stock	
3	Other increases (itemize):			c Property	
			6	Other decreases (itemize):	
			7	Add lines 5 and 6	
4	Add lines 1, 2, and 3	311,413	8	Balance at end of year (line 4 less line 7)	311,413

SCHEDULE D (Form 1120)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

▶ Attach to Form 1120, 1120-A, 1120-F, 1120-FSC, 1120-H, 1120-IC-DISC, 1120-L, 1120-ND, 1120-PC, 1120-POL, 1120-REIT, 1120-RIC, 1120-SF, 990-C, or certain Forms 990-T.

2010

Name: James Brothers' Men's Wear, Inc.

Employer identification number: 73 0068478

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

	(a) Description of property (Example: 100 shares of Z Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain or (loss) (Subtract (e) from (d))
1						

2	Short-term capital gain from installment sales from Form 6252, line 26 or 37	2	
3	Short-term gain or (loss) from like-kind exchanges from Form 8824	3	
4	Unused capital loss carryover (attach computation)	4	( )
5	Net short-term capital gain or (loss). Combine lines 1 through 4	5	

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

6	200 shares Flower & Co. stock	9/15/97	4/15/02	4,250	2,000	2,250
	Land	6/20/96	8/1/02	11,000	5,000	6,000

7	Enter gain from Form 4797, column (g), line 7 or 9	7	
8	Long-term capital gain from installment sales from Form 6252, line 26 or 37	8	
9	Long-term gain or (loss) from like-kind exchanges from Form 8824	9	
10	Capital gain distributions (see instructions)	10	
11	Net long-term capital gain or (loss). Combine lines 6 through 10	11	8,250

Part III Summary of Parts I and II

12	Enter excess of net short-term capital gain (line 5) over net long-term capital loss (line 11)	12	
13	Net capital gain. Enter excess of net long-term capital gain (line 11) over net short-term capital loss (line 5)	13	8,250
14	Add lines 12 and 13. Enter here and on Form 1120, page 1, line 8, or the proper line on other returns	14	8,250

Note: *If losses exceed gains, see* ***Capital losses*** *in the instructions on page 2.*

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Schedule

Use Schedule D to report sales and exchanges of capital assets and gains on distributions to shareholders of appreciated capital assets.

Note: *For more information, see* ***Pub. 544,*** *Sales and Other Dispositions of Assets.*

Other Forms the Corporation May Have To File

Use **Form 4797,** Sales of Business Property, to report the following:

- The sale or exchange of:

1. Property used in a trade or business;

2. Depreciable and amortizable property;

3. Oil, gas, geothermal, or other mineral property; and

4. Section 126 property.

- The involuntary conversion (other than from casualty or theft) of property and capital assets held for business or profit.
- The disposition of noncapital assets other than inventory or property held primarily for sale to customers in the ordinary course of the corporation's trade or business.
- The section 291 adjustment to section 1250 property.

Use **Form 4684,** Casualties and Thefts, to report involuntary conversions of property due to casualty or theft.

Use **Form 6781,** Gains and Losses From Section 1256 Contracts and Straddles, to report gains and losses from section 1256 contracts and straddles.

Use **Form 8824,** Like-Kind Exchanges, if the corporation made one or more "like-kind" exchanges. A like-kind exchange occurs when the corporation exchanges business or investment property for property of a like kind. For exchanges of capital assets, include the gain or (loss) from Form 8824, if any, on line 3 or line 9.

Form **4562**

Department of the Treasury
Internal Revenue Service

Depreciation and Amortization
(Including Information on Listed Property)

▶ See separate instructions. ▶ Attach to your tax return.

2010
Attachment Sequence No. **67**

Name(s) shown on return	Business or activity to which this form relates	Identifying number
James Brothers' Men's Wear, Inc.	Retail Sales	73-0068478

Part I **Election To Expense Certain Tangible Property Under Section 179**
Note: *If you have any listed property, complete Part V before you complete Part I.*

1	Maximum amount. See page 2 of the instructions for a higher limit for certain businesses	1	$24,000
2	Total cost of section 179 property placed in service (see page 2 of the instructions)	2	24,000
3	Threshold cost of section 179 property before reduction in limitation	3	$200,000
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	0
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see page 2 of the instructions	5	17,500

	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
6	5 year equipment	24,000	17,500

7	Listed property. Enter the amount from line 29	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	17,500
9	Tentative deduction. Enter the **smaller** of line 5 or line 8	9	17,500
10	Carryover of disallowed deduction from line 13 of your 2009 Form 4562.	10	0
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	17,500
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	17,500
13	Carryover of disallowed deduction to 2011. Add lines 9 and 10, less line 12 ▶	13	

Note: *Do not use Part II or Part III below for listed property. Instead, use Part V.*

Part II **Special Depreciation Allowance and Other Depreciation (Do not** include listed property.**)**

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see page 3 of the instructions)	14	
15	Property subject to section 168(f)(1) election (see page 4 of the instructions)	15	
16	Other depreciation (including ACRS) (see page 4 of the instructions)	16	8,000

Part III **MACRS Depreciation (Do not** include listed property.**)** (See page 4 of the instructions.)

Section A

17	MACRS deductions for assets placed in service in tax years beginning before 2010	17	
18	If you are electing under section 168(i)(4) to group any assets placed in service during the tax year into one or more general asset accounts, check here ▶ ☐		

Section B—Assets Placed in Service During 2010 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property		6,500	5 yrs	1/2 yrs	DDB	1,300
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
			27.5 yrs.	MM	S/L	
i Nonresidential real property			39 yrs.	MM	S/L	
				MM	S/L	

Section C—Assets Placed in Service During 2010 Tax Year Using the Alternative Depreciation System

20a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part IV **Summary** (see page 6 of the instructions)

21	Listed property. Enter amount from line 28	21	
22	**Total.** Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instr.	22	26,800
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	0

Part V **Listed Property** (Include automobiles, certain other vehicles, cellular telephones, certain computers, and property used for entertainment, recreation, or amusement.)

Note: *For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete* ***only*** *24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.*

Section A—Depreciation and Other Information (Caution: *See page 8 of the instructions for limits for passenger automobiles.***)**

24a Do you have evidence to support the business/investment use claimed? ☐ **Yes** ☐ **No** **24b** If "Yes," is the evidence written? ☐ **Yes** ☐ **No**

(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/ investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/ Convention	(h) Depreciation deduction	(i) Elected section 179 cost
25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see page 7 of the instructions)						**25**		
26 Property used more than 50% in a qualified business use (see page 7 of the instructions):								
		%						
		%						
		%						
27 Property used 50% or less in a qualified business use (see page 7 of the instructions):								
		%				S/L –		
		%				S/L –		
		%				S/L –		
28 Add amounts in column (h), lines 25 through 27. Enter here and on line 21, page 1						**28**		
29 Add amounts in column (i), line 26. Enter here and on line 7, page 1							**29**	

Section B—Information on Use of Vehicles

Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person.
If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a) Vehicle 1		(b) Vehicle 2		(c) Vehicle 3		(d) Vehicle 4		(e) Vehicle 5		(f) Vehicle 6	
30 Total business/investment miles driven during the year (**do not** include commuting miles—see page 2 of the instructions)												
31 Total commuting miles driven during the year												
32 Total other personal (noncommuting) miles driven												
33 Total miles driven during the year. Add lines 30 through 32												
	Yes	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
34 Was the vehicle available for personal use during off-duty hours?												
35 Was the vehicle used primarily by a more than 5% owner or related person?												
36 Is another vehicle available for personal use?												

Section C—Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who **are not** more than 5% owners or related persons (see page 8 of the instructions).

	Yes	**No**
37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?		
38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See page 8 of the instructions for vehicles used by corporate officers, directors, or 1% or more owners		
39 Do you treat all use of vehicles by employees as personal use?		
40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received?		
41 Do you meet the requirements concerning qualified automobile demonstration use? (See page 9 of the instructions.)		

Note: *If your answer to 37, 38, 39, 40, or 41 is "Yes," do not complete Section B for the covered vehicles.*

Part VI **Amortization**

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
42 Amortization of costs that begins during your 2010 tax year (see page 9 of the instructions):					
43 Amortization of costs that began before your 2010 tax year				**43**	
44 **Total.** Add amounts in column (f). See page 9 of the instructions for where to report				**44**	

Form **4797**

Department of the Treasury
Internal Revenue Service (99)

Sales of Business Property

(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))

▶ Attach to your tax return. ▶ See separate instructions.

2010

Attachment Sequence No. **27**

Name(s) shown on return: James Brothers' Men's Wear, Inc.

Identifying number: 73-0068478

1 Enter the gross proceeds from sales or exchanges reported to you for 2010 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions) . . . 1

Part I **Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year** (See instructions.)

	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
2							

3	Gain, if any, from Form 4684, line 39	3	
4	Section 1231 gain from installment sales from Form 6252, line 26 or 37	4	
5	Section 1231 gain or (loss) from like-kind exchanges from Form 8824	5	
6	Gain, if any, from line 32, from other than casualty or theft	6	
7	Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows: **Partnerships (except electing large partnerships) and S corporations.** Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 6, or Form 1120S, Schedule K, line 5. Skip lines 8, 9, 11, and 12 below **All others.** If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on Schedule D and skip lines 8, 9, 11, and 12 below.	7	
8	Nonrecaptured net section 1231 losses from prior years (see instructions)	8	
9	Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on Schedule D (see instructions)	9	

Part II **Ordinary Gains and Losses**

10 Ordinary gains and losses not included on lines 11 through 17 (include property held 1 year or less):

11	Loss, if any, from line 7	11	( )
12	Gain, if any, from line 7 or amount from line 8, if applicable	12	
13	Gain, if any, from line 31	13	3,200
14	Net gain or (loss) from Form 4684, lines 31 and 38a	14	
15	Ordinary gain from installment sales from Form 6252, line 25 or 36	15	
16	Ordinary gain or (loss) from like-kind exchanges from Form 8824	16	
17	Recapture of section 179 expense deduction for partners and S corporation shareholders from property dispositions by partnerships and S corporations (see instructions)	17	
18	Combine lines 10 through 17. Enter the gain or (loss) here and on the appropriate line as follows:	18	3,200
a	**For all except individual returns.** Enter the gain or (loss) from line 18 on the return being filed.		
b	**For individual returns:**		
(1)	If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 27, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 22. Identify as from "Form 4797, line 18b(1)." See instructions	18b(1)	
(2)	Redetermine the gain or (loss) on line 18 excluding the loss, if any, on line 18b(1). Enter here and on Form 1040, line 14	18b(2)	

Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255

19 (a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)
A Equipment	9/20/87	7/18/02
B		
C		
D		

These columns relate to the properties on lines 19A through 19D. ▶		Property A	Property B	Property C	Property D
20 Gross sales price (**Note:** *See line 1 before completing.*)	20	5,825			
21 Cost or other basis plus expense of sale	21	12,500			
22 Depreciation (or depletion) allowed or allowable	22	9,875			
23 Adjusted basis. Subtract line 22 from line 21	23	2,625			
24 Total gain. Subtract line 23 from line 20	24	3,200			
25 **If section 1245 property:**					
a Depreciation allowed or allowable from line 22	25a	9,875			
b Enter the **smaller** of line 24 or 25a	25b	3,200			
26 **If section 1250 property:** If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.					
a Additional depreciation after 1975 (see instructions)	26a				
b Applicable percentage multiplied by the **smaller** of line 24 or line 26a (see instructions)	26b				
c Subtract line 26a from line 24. If residential rental property **or** line 24 is not more than line 26a, skip lines 26d and 26e	26c				
d Additional depreciation after 1969 and before 1976	26d				
e Enter the **smaller** of line 26c or 26d	26e				
f Section 291 amount (corporations only)	26f				
g Add lines 26b, 26e, and 26f	26g				
27 **If section 1252 property:** Skip this section if you did not dispose of farmland or if this form is being completed for a partnership (other than an electing large partnership).					
a Soil, water, and land clearing expenses	27a				
b Line 27a multiplied by applicable percentage (see instructions)	27b				
c Enter the **smaller** of line 24 or 27b	27c				
28 **If section 1254 property:**					
a Intangible drilling and development costs, expenditures for development of mines and other natural deposits, and mining exploration costs (see instructions)	28a				
b Enter the **smaller** of line 24 or 28a	28b				
29 **If section 1255 property:**					
a Applicable percentage of payments excluded from income under section 126 (see instructions)	29a				
b Enter the **smaller** of line 24 or 29a (see instructions)	29b				

Summary of Part III Gains. Complete property columns A through D through line 29b before going to line 30.

30 Total gains for all properties. Add property columns A through D, line 24	30	3,200
31 Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31	3,200
32 Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 33. Enter the portion from other than casualty or theft on Form 4797, line 6	32	0

Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less

(See instructions.)

		(a) Section 179	(b) Section 280F(b)(2)
33 Section 179 expense deduction or depreciation allowable in prior years	33		
34 Recomputed depreciation. See instructions	34		
35 Recapture amount. Subtract line 34 from line 33. See the instructions for where to report	35		

Form **4626**

Department of the Treasury
Internal Revenue Service

Alternative Minimum Tax—Corporations

▶ See separate instructions.
▶ Attach to the corporation's tax return.

2010

Name: James Brothers' Men's Wear, Inc.

Employer identification number: 73 : 0068478

1	Taxable income or (loss) before net operating loss deduction			1	296,350
2	**Adjustments and preferences:**				
a	Depreciation of post-1994 property	2a	325		
b	Amortization of certified pollution control facilities	2b			
c	Amortization of mining exploration and development costs	2c			
d	Amortization of circulation expenditures (personal holding companies only)	2d			
e	Adjusted gain or loss	2e			
f	Long-term contracts	2f			
g	Installment sales	2g			
h	Merchant marine capital construction funds	2h			
i	Section 833(b) deduction (Blue Cross, Blue Shield, and similar type organizations only)	2i			
j	Tax shelter farm activities (personal service corporations only)	2j			
k	Passive activities (closely held corporations and personal service corporations only)	2k			
l	Loss limitations	2l			
m	Depletion	2m			
n	Tax-exempt interest income from specified private activity bonds	2n	6,000		
o	Intangible drilling costs	2o			
p	Accelerated depreciation of real property (pre-1995)	2p			
q	Accelerated depreciation of leased personal property (pre-1995) (personal holding companies only)	2q			
r	Other adjustments	2r			
s	Combine lines 2a through 2r			2s	6,325
3	Preadjustment alternative minimum taxable income (AMTI). Combine lines 1 and 2s			3	302,675
4	**Adjusted current earnings (ACE) adjustment:**				
a	Enter the corporation's ACE from line 10 of the worksheet on page 11 of the instructions	4a	311,750		
b	Subtract line 3 from line 4a. If line 3 exceeds line 4a, enter the difference as a negative amount. See examples on page 6 of the instructions	4b	9,075		
c	Multiply line 4b by 75% (.75). Enter the result as a positive amount	4c	6,806		
d	Enter the excess, if any, of the corporation's total increases in AMTI from prior year ACE adjustments over its total reductions in AMTI from prior year ACE adjustments (see page 6 of the instructions). **Note:** *You **must** enter an amount on line 4d (even if line 4b is positive)*	4d	0		
e	ACE adjustment: • If you entered a positive number or zero on line 4b, enter the amount from line 4c here as a positive amount. • If you entered a negative number on line 4b, enter the smaller of line 4c or line 4d here as a negative amount.			4e	6,806
5	Combine lines 3 and 4e. If zero or less, stop here; the corporation does not owe alternative minimum tax			5	309,481
6	Alternative tax net operating loss deduction (see page 7 of the instructions)			6	0
7	**Alternative minimum taxable income.** Subtract line 6 from line 5. If the corporation held a residual interest in a REMIC, see page 7 of the instructions			7	309,481

8	Enter the amount from line 7 (alternative minimum taxable income)			8	309,481
9	**Exemption phase-out computation** (if line 8 is $310,000 or more, skip lines 9a and 9b and enter -0- on line 9c):				
a	Subtract $150,000 from line 8 (if completing this line for a member of a controlled group, see page 7 of the instructions). If zero or less, enter -0-	9a	159,481		
b	Multiply line 9a by 25% (.25)	9b	39,870		
c	Exemption. Subtract line 9b from $40,000 (if you are completing this line for a member of a controlled group, see page 7 of the instructions). If zero or less, enter -0-			9c	130
10	Subtract line 9c from line 8. If zero or less, enter -0-			10	309,351
11	Multiply line 10 by 20% (.20)			11	61,870
12	Alternative minimum tax foreign tax credit (see page 7 of the instructions)			12	0
13	Tentative minimum tax. Subtract line 12 from line 11			13	61,870
14	Regular tax liability before all credits except the foreign tax credit and possessions tax credit			14	98,827
15	**Alternative minimum tax.** Subtract line 14 from line 13. If zero or less, enter -0-. Enter here and on Form 1120, Schedule J, line 4, or the appropriate line of the corporation's income tax return			15	0

California Resident Income Tax Return 2010

540

Fiscal year filers only: Enter month of year end: month_____ year 2011.

Step 1

Place label here or print

Name and Address

Your first name | Initial | Last name | PBA Code | P

If joint return, spouse's first name | Initial | Last name | AC

Present home address — number and street, PO Box, or rural route | Apt. no. | PMB no. | A

City, town, or post office | State | ZIP Code | R

RP

Step 1a

SSN

Your social security number ___ - __ - ____

Spouse's social security number ___ - __ - ____

IMPORTANT: Your social security number is required.

Step 2

Filing Status

Fill in only one.

1 ○ Single
2 ○ Married filing jointly (even if only one spouse had income)
3 ○ Married filing separately. Enter spouse's social security number above and full name here _____
4 ○ Head of household (with qualifying person). STOP. See instructions.
5 ○ Qualifying widow(er) with dependent child. Enter year spouse died _____ .

Step 3

Exemptions

6 If your parent (or someone else) can claim you (or your spouse, if married) as a dependent on his or her tax return, even if he or she chooses not to, fill in this circle 6

For line 7, line 8, line 9, and line 10: Multiply the amount you enter in the box by the pre-printed dollar amount for that line.

7 **Personal:** If you filled in 1, 3, or 4 above, enter 1 in the box. If you filled in 2 or 5, enter 2 in the box. If you filled in the circle on line 6, see instructions ..... 7 X $80 = $_____

8 **Blind:** If you (or if married, your spouse) are visually impaired, enter 1; if both, enter 2 ..... 8 X $80 = $_____

9 **Senior:** If you (or if married, your spouse) are 65 or older, enter 1; if both, enter 2 ..... 9 X $80 = $_____

Dependent Exemptions

10 **Dependents:** Enter name and relationship. **Do not include yourself or your spouse.**

_____ _____ _____

_____ _____ Total dependent exemptions ..... 10 X $251 = $_____

11 Add line 7 through line 10. This is your total exemption amount ..... 11 $_____

Step 4

Taxable Income

Attach check or money order here.

12 State wages from your Form(s) W-2, box 16 ..... 12 _____

13 Enter federal adjusted gross income from Form 1040, line 35; Form 1040A, line 21; Form 1040EZ, line 4; or TeleFile Tax Record, line I ..... 13 _____

14 California adjustments – subtractions. Enter the amount from Schedule CA (540), line 35, column B .... 14 _____

15 Subtract line 14 from line 13. If less than zero, enter the result in parentheses. See instructions ..... 15 _____

16 California adjustments – additions. Enter the amount from Schedule CA (540), line 35, column C ..... 16 _____

17 California adjusted gross income. Combine line 15 and line 16 ..... 17 _____

18 Enter the **larger** of:
- Your California **itemized deductions** from Schedule CA (540), line 41; **OR**
- Your California **standard deduction** shown below for your filing status:
  - Single or Married filing separately $3,004
  - Married filing jointly, Head of household, or Qualifying widow(er) $6,008

If the circle on line 6 is filled in, STOP. See instructions ..... 18 _____

19 Subtract line 18 from line 17. This is your taxable income. If less than zero, enter -0- ..... 19 _____

Step 5

Tax

Attach copy of your Form(s) W-2, and W-2G. Also, attach any Form(s) 1099 showing California tax withheld.

20 Tax. Fill in circle if from: Tax Table Tax Rate Schedule FTB 3800 or FTB 3803 .... ○ 20 _____

Caution: If under age 14 and you have more than $1,500 of investment income, read the line 20 instructions to see if you must attach form FTB 3800.

21 Exemption credits. If your federal AGI is more than $132,793, see instructions. Otherwise, enter the amount from line 11 ..... 21 _____

22 Subtract line 21 from line 20. If less than zero, enter -0- ..... 22 _____

23 Tax. Fill in circle if from: Schedule G-1, Tax on Lump-Sum Distributions
form FTB 5870A, Tax on Accumulation Distribution of Trusts ..... ○ 23 _____

24 Add line 22 and line 23. Continue to Side 2 ..... 24 _____

Your name _____ Your SSN: _____

Step 6
Special Credits and Nonrefundable Renter's Credit

25 Amount from Side 1, line 24 25
28 Enter credit name_____code no_____and amount 28
29 Enter credit name_____code no_____and amount 29
30 To claim more than two credits, see instructions 30
31 Nonrefundable renter's credit. See instructions for "Step 6" 31
33 Add line 28 through line 31. These are your total credits 33
34 Subtract line 33 from line 25. If less than zero, enter -0- 34

Step 7
Other Taxes

35 Alternative minimum tax. Attach Schedule P (540) 35
36 Other taxes and credit recapture. See instructions 36
37 Add line 34 through line 36. This is your total tax 37

Step 8
Payments

38 California income tax withheld. See instructions 38
39 2010 CA estimated tax and other payments. See instructions 39
41 Excess SDI. See instructions 41
Child and Dependent Care Expenses Credit. See instructions; attach form FTB 3506

42 _____-_____-_____ 43 _____-_____-_____
44 _____ 45 _____
46 Add line 38, line 39, line 41, and line 45. These are your total payments 46

Step 9
Overpaid Tax or Tax Due

47 Overpaid tax. If line 46 is more than line 37, subtract line 37 from line 46 47
48 Amount of line 47 you want applied to your **2011** estimated tax 48
49 Overpaid tax available this year. Subtract line 48 from line 47 49
50 Tax due. If line 46 is less than line 37, subtract line 46 from line 37 50

Step 10
Contributions

CA Seniors Special Fund. See instructions ..... 51 _____ 00
Alzheimer's Disease/Related Disorders Fund ..... 52 _____ 00
CA Fund for Senior Citizens ..... 53 _____ 00
Rare and Endangered Species Preservation Program ..... 54 _____ 00
State Children's Trust Fund for the Prevention of Child Abuse ..... 55 _____ 00
CA Breast Cancer Research Fund .. 56 _____ 00
CA Firefighters' Memorial Fund ... 57 _____ 00
Emergency Food Assistance Program Fund ..... 58 _____ 00
CA Peace Officer Memorial Foundation Fund ..... 59 _____ 00
Lupus Foundation of America, California Chapters Fund ..... 60 _____ 00
Asthma and Lung Disease Research Fund ..... 61 _____ 00

64 Add line 51 through line 61. These are your total contributions 64

Step 11
Refund or Amount You Owe

65 **REFUND OR NO AMOUNT DUE.** Subtract line 64 from line 49. Mail to:
FRANCHISE TAX BOARD, PO BOX 942840, SACRAMENTO CA 94240-0002 65
66 **AMOUNT YOU OWE.** Add line 50 and line 64. See instructions. Mail to:
FRANCHISE TAX BOARD, PO BOX 942867, SACRAMENTO CA 94267-0001 66

Step 12
Interest and Penalties

67 Interest, late return penalties, and late payment penalties 67
68 Underpayment of estimated tax. Fill in circle: **FTB 5805 attached** **FTB 5805F attached** 68
69 Total amount due. See instructions 69
70 If you **do not** need California income tax forms mailed to you next year, fill in the circle 70

Step 13
Direct Deposit (Refund Only)

Do not attach a voided check or a deposit slip. See instructions
Fill in the boxes to have your refund directly deposited. Routing number .....
Account Type:
Checking ☐ Savings ☐ Account number .....

Sign Here

It is unlawful to forge a spouse's signature.

Joint return? See instructions.

IMPORTANT: See Form 540 instructions to find out if you should attach a copy of your complete federal return. Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. 3

Your signature X
Daytime phone number (optional) ( ) +
Spouse's signature (if filing jointly, both must sign) X
Date + +
Paid preparer's signature *(declaration of preparer is based on all information of which preparer has any knowledge)*
Paid preparer's SSN/PTIN
Firm's name (or yours if self-employed) Firm's address
FEIN

TAXABLE YEAR

2010 California Adjustments — Residents CA (540)

Important: Attach this schedule directly behind Form 540, Side 2.

Name(s) as shown on return | Social security number

Part I Income Adjustment Schedule

Section A – Income

			A Federal Amounts (taxable amounts from your federal return)	B Subtractions See instructions	C Additions See instructions
7	Wages, salaries, tips, etc. See instructions before making an entry in column B or C	7			
8	Taxable interest income	8			
9	Ordinary dividends	9			
10	Taxable refunds, credits, offsets of state and local income taxes	10			
11	Alimony received	11			
12	Business income or (loss)	12			
13	Capital gain or (loss)	13			
14	Other gains or (losses)	14			
15	Total IRA distributions. See instructions. **(a)** _____	(b)			
16	Total pensions and annuities. See instructions. **(a)** _____	(b)			
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc.	17			
18	Farm income or (loss)	18			
19	Unemployment compensation. Enter the same amount in column A and column B	19			
20	Social security benefits **(a)** _____	(b)			
21	Other income. **a** California lottery winnings; **b** Disaster loss carryover from FTB 3805V; **c** Federal NOL (Form 1040, line 21); **d** NOL carryover from FTB 3805V; **e** NOL from FTB 3805D, 3805Z, 3806, 3807, or 3809; **f** Other (describe) _____	21		a b c d SUSPENDED e SUSPENDED f	a b c d e f
22	**Total.** Combine line 7 through line 21 in column A. Add line 7 through line 21f in column B and column C. Go to Section B	22			

Section B – Adjustments to Income

23	Educator expense	23			
24	IRA deduction	24			
25	Student loan interest deduction	25			
26	Tuition and fees deduction	26			
27	Archer MSA deduction	27			
28	Moving expenses.	28			
29	One-half of self-employment tax	29			
30	Self-employed health insurance deduction	30			
31	Self-employed SEP, SIMPLE, and qualified plans	31			
32	Penalty on early withdrawal of savings	32			
33a	Alimony paid. **(b)** Recipient's: SSN ___ ___ ___ – ___ ___ – ___ ___ ___ ___ Last name _____	33a			
34	Add line 23 through line 33 in columns A, B, and C	34			
35	**Total.** Subtract line 34 from line 22 in columns A, B, and C. See instructions	35			

Part II Adjustments to Federal Itemized Deductions

36	Federal itemized deductions. Add the amounts on federal Sch. A (Form 1040), lines 4, 9, 14, 18, 19, 26, and 27	36	
37	Enter total of federal Sch. A, line 5 (state and local income tax **and** State Disability Insurance) and line 8 (foreign taxes **only**)	37	
38	Subtract line 37 from line 36	38	
39	Other adjustments including California lottery losses. See instructions. Specify _____	39	
40	Combine line 38 and line 39	40	
41	**Is your federal AGI (Form 540, line 13) more than the amount shown below for your filing status?** Single or married filing separately – **$132,793** Head of household – **$199,192** Married filing jointly or qualifying widow(er) – **$265,589** **No.** Transfer the amount on line 40 to line 41 **Yes.** Complete the Itemized Deductions Worksheet in the instructions for Schedule CA (540), line 41	41	
42	**Enter the larger of the amount on line 41 or your standard deduction listed below** Single or married filing separately – **$3,004** Married filing jointly, head of household, or qualifying widow(er) – **$6,008** **Transfer the amount on line 42 to Form 540, line 18**	42	

TAXABLE YEAR

2010

California Capital Gain or Loss Adjustment

Do not complete this schedule if all of your California gains (losses) are the same as your federal gains (losses).

D (540)

Name(s) as shown on return

Social security number

(a) Description of property (identify S corporation stock) Example 100 shares of "Z" (S stock)	(b) Sales price	(c) Cost or other basis	(d) Loss. If (c) is more than (b), subtract (b) from (c)	(e) Gain. If (b) is more than (c), subtract (c) from (b)
1a				
1b				

2 Net gain or (loss) shown on California Schedule(s) K-1 (541, 565, 568, and 100S) 2

3 Capital gain distributions (federal Form 1099-DIV, box 2a minus box 2d) 3

4 Total 2010 gains from all sources. Add column (e) amounts of line 1a, line 1b, line 2, and line 3 4

5 2010 loss. Add column (d) amounts of line 1 and line 2. Enter as a negative amount 5

6 California capital loss carryover from 2009, if any. See instructions. Enter as a negative amount . 6

7 Total 2010 loss. Add line 5 and line 6. Enter as a negative amount 7

8 Combine line 4 and line 7. If a loss, go to line 9. If a gain, go to line 10 8

9 If line 8 is a loss, enter the smaller of: (a) the loss on line 8; **or**
(b) $3,000 ($1,500 if married filing a separate return). See instructions . . . 9

10 Enter the amount from federal Form 1040, line 13 10

11 Enter the California gain from line 8 or loss from line 9 11

12 **a** If line 10 is more than line 11, enter the difference here and on Schedule CA (540 or 540NR) line 13, col. B 12a

b If line 10 is less than line 11, enter the difference here and on Schedule CA (540 or 540NR), line 13, col. C 12b

TAXABLE YEAR

2010

Depreciation and Amortization Adjustments

Do not complete this form if your California depreciation amounts are the same as federal amounts.

CALIFORNIA FORM

3885A

Part I Identify the activity as passive or nonpassive. (See instructions.)

1 ☐ This form is being completed for a passive activity.
☐ This form is being completed for a nonpassive activity.

Business or activity to which form FTB 3885A relates

Ha

Part II Election to Expense Certain Tangible Property (IRC Section 179).

2 Enter the amount from line 12 of the Tangible Property Expense Worksheet in the instructions 2

Part III Depreciation

	(a) Description of property placed in service	(b) Date placed in service	(c) California basis for depreciation	(d) Method	(e) Life or rate	(f) California depreciation deduction
3						

4 Add the amounts on line 3, column (f) 4

5 California depreciation for assets placed in service prior to 2010 5

6 Total California depreciation from this activity. Add the amounts on line 2, line 4, and line 5 6

7 Total federal depreciation from this activity. Enter depreciation from your federal Form 4562, line 22 7

8 **a** If line 6 is more than line 7, enter the difference here and see instructions 8a

b If line 6 is less than line 7, enter the difference here and see instructions 8b

Part IV Amortization

	(a) Description of cost amortizable	(b) Date placed in service	(c) California basis for amortization	(d) Code section	(e) Period or percentage	(f) California amortization deduction
9						

10 Total California amortization from this activity. Add the amounts on line 9, column (f) 10

11 California amortization of costs that began before 2010 11

12 Total California amortization from this activity. Add the amounts on line 10 and line 11 12

13 Total federal amortization from this activity. Enter amortization from your federal Form 4562, line 44 13

14 **a** If line 12 is more than line 13, enter the difference here and see instructions 14a

b If line 12 is less than line 13, enter the difference here and see instructions 14b

YEAR

2010 Partnership Return of Income 565

For calendar year 2010 or fiscal year beginning month _____ day _____ year 2010, and ending month _____ day _____ year _____ .

A Principal business activity name *(same as federal)*

B Principal product or service *(same as federal)*

C Principal business code *(same as federal)*

Partnership name (place label within block or type or print) Check box if name changed

DBA

Number and street (or PO Box number if mail is not delivered to street address) PMB no.

City or town State ZIP Code

D FEIN

E Date business started

F Enter total assets at end of year. See instructions. $

G Check accounting method: (1) Cash (2) Accrual (3) Other (attach explanation)

H Secretary of State file number

I Check applicable box (1) Initial return (2) Final return (3) Amended return

Caution: Include **only** trade or business income and expenses on line 1a through line 21 below. See the instructions for more information.

Income	1	**a** Gross receipts or sales $ _____ **b** Less returns and allowances $ _____ . . **c** Balance	1c	
	2	Cost of goods sold (Schedule A, line 8)	2	
	3	GROSS PROFIT. Subtract line 2 from line 1c	3	
	4	Ordinary income (loss) from other partnerships and fiduciaries. Attach schedule	4	
	5	Net farm profit (loss). Attach federal Schedule F (Form 1040)	5	
	6	Net gain (loss) from Schedule D-1, Part II, line 18	6	
	7	Other income (loss). Attach schedule	7	
	8	**Total income (loss).** Combine line 3 through line 7	8	
Deductions	9	Salaries and wages (other than to partners)	9	
	10	Guaranteed payments to partners	10	
	11	Repairs	11	
	12	Bad debts	12	
	13	Rent	13	
	14	Taxes	14	
Attach check or money order here.	15	Deductible interest expense not claimed elsewhere on return	15	
	16	**a** Depreciation and amortization. Attach form FTB 3885P $ _____ **b** Less depreciation reported on Schedule A and elsewhere on return $ _____ . . . **c** Balance	16c	
	17	Depletion. Do not deduct oil and gas depletion	17	
	18	Retirement plans, etc.	18	
	19	Employee benefit programs	19	
	20	Other deductions. Attach schedule	20	
	21	**Total deductions.** Add line 9 through line 20	21	
	22	Ordinary income (loss) from trade or business activities. Subtract line 21 from line 8	22	
	23	**Tax — $800.00 (limited partnerships, LLPs, and REMICs only).** See instructions.	23	
Payments	24	Nonresident withholding credit ($800 maximum). See instructions	24	
	25	Amount paid with extension of time to file return	25	
	26	**Total payments.** Add line 24 and line 25	26	
Amount Due or Refund	27	Tax due. If line 23 is more than line 26, subtract line 26 from line 23	27	
	28	**Refund.** If line 26 is more than line 23, subtract line 23 from line 26	28	
	29	Penalties and interest	29	
	30	**Total amount due.** Add line 27 and line 29. Make the check or money order payable to the Franchise Tax Board	30	

Check here if the partnership does not need tax forms mailed next year

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of general partner Date Telephone ( )

Paid Preparer's Use Only

Preparer's signature Date Check if self-employed Preparer's SSN/PTIN

Firm's name (or yours if self-employed) and address Telephone ( ) FEIN

Schedule A Cost of Goods Sold

1	Inventory at beginning of year	1	
2	Purchases less cost of items withdrawn for personal use	2	
3	Cost of labor	3	
4	Additional IRC Section 263A costs. Attach schedule	4	
5	Other costs. Attach schedule	5	
6	**Total**. Add line 1 through line 5	6	
7	Inventory at end of year	7	
8	**Cost of goods sold**. Subtract line 7 from line 6. Enter here and on Side 1, line 2	8	

9 a Check all methods used for valuing closing inventory:
(1) Cost **(2)** Lower of cost or market as described in Treas. Reg. Section 1.471-4 **(3)** Write down of "subnormal" goods as described in Treas. Reg. Section 1.471-2(c) **(4)** Other. Specify method used and attach explanation _____

b Check this box if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970

c Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the partnership? Yes No

d Was there any change (other than for IRC Section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation Yes No

J What type of entity is filing this return? Check one only:

1 General partnership
2 Limited partnership required to pay annual tax
(is doing business in California, is registered with SOS, or is organized in California)
3 Limited partnership, Limited Liability Company, or other entity NOT required to pay annual tax
(is not doing business in California, is not registered with SOS, and is not organized in California)
4 REMIC
5 Limited liability partnership
6 Other (See instructions)_____

K Enter the maximum number of partners in this partnership at any time during the year. (Be sure to attach a California Schedule K-1 (565) for each partner)

		Yes	No
L	Is any partner of the partnership related by blood or marriage to any other partner?		
M	Is any partner of the partnership a trust for the benefit of any person related by blood or marriage to any other partner?		
N	Are any partners in this partnership also partnerships or LLCs?		
O	Does the partnership meet all the requirements shown in the instructions for Question O?		
P	Is this partnership a partner in another partnership or LLC? If "Yes," attach a statement with the name(s) and FEIN(s) of each entity		
Q	Was there a distribution of property or transfer (for example by sale or death) of a partnership interest during the taxable year? If "Yes," see the federal instructions concerning an election to adjust the basis of the partnership's assets under IRC Section 754		
R	Is this partnership a publicly traded partnership as defined in IRC Section 469(k)(2)?		
S	Is this partnership under audit by the IRS or has it been audited in a prior year?		
T	Did this partnership or its subsidiary(ies) have a transfer or acquisition of more than 50% in control or ownership? (See instructions – Penalties May Apply)		
U	**(1)** Does the partnership have any foreign nonresident partners?		
	(2) Does the partnership have any nonresident partners?		
	(3) Were Form 592, Form 592-A, and Form 592-B filed for these partners?		
V	Is this an investment partnership? (See instructions)		
W	Is the partnership apportioning income to California using Schedule R?		
X	Is the partnership required to complete federal Form 8271? If "Yes," see instructions		

Schedule K Partners' Shares of Income, Deductions, Credits, Etc.

	(a) Distributive share items		(b) Amounts from federal K (1065)	(c) California adjustments	(d) Total amounts using California law
Income (Loss)	1 Ordinary income (loss) from trade or business activities (Side 1, line 22)	1			
	2 Net income (loss) from rental real estate activities. Attach federal Form 8825	2			
	3 a Gross income from other rental activities	3a			
	b Less expenses. Attach schedule	3b			
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c			
	4 Portfolio income (loss). See instructions:				
	a Interest income	4a			
	b Dividend income	4b			
	c Royalty income	4c			
	d Net capital gain (loss) (Schedule D (565))	4d			
	e Other portfolio income (loss). Attach schedule	4e			
	5 Guaranteed payments to partners	5			
	6 Net gain (loss) under IRC Section 1231 (other than due to casualty or theft). Attach Schedule D-1	6			
	7 Other income (loss). Attach schedule	7			
Deductions	8 Charitable contributions. See instructions. Attach schedule	8			
	9 Expense deduction for recovery property (R&TC Sections 17267.2, 17267.6, 17268, and IRC Section 179). Attach schedule or worksheet for 179 deductions	9			
	10 Deductions related to portfolio income	10			
	11 Other deductions. Attach schedule	11			
Investment Interest	12 a Interest expense on investment debts	12a			
	b (1) Investment income included on lines 4a, 4b, 4c, and line 4e above	12b(1)			
	(2) Investment expenses included on line 10 above	12b(2)			
Credits	13 a (1) Withholding on partnership allocated to all partners	13a(1)			
	b Low-income housing credit	13b			
	c Credit(s) other than the credit shown on line 13b related to rental real estate activities. Attach schedule	13c			
	d Credit(s) related to other rental activities. Attach schedule	13d			
	e Nonconsenting nonresident member's tax allocated to all partners	13e			
	14 Other credits. See instructions. Attach schedule	14			
Adjustments and Tax Preference Items	15 a Depreciation adjustment on property placed in service after 1988	15a			
	b Adjusted gain or loss	15b			
	c Depletion (other than oil and gas)	15c			
	d (1) Gross income from oil, gas, and geothermal properties	15d(1)			
	(2) Deductions allocable to oil, gas, and geothermal properties	15d(2)			
	e Other adjustments and tax preference items. Attach schedule	15e			
Other	16 a Total expenditures to which IRC Section 59(e) election may apply. Attach schedule	16a			
	b Type of expenditures _____	16b			
	17 Tax-exempt interest income	17			
	18 Other tax-exempt income	18			
	19 Nondeductible expenses	19			
	20 Distributions of money (cash and marketable securities)	20			
	21 Distribution of property other than money	21			
	22 Other items and amounts reported separately to partners. See instructions. Attach schedule	22			
Analysis	23 a Total distributive income/payment items. Combine line 1 through line 7 above. From the result, subtract the sum of line 8 through line 12a and line 16a	23			

b Analysis by type of partner:	(a) Corporate	(b) Individual i. Active	(b) Individual ii. Passive	(c) Partnership	(d) Exempt Organization	(e) Nominee/Other
(1) General partners						
(2) Limited partners						

Schedule L **Balance Sheets.** See the instructions for Question O before completing Schedules L, M-1, and M-2.

Assets	Beginning of income year (a)	Beginning of income year (b)	End of income year (c)	End of income year (d)
1 Cash				
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	( )		( )	
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets. Attach schedule				
7 Mortgage and real estate loans				
8 Other investments. Attach schedule				
9 a Buildings and other depreciable assets				
b Less accumulated depreciation	( )		( )	
10 a Depletable assets				
b Less accumulated depletion	( )		( )	
11 Land (net of any amortization)				
12 a Intangible assets (amortizable only)				
b Less accumulated amortization	( )		( )	
13 Other assets. Attach schedule				
14 **Total** assets				
Liabilities and Capital				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities. Attach schedule				
18 All nonrecourse loans				
19 Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities. Attach schedule				
21 Partners' capital accounts				
22 **Total** liabilities and capital				

Schedule M-1 **Reconciliation of Income per Books With Income per Return.** Use total amount under California law.

1 Net income (loss) per books		6 Income recorded on books this year not included on Schedule K, line 1 through line 7. Itemize: a Tax-exempt interest $ _____	
2 Income included on Schedule K, line 1 through line 7, not recorded on books this year. Itemize			
3 Guaranteed payments (other than health insurance)		7 Deductions included on Schedule K, line 1 through line 12a and line 16a, not charged against book income this year. Itemize: a Depreciation $ _____	
4 Expenses recorded on books this year not included on Schedule K, line 1 through line 12a and line 16a. Itemize: a Depreciation $ _____ b Travel and entertainment $ _____ c Limited partnership tax $ _____		8 Total of line 6 and line 7	
5 Total of line 1 through line 4		9 Income (loss) (Schedule K, line 23a). Subtract line 8 from line 5	

Schedule M-2 **Analysis of Partners' Capital Accounts**

1 Balance at beginning of year		6 Distributions: a Cash	
2 Capital contributed during year		b Property	
3 Net income (loss) per books		7 Other decreases. Itemize	
4 Other increases. Itemize		8 Total of line 6 and line 7	
5 Total of line 1 through line 4		9 Balance at end of year. Subtract line 8 from line 5	

TAXABLE YEAR

2010 Depreciation and Amortization 3885P

Name as shown on return | FEIN

Assets placed in service after 12/31/10 (depreciation):
Intangibles placed in service after 12/31/10 (amortization):

			Depreciation of Assets			Amortization of Property		
(a) Description of property	(b) Date placed in service	(c) Cost or other basis	(d) Method of figuring depreciation	(e) Life or rate	(f) Depreciation for this year	(g) Code section	(h) Period or percentage	(i) Amortization to this year

1 Enter line 1, column (f) and column (i) totals here 1

Depreciation

2 California depreciation for assets placed in service before January 1, 2010 ..... 2 _____
Note: Be sure to make adjustments for any basis differences.

3 Total California depreciation. Add line 1(f) and line 2 ..... 3 _____

Amortization

4 California amortization for intangibles placed in service before January 1, 2010 ..... 4 _____
Note: Be sure to make adjustments for any basis differences.

5 Total California amortization. Add line 1(i) and line 4 ..... 5 _____

6 Total depreciation and amortization. Add line 3 and line 5. Enter the total here and on Form 565, Side 1, line 16a, if from a trade or business, or on federal Form 8825, line 14, if from rental real estate activities ..... 6 _____

7 IRC Section 179 expense election from worksheet line 12 ..... 7 _____

8 Carryover of disallowed deduction to 2010. Enter line 13 from worksheet here ..... 8 _____

TAXABLE YEAR

CALIFORNIA SCHEDULE

2010 Capital Gain or Loss D (565)

Name as shown on return | FEIN

(a) Description of property, Example, 100 shares 7% preferred of "Z" Co.	(b) Date acquired, mo., day, yr.	(c) Date sold, mo., day, yr.	(d) Sales price. See instructions.	(e) Cost or other basis. See instructions.	(f) Gain (loss), (d) minus (e)

1 Enter line 1, column (f) total here ..... 1 _____

2 Capital gain from installment sales, form FTB 3805E, line 26 or line 37 ..... 2 _____

3 Partnership's share of net capital gain (loss), including gains (losses) from LLCs, partnerships, fiduciaries, and S corporations ... 3 _____

4 Capital gain distributions ..... 4 _____

5 Net capital gain (loss). Add line 1, line 2, line 3, and line 4. Enter total on Schedule K, line 4d, and each partner's share on Schedule K-1 (565), line 4d ..... 5 _____

TAXABLE YEAR 2010

California Corporation Franchise or Income Tax Return (NOT TO BE USED BY WATER'S-EDGE TAXPAYERS) 100

For calendar year 2010 or fiscal year beginning month _____ day _____ year 2010, and ending month _____ day _____ year 20 ____ .

California corporation number | Federal employer identification number (FEIN)

Corporation name

Address including Suite or Room no. | PMB no.

City | State | ZIP Code

AA Enter the bad debt reserve recapture amount, see instruction _____

A Final return? Dissolved Surrendered (withdrawn) Merged/Reorganized IRC Section 338 sale QSub election. Enter date _____

B Is income included in a combined report of a unitary group? ..... Yes No
If yes, indicate: wholly within CA (R&TC 25101.15) within and outside of CA

C If the corp. filed on a water's-edge basis pursuant to R&TC Sections 25110 and 25111 in previous years, enter the date the water's-edge election ended _____

D Was the corporation's income included in a consolidated federal return? ..... Yes No

Questions continued on Side 2

State Adjustments	1	Net income (loss) before state adjustments. See instructions			1	
	2	Amount deducted for foreign or domestic tax based on income or profits			2	
	3	Amount deducted for tax under the provisions of the Corporation Tax Law			3	
	4	Interest on government obligations			4	
	5	Net California capital gain from Schedule D, line 11			5	
	6	Depreciation and amortization in excess of amount allowed under California law. Attach form FTB 3885			6	
	7	Net income from corporations not included in federal consolidated return. See instructions			7	
	8	Other additions. Attach schedule(s)			8	
	9	Total. Add line 1 through line 8			9	
	10	Intercompany dividend deduction. Attach Schedule H (100)	10			
	11	Other dividend deduction. Attach Schedule H (100)	11			
	12	Additional depreciation allowed under CA law. Attach form FTB 3885	12			
	13	Capital gain from federal Form 1120 or Form 1120A, line 8	13			
	14	Contributions	14			
	15	EZ, LAMBRA, or TTA business expense and net interest deduction	15			
	16	Other deductions. Attach schedule(s)	16			
	17	Total. Add line 10 through line 16			17	
	18	Net income (loss) after state adjustments. Subtract line 17 from line 9. See instructions			18	
CA Net Income	19	Net income (loss) for state purposes. Complete Sch. R if apportioning income. See instructions			19	
	20	Net operating loss (NOL) carryover deduction. See instructions	20	SUSPENDED		
	21	Pierce's disease, EZ, LARZ, TTA, or LAMBRA NOL carryover deduction. See instructions	21	SUSPENDED		
	22	Disaster loss carryover deduction. See instructions	22			
	23	Net income for tax purposes. Subtract line 22 from line 19			23	
Taxes	24	Tax. _____% x line 23 (not less than minimum franchise tax, if applicable)			24	
	25	Enter credit name _____ code no. __ __ __ and amount	25			
	26	Enter credit name _____ code no. __ __ __ and amount	26			
	27	To claim more than two credits, see instructions	27			
	28	Add line 25 through line 27			28	
	29	**Balance**. Subtract line 28 from line 24 (not less than minimum franchise tax, if applicable)			29	
	30	Alternative minimum tax. Attach Schedule P (100). See instructions			30	
	31	**Total tax.** Add line 29 and line 30			31	
Payments	32	Overpayment from prior year allowed as a credit	32			
	33	2010 estimated tax payments. See instructions	33			
	34	2010 Nonresident Withholding. See instructions	34			
	35	Amount paid with extension of time to file tax return	35			
	36	Total payments. Add line 32 through line 35			36	
Refund – Direct Deposit of Refund (DDR) – or Amount Due	37	**Tax due.** If line 31 is more than line 36, subtract line 36 from line 31. Go to line 41			37	
	38	**Overpayment.** If line 36 is more than line 31, subtract line 31 from line 36			38	
	39	Amount of line 38 to be credited to 2011 estimated tax			39	
	40	**Refund.** Amount of line 38 to be refunded. Line 38 less line 39. See DDR instructions			40	
		Fill in the account information to have the refund directly deposited. **a** Routing number		40a		
		b Type: Checking Savings **c** Account number		40c		
	41	**a** Penalties and interest. **b** Check if estimate penalty computed using Exception B or C. See instructions			41a	
	42	**Total amount due.** Add line 37 and line 41a. Pay with tax return			42	

Schedule D California Capital Gains and Losses

Part I Short-Term Capital Gains and Losses – Assets Held One Year or Less. Use additional sheet(s) if necessary.

(a) Kind of property and description (Example, 100 shares of Z Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Cost or other basis plus expense of sale	(f) Gain (loss) ((d) less (e))
1					

2 Short-term capital gain from installment sales from form FTB 3805E, line 26 or line 37	2	
3 Unused capital loss carryover from 2009	3	
4 Net short-term capital gain (loss). Combine line 1 through line 3	4	

Part II Long-Term Capital Gains and Losses – Assets held More Than One Year. Use additional sheet(s) if necessary.

5					

6 Enter gain from Schedule D-1, line 9 and/or any capital gain distributions	6	
7 Long-term capital gain from installment sales from form FTB 3805E, line 26 or line 37	7	
8 Net long-term capital gain (loss). Combine line 5 through line 7	8	
9 Enter excess of net short-term capital gain (line 4) over net long-term capital loss (line 8)	9	
10 Net capital gain. Enter excess of net long-term capital gain (line 8) over net short-term capital loss (line 4)	10	
11 Total line 9 and line 10. Enter here and on Form 100, Side 1, line 5. **Note:** If losses exceed gains, carry forward losses to 2011	11	

Schedule J Add-On Taxes and Recapture of Tax Credits. See instructions.

1 LIFO recapture due to S corporation election, IRC Sec. 1363(d) deferral: $_____	1	
2 Interest computed under the look-back method for completed long-term contracts (Attach form FTB 3834)	2	
3 Interest on tax attributable to installment: **a** Sales of certain timeshares and residential lots	3a	
b Method for nondealer installment obligations	3b	
4 IRC Section 197(f)(9)(B)(ii) election	4	
5 Credit recapture name:_____	5	
6 Combine line 1 through line 5, Revise Side 1, line 37 or line 38, whichever applies, by this amount. Write "Schedule J" to the left of line 37 or line 38	6	

Questions (continued from Side 1)

E Principal business activity code. (Do not leave blank): ____
Business activity _____
Product or service _____

F Date incorporated:_____ Where: State ____ Country_____

G Date business began in California or date income was first derived from California sources _____

H First return? Yes No If "Yes" and this corporation is a successor to a previously existing business, check the appropriate box.
(1) sole proprietorship (2) partnership (3) joint venture (4) corporation (5) other
(attach statement showing name, address and FEIN of previous business)

I "Doing business as" name: _____

J Did this corporation or its subsidiary(ies) have a change in control or ownership, or acquire ownership or control of any other legal entity this year? Yes No

K At any time during the taxable year, was more than 50% of the voting stock:
a Of the corporation owned by any single interest? Yes No
b Of another corporation owned by this corporation? Yes No
c Of this and one or more other corporations owned or controlled, directly or indirectly, by the same interests? Yes No
If a or c is "Yes," enter the country of the ultimate parent _____
If a, b or c is "Yes," furnish a statement of ownership indicating pertinent names, addresses, and percentages of stock owned. If the owner(s) is an individual, provide the SSN.

L Was 50% or more of the stock of this corporation owned directly by another corporation during this taxable year? Yes No

M Is this corporation apportioning income to California using Schedule R? Yes No

N How many affiliates in the combined report are claiming immunity from taxation in California under Public Law 86-272? _____

O Corporation headquarters are: (1) Within California (2) Outside of California, within the U.S. (3) Outside of the U.S.

P Location of principal accounting records _____

Q Accounting method: (1) Cash (2) Accrual (3) Other

R Did this corporation or one of its subsidiaries make a federal election to be treated as a foreign sales corporation (FSC) or a domestic international sales corporation (DISC): Yes No

S Is this corporation or any of its subsidiaries a RIC ? Yes No

T Is this corporation treated as a REMIC for California purposes? Yes No

U Is this corporation a REIT for California purposes? Yes No

V Is this corporation an LLC or limited partnership electing to be taxed as a corporation for federal purposes? Yes No

W Is this corporation to be treated as a credit union? Yes No

X Is the corporation under audit by the IRS or has it been audited by the IRS in a prior year? Yes No

Y Have all required information returns (e.g. Federal Forms 1099, 5471, 5472, 8300, 8865, etc.) been filed with the Franchise Tax Board? N/A Yes No

Z Were total receipts (see page 15 of the instructions) for the taxable year **and** total assets at the end of the taxable year less than $250,000? Yes No
If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2 on Side 4. Instead, enter here The total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year. $ _____

Please Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
	Signature of officer	Title	Date	Telephone ( )
Paid Preparer's Use Only	Preparer's signature	Date	Check if self-employed	Preparer's SSN/PTIN
	Firm's name (or yours, if self-employed) and address			FEIN
				Telephone ( )

Schedule A Taxes Deducted. Use additional sheet(s) if necessary.

(a) Nature of tax	(b) Taxing authority	(c) Total amount	(d) Nondeductible amount
Total. Enter total of column (c) on Schedule F, line 17, and amounts in column (d) on Side 1, line 2 or line 3			

Schedule F Computation of Net Income. See instructions.

Income	1 **a)** Gross receipts or gross sales_____ **b)** Less returns and allowance_____ **c)** Balance	1c	
	2 Cost of goods sold. Attach federal Schedule A (California Schedule V)	2	
	3 Gross profit. Subtract line 2 from line 1c	3	
	4 Dividends. Attach federal Schedule C, California Schedule H (100)	4	
	5 **a** Interest on obligations of the United States and U.S. instrumentalities	5a	
	b Other interest. Attach schedule	5b	
	6 Gross rents	6	
	7 Gross royalties	7	
	8 Capital gain net income. Attach federal Schedule D (California Schedule D)	8	
	9 Ordinary gain (loss). Attach federal Form 4797 (California Schedule D-1)	9	
	10 Other income (loss). Attach schedule	10	
	11 **Total income.** Add line 3 through line 10	11	
Deductions	12 Compensation of officers. Attach federal schedule E or equivalent schedule	12	
	13 Salaries and wages (not deducted elsewhere)	13	
	14 Repairs	14	
	15 Bad debts	15	
	16 Rents	16	
	17 Taxes (California Schedule A)	17	
	18 Interest. Attach schedule	18	
	19 Contributions. Attach schedule	19	
	20 Depreciation. Attach federal Form 4562 and FTB 3885) 20		
	21 Less depreciation claimed elsewhere on return 21a	21b	
	22 Depletion. Attach schedule	22	
	23 Advertising	23	
	24 Pension, profit-sharing, etc., plans	24	
	25 Employee benefit plans	25	
	26 **a)** Total travel and entertainment_____ **b)** Deductible amounts	26b	
	27 Other deductions. Attach schedule	27	
	28 Specific deduction for 23701r or 23701t organizations. See instructions	28	
	29 **Total deductions.** Add line 12 through line 28	29	
	30 Net income before state adjustments. Subtract line 29 from line 11. Enter here and one Side 1, line 1	30	

Schedule V Cost of Goods Sold

1 Inventory at beginning of year	1	
2 Purchases	2	
3 Cost of labor	3	
4 **a** Additional IRC Section 263A costs. Attach schedule	4a	
b Other costs. Attach schedule	4b	
5 Total. Add line 1 through line 4b	5	
6 Inventory at end of year	6	
7 Cost of goods sold. Subtract line 6 from line 5	7	

Method of inventory valuation _____

Was there any change in determining quantities, costs of valuations between opening and closing inventory? If "Yes," attach an explanation . . . Yes No

Enter California seller's permit number, if any _____

Check if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970 . . . . . .

If the LIFO inventory method was used for this taxable year, enter the amount of closing inventory under LIFO_____

Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the corporation? . . . . . Yes No

The corporation is not required to complete Schedules L, M-1, and M-2 if question Z on Form 100, Side 2 is answered "Yes."

Schedule L Balance Sheets	Beginning of taxable year		End of taxable year	
Assets	(a)	(b)	(c)	(d)
1 Cash				
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	( )		( )	
3 Inventories				
4 Federal and state government obligations				
5 Other current assets. Attach schedule(s)				
6 Loans to stockholders/officers. Attach schedule				
7 Mortgage and real estate loans				
8 Other investments. Attach schedule(s)				
9 a Buildings and other fixed depreciable assets				
b Less accumulated depreciation	( )		( )	
10 a Depletable assets				
b Less accumulated depletion	( )		( )	
11 Land (net of any amortization)				
12 a Intangible assets (amortizable only)				
b Less accumulated amortization	( )		( )	
13 Other assets. Attach schedule(s)				
14 **Total assets**				
Liabilities and stockholders' equity				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities. Attach schedule(s)				
18 Loans from stockholders				
19 Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities. Attach schedule(s)				
21 Capital stock: a Preferred stock				
b Common stock				
22 Paid-in or capital surplus. Attach reconciliation				
23 Retained earnings – Appropriated. Attach schedule				
24 Retained earnings – Unappropriated				
25 Adjustments to shareholders' equity (attach schedule)				
26 Less cost of treasury stock		( )		( )
27 **Total liabilities and stockholders' equity**				

Schedule M-1 **Reconciliation of income (loss) per books with income (loss) per return.**

1 Net income per books		7 Income recorded on books this year not included in this return (itemize)	
2 Federal income tax		a Tax-exempt interest $	
3 Excess of capital losses over capital gains			
4 Taxable income not recorded on books this year (itemize)		8 Deductions in this return not charged against book income this year (itemize)	
5 Expenses recorded on books this year not deducted in this return (itemize)		a Depreciation $	
a Depreciation $		b State tax refunds $	
b State taxes $			
c Travel and entertainment $			
6 Total. Add line 1 through line 5		9 Total. Add line 7 and line 8	
		10 Net income per return. Subtract line 9 from line 6	

Schedule M-2 **Analysis of unappropriated retained earnings per books** (Schedule L, line 24)

1 Balance at beginning of year		5 Distributions: a Cash	
2 Net income per books		b Stock	
3 Other increases (itemize)		c Property	
		6 Other decreases (itemize)	
		7 Total. Add line 5 and line 6	
4 Total. Add line 1 through line 3		8 Balance at end of year. Subtract line 7 from line 4	

Date: Dec 31, 2010
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Profit And Loss Statement
For the period December 1, 2009 to December 31, 2010

	Current Period Amount	Ratio %	Year To Date Amount
Cost of Sales			
Beginning Inventory	($6,583,000)	(1,469)	$948,969
Purchases	$597,885	133	$9,182,301
Less: Ending Inventory	$6,176,965	1,378	($989,477)
Total Cost Of Mat. Sold	$191,850	43	$9,141,793
Direct Expenses			
Labor	$64,635	14	$686,170
Payroll Taxes	$5,212	1	$64,760
Health Insurance	$5,991	1	$73,937
Workman's Comp Insurance	$11,909	3	$209,744
Sick & Vacation Pay	$3,203	1	$44,656
Total Labor Costs	$90,949	20	$1,079.272
Freight Out	$9,338	2	$293,776
Freight In	$0	0	$0
Depreciation	$119,915	27	$339,628
Dump Fees	$2,213	O	$22,152
Equipment Maintenance	($2,765)	(1)	$68,337
Insurance	$13,161	3	$122,263
Laundry & Uniforms	$1,209	0	$20,751
Outside Services	$64	0	$767
Supplies	$4,304	1	$108,956
Land & Building Maintenance	$3,159	1	$16,304
Tax & License	$1,707	0	$39,948
Travel	$0	0	$49
Truck & Vehicle Expense	($1,063)	(0)	$82,114
Wgt/Contamination Expenses	$4,800	1	$88,117
Utilities	$3,039	1	$48,389
Warranty	$0	0	$0
Other Direct Expenses	$0	0	$23,896
Total Direct Expenses	$250,029	56	$2,354,721
Total Cost Of Sales	$441,879	99	$11,496,514
Gross Profit	$6,244	1	$1,304,124

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Profit And Loss Statement
For the period December 1, 2009 to December 31, 2010

	Current Period Amount	Ratio %	Year To Date Amount
General & Administration			
Salary & Wages	$149,762	33	$798,308
Commission Expense	$0	0	$0
Payroll Taxes	$4,002	1	$54,301
Health Insurance	$0	0	$5,697
Sick & Vacation Pay	($9,051)	(2)	$31,356
Less: Mgt. Fees Billed	$0	0	($28,176)
Payroll Costs	$144,712	32	$861,487
Advertising & Promotion	$3,829	1	$59,122
Bad Debt	$889	0	$889
Commission Expense - FSC	$3,315	1	$57,140
Data Processing	$394	0	$4,239
Educ., Dues, & Subscription	$209	0	$12,974
Employment Expenses	$0	0	$2,409
Interest & Bank Charges	$21,021	5	$275,734
Management Fees	$8,393	2	$100,716
Miscellaneous	$2,938	1	$18,251
Office Supplies & Maint.	$1,812	0	$24,774
Outside Services	$519	0	$6,676
Profit Sharing	$0	0	$0
Professional Services	$2,628	1	$26,909
Rent	$7,339	2	$89,344
Security	$10,068	2	$82,979
Telephone	$1,433	0	$15,419
Travel	$266	0	$6,646
Total General & Admin.	$209,765	47	$1,645,707
Income From Operations	($203,522)	(45)	($341,583)
Other Income			
Miscellaneous Income	$27,583	6	$42,477
Rental Income	$0	0	$5,400
Gain On Sale Of Equipment	$13,881	3	$13,881
Interest Income	$2	0	$4,681
Income - FSC Dividend	$0	0	$80,000
Total Other Income	$41,466	9	$146,438
Net Income Before Taxes	($162,056)	(36)	($195,144)
Provision For Tax	$105,982	24	$105,982

Statement of Earnings
For the 12 Months Ended December 31, 2010

	Current Month	% of Sales	YTD	% of Sales
Revenue:				
Sales	1,330,035	100.00	15,686,681	100.00
Total Revenue	1,330,035	100.00	15,686,681	100.00
Cost of Goods Sold:				
Beginning Inventory	69,031	5.19	61,270	0.39
Purchases - Plant	1,014,391	76.26	12,613,850	80.41
Freight	13,695	1.02	158,945	1.01
	1,097,117	82.48	12,834,065	81.81
Less: Ending Inventory	26,597	1.99	26,597	0.16
Total Cost of Goods Sold	1,070,520	80.48	12,807,468	81.64
Gross Profit	259,515	19.51	2,879,213	18.35
Operating Expenses (Schedule A)	223,004	16.76	2,857,974	18.21
Income from Operations	36,511	2.74	21,239	0.13
Other income (expense):				
Miscellaneous Income	371,214	27.91	380,565	2.42
Gain or Loss on Sale of Assets	13,500	1.01	19,500	0.12
Interest Expense	(6,265)	0.47	(53,438)	0.34
Total other income (expense)	378,449	28.45	346,627	2.20
Net Income Before Taxes	414,960	31.19	367,866	2.34
Provision for Income Taxes	0	0.00	5,805	0.03
NET INCOME	414,960	31.19	362,061	2.30

See Accountants' Compilation Report

Schedule A

Schedule of Operating Expenses
For the 12 Months Ended December 31, 2010

	Current Month	YTD
Fuel	4,337	21,450
Repairs & Maintenance	6,552	187,898
Supplies - Shop	6,522	84,488
Trash Removal	2,071	24,111
Depreciation	13,886	166,632
Insurance - Plant	544	3,264
Insurance - Trucks & Auto	3,647	19,806
Insurance - Officers' Life	1,373	9,244
Insurance - Fire	0	3,282
Tax & License	1,300	39,190
Rent Expense - Plant	22,855	253,132
Rent Expense - Equipment	76	2,791!
Utilities -	6,533	35,87
Office Salaries & Wages	78,835	830,413
Security	2,442	41,660
Office Expense	6,270	47,756
Office Supplies	1,817	24,024
Postage	0	1,571
Petty Cash over (short)	(55)	4,4
Consulting	0	75,1
Accounting	7,835	37,207
Legal and Professional	4,028	U5,284
Outside Services	17,852	297,230
Donations	0	1,258
Bank Charges	268	15,184
Commissions	0	8,580
Automobile Expense	17	42,569
Telephone	1,261	31,046
Uniforms	203	2,556
Dues & Subscriptions	26	1,612
Stationery & Printing	5,846	23,345
Advertising	1,814	21,655
Entertainment & Promotion	853	15,179
Payroll Taxes	4,978	67,752
Workers Compensation	8,742	85,945
Group Insurance	8,673	101,556
Insurance - General	1,603	23,024
Miscellaneous	0	30,818
TOTAL OPERATING EXPENSES	223,004	2,857,974

Trial Balance
As of December 31, 2010

	Acct.#	Account Name			DR.	CR.
1	102	SANWA BANK (CHECKING)			$439,916.91	
2	102-1	SANWA BANK (SAVING)			1,727,713.29	
3	103	BANK OF AMERICA (PAYROLL)			20,685.78	
4	105	BANK 0E AMERICA (ACCTS. PAYABLE)			14,537.84	
5	106	OPERATING CASH FUND			32,225.00	
6	107	ACCOUNTS RECEIVABLE			46,690.15	
7	110	BANK OF AMERICA (INVESTMENT)			416,476.62	
8	120	INVESTMENTS (FRANKLIN CA. TAX FREE)			317,610.25	
9	130	INVENTORY			167,200.00	
10	145	STATE FRANCHISE TAX BOARD			3,480.00	
11	146	PREPAID FXPENESES			7,084.47	
12	154	FUR. EQUIP. & AUTO			583,958.28	
13	155	ALL0WANCE FOR DEPRECIATIAN				512,740.00
14	162	LEASEHOLD IMPROVEMENTS			135,542.13	
15	163	LEASEHOLD AMORTIZATION				72,381.00
16	245	STOCKHOLDERS NOTES & LOANS				33,318.00
17	266	CAPITAL STOCK				10,000.00
18	271	RETAINED EARNINGS				510,577.06
19	272	ACCUMULATED ADJUSTMENTS				2,084,207.64
20	304	CALIFORNIA ALUMINUM CAN REDEMPTION				1,645.346.48
21	305	SALES OF SCRAP METALS AND OTHERS				7,864,779.13
22	306	MISCELLANEOUS INCOME				70,368.04
23	307	INTEREST INCOME				130,480.28
24	505	PURCHASES			7,662,841.52	
25	510	FREIGHT OUT			125,900.28	
26	301	WAGES & SALARIES SHOP			577,980,18	
27	302	OFFICER SALARY			183,500.00	
28	604	COMMISSION EXPENSE			38,697.07	
29	640	DEPRECIATION EXPENSE			37,192.00	
30	645	DONATIONS			10,615.50	
31	646	DUES & SUBSCRIPTION			3,009.50	
32	651	WORKER'S COMPENRATION INSURANCE			53,685.00	
33	652	INSURANCE (GENERAL)			25,630.23	
34	675	INTEREST EXPENSE			468.58	
35	680	LICENSE-PERMIT			665.00	
36	681	OFFICE & SHOP SUPPLIES			22,831.73	
37	682	PROMOTION-ENTERTAINMENT			334.40	
38	683	PROPERTY PROTECTION			2,116.31	
39	684	RENT			60,000.00	
40	611	LEGAL & ACCOUNTING			18,627.67	
41	613	ADVERTISING			7,299.13	
42	685	REPAIRS & MAINTENANCE			16,600.22	
43	686	TRUCK & AUTO			1,743.41	
44	686-A	ALAN			890.40	
45	687	UTILITIES			42,807.55	
46	689	PAYROLL EXPENSES			56,351.44	
47	690	TAXES			12,143.99	
48	691	PROFIT SHARING & MONEY PURCHASE PENSION PLAN			60,671.04	
49	693	KAISER MEDICAL			4,176.01	
50	694	UNIFORMS LAUNDRY			11.85	
51	695	CHRISTMAS EXPENSE			5,198.66	
52	699	COLA MACHINE				1,371.76
53						
54		TOTAL			12,944,569.39	12,944,569.39
55						

OPERATING STATEMENT
December 31, 2010

1	2	3	4	5	6	7	8	9
Category	GL Code	GL Code Description	9113 Actual $	9113 Budget $	$ Variance 5 to 4	9113 YTD Act. $	9113 YTD Bud. $	$ Variance 8 to 7
441	20-150-480240	SALES-GRAND TERRACE	848536.85	912000.00	63463.15	11611904.57	13395000.00	1783095.43
441	20-ISO-683000	FREIGHT EXPENSE	-7828.74	0.00	7828.74	-30362.02	0.60	30312.02
441	20-150-783000	TRANSPORTATION ALLOC	0.00	0.00	0.00	0.00	0.00	0.00
Department 150 SUBTOTAL			840708.11	912000.00	71291.89	11581842.55	13395000.00	1813467.45
*******44	RECYCLE DIVISION*******		840708.11	912000.00	71291.89	11581842.55	13395000.00	1813467.45
********4	SALES********		840708.11	912000.00	71291.89	11581842.55	13395000.00	1813467.45
541J1A	20-151-572003	GT SCRAP PYMNT	746837.58	841600.00	94762.42	40299839.34	12361000.00	2061160.66
541J1A	20-151-672003	TRANSPORTATION ALLOC	0.00	0.00	0.00	0.00	0.00	0.00
Department 151 SUBTOTAL			746837.58	841600.00	94762.42	40299839.34	12361000.00	2061160.66
***541J1	SCRAP PAYMENT****		746837.58	841600.00	94762.42	40299839.34	12361000.00	2061160.66
541J3G	20-154-482000	SALES LEASE	0.00	0.00	0.00	-100.00	0.00	100.00
541J3G	20-154-509000	COGS-LEASE	0.00	0.00	0.00	0.00	0.00	0.00
541J3G	20-154-509615	INTEREST INCOME – DE	-341.82	596.00	937.82	-5191.31	7700.00	12891.31
541J3G	20-154-510000	SALARIES & WAGES	7394.98	5126.00	-2268.98	92431.35	66650.00	-15731.35
541J3G	20-154-511000	VACATION EARNED	-340.34	264.00	604.34	4615.18	3360.00	-1255.18
541J3G	20-154-512000	OVERTIME PAY	409.69	280.00	-129.69	5446.93	3640.00	-1806.93
541J3G	20-154-513000	PAYROLL TAXES	686.66	438.00	-248.66	8502.05	6516.00	-1986.05
541J3G	20-154-514000	LIFE A D & D INSURAN	86.92	85.00	-1.92	1129.96	1105.00	-25.36
541J3G	20-154-515000	GROUP HEALH INS	623.23	648.00	24.77	9038.52	8400.00	-638.52
541J3G	20-154-516600	RETIREMENT	68.14	166.00	97.86	1774.84	2170.00	345.16
541J3G	20-154-517000	SAVINGS & INVESTMENT	16.00	156.00	140.00	1111.00	2100.00	989.00
541J3G	20-154-518000	WORKMANS COMP	29.23	32.00	2.77	379.99	380.00	0.00
541J3G	20-154-520000	CONSULTANTS & TEMPS	0.00	0.00	0.00	563.39	0.00	-563.20
541J3G	20-154-521000	GENERAL SUPPLIES	1028.19	200.00	-828.19	5184.48	2600.00	-2524.48
541J3G	20-154-522000	GENERAL EQUIPMENT	307.16	76.00	--231.16	5009.51	1000.00	-4009.51
Department 154 SUBTOTAL			756805.62	849667.00	93323.70	40429735.23	1246662100	-14315.11
541J5L	20-156-523001	R/M – PETERBILT	6.14	620.00	613.86	9009.36	8000.00	-1009.36
541J5L	20-156-523005	R/M COL. TRAILERS	11556.92	3848.00	-7708.92	87748.18	50000.00	-37748.18
541J5L	20-156-525005	GAS & OIL COL. TRUCK	3397.15	1924.00	-1473.15	31666.90	25000.00	-6666.90
541J5L	20-156-533000	DUES, SUBS, SEMINARS	0.00	0.00	0.00	0.00	0.00	0.00
541J5L	20-156-534000	TRAVEL & OTHER	51.43	20.00	-31.43	84.72	200.00	115.29
541J5L	20-156-534005	MEALS & ENTERTAIN	0.00	0.00	0.00	0.00	0.00	0.00
541J5L	20-156-537000	EMPLOYEE HEALTH d SA	0.00	24.00	24.00	738.61	300.00	-438.61
541J5L	20-156-545000	LICS, FEES. PERMITS	3341.38	3076.00	-265.38	43194.42	40000.00	-3134.42
541J5L	20-156-547000	TRANSPORTATION FEE	1 0.00	0.00	0.00	7734.86	0.00	7734.86
541J5L	20-156-569000	GENERAL EXPENSE	32378.00	76.00	-32302.00	33483.00	1000.00	-32483.00
541J5L	20-156-589000	COST OF GOODS SOLD	70806.74	0.00	-70806.74	352937.14	0.00	-352973.14
541J5L -	20-156-590079	INVENTORY EXPENSES	-66741.85	0.00	66741.85	-353363.47	0.00	353363.47
541J5L	20-156-590080	TRANSPORTATION ALLOC	0.00	0.00	0.00	0.00	0.00	0.00
'*Department 156 SUBTOTAL*			70806.74	19319.00	-51487.74	352937.14	251672.00	-73239.99
****54115	TRANSPORTATION****		70806.74	19319.00	-51487.74	352937.14	251672.00	-73239.99
541J7C	20-152-509610	LEASE REVENUE	-190.74	-803.00	-612.26	-867.678	-10439.00	-9571.33
Department 156 SUBTOTAL			-190.74	-803.00	-612.26	-867.678	-10439.00	-9571.33

OPERATING STATEMENT

1	2	3	4	5	6	7	8	9
Category	GL Code	GL Code Description	9113 Actual $	9113 Budget $	$ Variance 5 to 4	9113 YTD Act. $	9113 YTD Bud. $	$ Variance 8 to 7
***54117	LEASE REVENUE****		-190.74	-803.00	-612.26	-867.67	-10439.00	-9571.33
541J9E	20-153-528000	DEPRECIATION	20764.52	0.00	-20764.52	185234.04	0.00	-185234.04
Department 153 SUBTOTAL			20764.52	0.00	-20764.52	185234.04	0.00	-185234.04
541J9E	20-154-528000	DEPRECIATION	0.00	405.00	405.00	0.00	5193.00	5193.00
Department 154 SUBTOTAL			0.00	405.00	405.00	0.00	5193.00	5193.00
541J9E	20-155-528000	DEPRECIATION	0.00	13010.00	13010.00	0.00	169046.00	169046.00
Department 155 SUBTOTAL			0.00	13010.00	13010.00	0.00	169046.00	169046.00
541J3J	20-155-523003	R/M - LOGAN BALER	1200.00	0.00	-1200.00	7265.11	0.00	-37265.11
541J3J	20-155-523005	R/M - OTTAWA	1476.73	380.00	-1096.73	4373.84	5000.00	626.16
541J3J	20-155-523006	R/M - PARTS TRUCK	0.00	0.00	0.00	0.00	0.00	0.00
541J3J	20-155-524000	UNIFORMS	609.30	380.00	-229.30	5041.12	5000.00	-41.12
541J3J	20-155-525000	GAS & OIL	354.73	380.00	25.27	4339.62	5000.00	660.38
541J3J	20-155-525003	GAS & OIL SERVICE VE	243.10	228.00	-15.1	3755.28	3000.00	-755.28
541J3J	20-155-530000	POSTAGE & FREIGHT	0.00	76.00	76.99	2861.24	1000.00	-1861.24
541J3J	20-155-531000	UTILITIES	1356.55	1152.00	-204.55	2,12241.70	15000.00	-6241.70
541J3J	20-155-532000	EQUIPMENT RENTAL	323.41	228.00	-95.41	5059.46	3000.00	-2059.46
541J3J	20-155-533000	DUES, SUBS, SEMINARS	0.00	76.00	76.00,	1058.20	1000.00	-58.20
541J3J	20-155-534000	TRAVEL & OTHER	134.29	152.00	'17.71	2403.22	2000.00	-403.22
541J3J	20-155-534005	MEALS & ENTERTAIN	28.17	0.00	-28.17	884.61	0.00	-884.61
541J3J	20-155-537000	EMPLOY HEALTH d SAFE	585.41	120.00	-465.41.	6440.23	1500.00	-4940.23
541J3J	20-155-541000	RUBBISH & WASTE REMO	120.17	76.00	-44.17	1589.67	1000.00	-851.00
541J3J	20-l55-544000	MAINTENANCE UPGRADES	0.00	152.00	152.00	0.00	2000.00	2000.00
541J3J	20-155-545000	LICS, FEES,-PERMITS	20.00	4.00	16.00	206.74	100.00	-106.74
541J3J	20-155-569000	GENERAL EXPENSE	0.00	380.00	380.00	3704.99	5000.00	1295.01
541J3J	20-155-589000	COST OF GOODS SOLD	53950.00	0.00	-53950.00	431304.83	0.00	-431304.83
541J3J	20-155-590079	INVENTORY EXPENSES	-49065.65	0.00	49065.45	-442125.59	0.00	442125.59
541J3J	20-155-590080	ADMIN ALLOCATION	0.00	0.00	0.00	0.00	0.00	0.00
Department 155 SUBTOTAL			53950.00	22792.00	-31158,90	431304.83	298861.00	-132443.83
***541J3	PROCESSING****		78524.09	34671.00	-43853.09	645811.63	453882.00	-191929.63
541J5L	20-156-509900	LEASE EXPENSE	6304.22	2228.00	-4076.22	45677.90	29000.00	-16677.90
541J5L	20-156-510000	SALARIES & WAGES	6512.98	3550.00	-2962.98	51544.46	46138.00	-5406.46
541J5L	20-156-511000	VACATION EARNED	-343.84	178.00	521.84	1820.93	2326.00	505.07
541J5L	20-156-512000	OVERTIME PAY	1153.27	732.00	-421.27	8107.38	9516.00	1408.62
541J5L	20-156-513000	PAYROLL TAXES	610.42	343.00	-267.42	5048.35	4876.00	-172.35
541J5L	20-156-514000	LIFE A D & D INSURAN	67.88	66.00	-1.88	882.44	870.00	-12.44
541J5L	20-156-515000	GROUP HEALTH INS	623.23	324.00	-299.23	6891.90	4200.00	-2691.90
541J5L	20-156-516000	RETIREMENT	47.16	110.00	62.84	1228.50	1502.00	273.50
541J5L	20-156-517000	SAVINGS & INVESTMENT	70.00	110.00	40.00	694.00	1454.00	760.00
541J5L	20-156-518000	WORKMANS COMP	14.61	10.00	-4.61	189.97	190.00	0.03
541J5L	20-156-520000	CONSULTANTS & TEMPS	0.00	1852.00	1852.00	19984.40	24100.00	4115.60
541J5L	20-156-521000	GENERAL SUPPLIES	950.90	152.00	-798.90	1691.66	2000.00	308.34
541J5L	20-156-523000	R/M	0.00	76.00	76.00	1411.25	1000.00	-10411.25
Department 156 SUBTOTAL			94534.92	44402.00	-50132.92	790984.77	3000.00	-4953.78

OPERATING STATEMENT

1	2	3	4	5	6	7	8	9
Category	GL Code	GL Code Description	9113 Actual $	9113 Budget $	$ Variance 5 to 4	9113 YTD Act. $	9113 YTD Bud. $	$ Variance 8 to 7
541J3G	20-154-523000	R/M	1069.00	152.00	-917.00	260.80	2000.00	-2260.80
541J3G	20-154-525000	R/M - COMPANY CAR	0.00	120.00	120.00	1012.09	1500.00	497.91
541J3G	20-154-525002	GAS 9 OIL VEHICLE	159.31	85.00	-74.31	1470.45	1105.00	-365.45
541J3G	20-154-527000	PROPERTY TAXES	1660.75	0.00	-1660.75	1394.48	0.00	-21394 48
541J3G	20-154-525060	TELEPHONE	1561.38	496.00	-1065.38	1055.88	6400.00	-4655.88
541J3G	20-154-530000	POSTAGE 9 FREIGHT	489.38	144.00	-345.38	3780.08	1800.00	-1980.08
541J3G	20-154-531000	UTILITIES	374.20	252.00	-122.20	4460.88	3300.00	-1160.68
541J3G	20-154-533000	DUES, SUBS, SEMINARS	128.08	76.00	-52.08	1496.00	1000.00	-496.00
541J3G	20-154-533500	TUITION REIMBURSEMEN	768.00	620.00	-148.00	5613.34	8000.00	2386.66
541J3G	20-154-534000	TRAVEL.& OTHER	894.35	380.00	-514.35	6534.41	5000.00	-1534.41
541J3G	20-154-534005	MEALS V ENTERTAIN	339.71	76.00	263.71	3066.66	1000.00	-2066.66
541J3G	20-154-537000	EMPLOY HEALTH & SAFE	0.00	20.00	20.00	9539.07	200.00	-2339.07
541J3G	20-154-545000	LICS, FEES, PERMITS	926.00	76.00	-850.00	1205.50	1000.00	-205.50
541J3G	20-154-560000	EMPLOYEE ACTIVITIES	-55.46	124.00	179.48	1655.28	1600.00	-55.28
541J3G	20-154-561000	EDP EXPENSES	520.39	120.00	-400.39	2281.47	1500.00	-781.47
541J3G	20-154-565000	ADVERTISING 9 PROMOT	2131.39	772.00	-1359.39	5772.56	10000.00	4227.44
541J3G	20-154-569000	_GENERAL EXPEN$€	574.22	299.00	-275.22	7067.05	3995.00	-3072.05
541J3G	20-154-589000	ADMIN-COGS	224574.09	0.00	-24574.09	214506.80	0.00	-214506.80
541J3G	20-154-590079	INVENTORY EXPENSES	-21508.72	0.00	21508.72	214561.89	0.00	214561.89
541J3G	20-154-590080	ADMIN ALLOCATION-	0.00	0.00	0.00	0.00	0.00	0.00
541J3G	20-154-649000	MOVING EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00
Department 154 SUBTOTAL			24574.09	11879.00	-12695.09	214506.80	155021.00	-59485.80
541J3J	20-155-510000	SALARIES 9 WAGES	9819.96	7280.00	-2539.96	134083.12	94652.00	-39471.12
541J3J	20-155-511000	VACATION EARNED	-68.48	368.00	436.48	4615.02	4772.00	156.98
541J3J	20-155-512000	OVERTIE PAY	1114.33	988.00	-126.33	15846.29	12844.00	-3002.29
541J3J	20-155-513000	PAYROLL- TAXES	856.31	657.00	-199.31	12459.35	10794.00	-1665.35
541J3J	20-ISS-514000	LIFE A D & D INSURAN	134.35	124.00	-10.35	1746.55	1684.00	-62.58
541J3J	20-155-515000	GROUP HEALTH INS	1558.06	1620.00	61.94	21501.86	21000.00	-501.90
541J3J	20-155-516000	RETIREMENT	96.78	238.00	141.22	2520.84	3082.00	581.15
541J3J	20-155-517000	SAVINGS & INVESTMENT	94.00	235.00	141.00	1069.00	2983.00	1015.05
541J3J	20-155-518000	WORKMANS COMP	73.08	74.00	0.92	950.04	950.00	0.04
541J3J	20-155-520000	CONSULTANTS d TEMPS	2479.89	424.00	-2055.89	35791.38	5500.00	-30291.38
541J3J	20-155-521000	GENERAL SUPPLIES	11244.89	1380.00	-9864.89	33808.45	18000.00	-15808.45
541J3J	20-155-522000	GENERAL EQUIPMENT	2080.70	772.00	-1308.70	8907.16	10000.00	1092.84
541J3J	20-155-523000	R/M	4858.28	1924.00	-2934.28	23948.39	25000.00	1051.61
541J3J	20-155-523001	R/M - CAN FLATTNERS	7905.92	2696.00	-5209.92	39780.52	35000.00	-4780.52
541J3J	20-155-523002	R/M - SERVICE TRUCK	365.72	228.00	-137.72	4872.59	3000.00	-1872.59

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Schedule of Plant Direct & Freight Costs
For the Period 09/01/09 through 08/31/10
Newark Plant

			MONTH			Y - T - D		
	JUNE	JULY	AUGUST	BUDGET	VARIANCE BETTER/(WORSE)	ACTUAL	BUDGET	VARIANCE BETTER/(WORSE)
FREIGHT & TRUCKING COSTS								
SALARIES & WAGES - DRIVERS	$15,812	$17,040	$15,389	$15,704	$315 S	$194,6311	$184,337	$(10,294)
CONTRACT LABOR	3,277	6,146	4,063	0	(4,063)	14,406.	0	(14,406)
REPAIRS & MAINT - TRUCKS	3,000	7,357	5,150	3,037	(2,113)	52,592	32,000	(20,592)
REPAIRS & MAINT - CONTAINERS	630	2,358	2,213	1,033	(1,180)	7,846	10,900	3,054
FUEL EXPENSE - TRUCKS	4,916	5,520	7,757	9,499	1,742	65,983	100,100	34,117
RENTAL TRUCKS & EQUIP	2,418	2,377	2,383	0	(2,383)	30,563	0	(30,563)
PERMITS & LICENSE FEES	3,368	0	0	333	333	7,078	4,000	(3,078)
WEIGHING CHARGES	2,025	1,041	882	475	(407)	8,937	5,000	(3,937)
PAYROLL TAXES - DRIVERS	1,210	1,100	1,358	1,392	34	14,058	16,570	2,512
GROUP INSURANCE DRIVERS	623	534	532	879	347	6,311	9,300	2,989
PENSION EXPENSE - DRIVERS	26	43	58	96	38	345	1,018	673
DEPRECIATION EXPENSE - TRUCKS	1,245	1,213	2,510	1,625	(885)	10,008	19,500	9,492
DEPRECIATION EXPENSE - CONTAINTERS	240	237	329	0	(329)	1,063	0	(1,063)
FREIGHT EXPENSE	43,018	39,311	17,019	38,905	21,886	423,889	410,000	(13,889)
FREIGHT-OUT BILLED	0	0	0	0	0	(1,103)	0	1,103
MISCELLANEOUS	2,299	184	1,330	0	(1,330)	15,721	0	(15,721)
TOTAL FREIGHT & TRUCKING	$84,109	$84,460	$60,972	$72,978	$12,006	$852,329	$792,725	$(59,604)
DIRECT PLANT COST								
SALARIES & WAGES - PLANT	30,294	35,391	S 32,841	19,272	S (13,569) S	315,884 "S	226,202	(89,682)
SALARIES & WAGES - MAINT	6,353	6,211	7,577	0	(7,577)	90,719	0	(90,719)
CONTRACT LABOR	0	68,807	107,384	417	(106,968)	271,416	5,000	(266,416)
OPERATING SUPPLIES - PLANT	3,646	2,949	4,177	4,838	661	36,692	51,000	14,308
REPAIRS & MAINT - EQUIPMENT	3,582	6,045	12,447	4,833	(7,613)	51,546	58,000	6,454
REPAIRS & MAINT - BUILDINGS	0	0	0	417	417	1,229	5,000	3,771
SCREENS & SCREEN SUPPLIES	0	0	0	947	947	862	10,000	9,138
SMALL TOOLS	75	270	338	83	(255)	3,896	1,000	(2,896)
FUEL EXPENSE - PLANT	325	532	154	227	73	2,426	2,400	(26)
HEAT, LIGHT & POWER	3,067	2,818	2,790	1,897	(893)	22,770	20,000	(2,770)
RUBBISH HAULING & DUMPING	2,837	748	3,857	14,234	10,377	44,710	150,000	105,290
TRAVEL EXPENSE PLANT	0	0	0	0	0	429	0	(429)
RENTAL - EQUIPMENT	1,950	1,740	1,740	190	(1,550)	20,082	2,000	(18,082)
PERMITS	0	733	(35)	B3	118	3,240	1,000	(2,240)
PAYROLL TAXES	2,777	3,370	3,424	1,770	(1,654)	31,064	20,395	(10,669)
GROUP INSURANCE	2,391	2,389	2,832	1,855	(977)	22,973	19,900	(3,073)
PENSION EXPENSE	191	215	277	113	(164)	2,305	1,249	(1,056)
MAINT COST DISTRIBUTION	0	0	0	0	0	(27,183)	0	27,183
TOTAL DIRECT PLANT COST	$57,488	$132,218	$179,802	$51,176	$(128,626)	$895,061	$573,146	$(321,915)

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Trend/Budget Variance Month & YTD
Schedule of Plant Sales & Cost of Sales
For the Period 09/01/09 through 08/31/10
Newark Plant

			MONTH			Y - T - D		
	JUNE	JULY	AUGUST	BUDGET	VARIANCE BETTER/(WORSE)	ACTUAL	BUDGET	VARIANCE BETTER/(WORSE)
SALES								
SALES GLASS	$270,102	$267,218	$185,311	$289,280	$(103,969)	$2,550,537	$2,966,100	$(415,563)
SALES ALUMINUM	51,701	74,196	61,623	9,000	52,623	693,251	108,000	585,251
SALES PLASTIC	19,684	9,199	8,119	3,400	4,719	189,781	40,800	148,981
SALES CARDBOARD	132	0	507	1,850	(1,343)	13,114	22,200	(9,086)
DECASING INCOME	0	79,626	138,107	0	138,107	436,979	0	436,979
SALES MISCELLANEOUS SCRAP	0	484	389	0	389	2,933	0	2,933
STATE REDEMPTION INCOME	48,165	52,927	49,810	38,206	11,604	494,474	425,000	69,474
SERVICE REVENUE	4,910	6,974	11,769	18,333	(6,564)	89,578	204,000	(114,422)
ENVIPCO INCOME	9,202	9,438	9,923	48,539	(38,616)	134,954	540,000	(405,046)
TOTAL SALES	$403,895	$500,061	$465,558	$408,608	$56,950	$4,605,601	$4,306,100	$299,501
COST OF SALES								
MATERIAL COSTS GLASS	$62,518	$77,155	$65,420	$147,977	$82,557	$718,018	$1,529,478	$11,460
MATERIAL COSTS ALUMINUM	38,995	59,410	47,890	4,657	(43,233)	544,804	56,171	(488,633)
MATERIAL COSTS PLASTIC	8,400	584	802	1,709	907	86,881	21,191	(65,690)
MATERIAL COSTS CARDBOARD	0	0	0	932	932	1,562	11,310	9,204
MATERIAL COSTS MISC. SCRAP	99	231	98	0	(98)	1,294	0	(1,745)
FREIGHT-IN	14,454	12,116	12,916	11,766	(1,150)	103,829	124,000	20,171
FREIGHT 8 TRUCKING COSTS	84,109	84,460	60,972	72,978	12,006	852,329	792,725	(59,604)
DIRECT PLANT COST	57,488	132,218	179,802	51,176	(128,626)	895,061	573,146	(321,915)
INDIRECT PLANT COST	31,488	37,502	40,122	41,350	1,228	431,107	486,431	55,324
PLANT OFFICE COST	250	861	702	2,883	2,181	7,730	34,600	26,870
TOTAL COST	$297,801	$404,536	$408,725	$335,429	$(73,295)	$3,642,613	$3,629,052	$(13,561)
CHANGE IN INVENTORY	$5,138	$858	$(16,371)	$0	$16,371	$40,354	$0	$(40,354)
TOTAL COST OF SALES	$302,939	$405,394	$392,354	$335,429	$(56,924)	$3,682,968	$3,629,052	$(53,916)
GROSS PROFIT	$100,956	$94,667	$73,205	$73,179	$26	$922,633	$677,048	$245,585

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Trend/Budget Variance Month & YTD
Schedule of Plant Indirect & Office Costs
For the Period 09/01/09 through 08/31/10
Newark Plant

			MONTH			Y - T - D		
	JUNE	JULY	AUGUST	BUDGET	VARIANCE BETTER/(WORSE)	ACTUAL	BUDGET	VARIANCE BETTER/(WORSE)
INDIRECT PLANT COST								
SALARIES & WAGES SUPERVISION	$10,496	$13,890	$11,668	$14,679	$3,011	$161,466	$171,785	$10,319
SECURITY & PROTECTION	0	0	0	0	0	110	0	(110)
RENT EXPENSE	700	700	700	750	50	9,270	9,000	(270)
REAL & PERS PROPERTY TAXES	1,319	1,115	1,353	1,000	(353)	14,680	12,000	(2,680)
PAYROLL TAXES	788	906	853	1,366	513	10,200	15,501	5,301
GROUP INSURANCE	352	352	352	585	233	5,731	6,600	869
PENSION EXPENSE	157	181	186	90	(96)	2,037	949	(1,088)
WORKER'S COMPENSATION	9,363	9,343	11,318	7,876	(3,442)	110,136	94,512	(15,624)
FED & STATE UNEMPLOYMENT TAX	579	566	626	0	(626)	11,160	0	(11,160)
GENERAL INSURANCE	3,915	3,915	4,890	7,607	2,717	47,954	91,284	43,330
DEPRECIATION EXPENSE	3,819	6,304	7,593	7,397	(196)	51,348	84,800	33,452
MISCELLANEOUS	0	230	583	0	(583)	7,016	0	(7,016)
INDIRECT PLANT COST	$31,488	$37,502	$40,122	$41,350	$1,228	$431,107	$486,431	$55,324
PLANT OFFICE COST								
TELEPHONE	$0	$0	$0	$300	$300	$0	$3,600	$3,600
TRAVEL EXPENSE	0	0	0	250	250	0	3,000	3,000
MEALS & CONFERENCES	0	0	0	0	0	199	0	(199)
AUTOMOBILE EXPENSE	250	611	452	750	298	6,385	9,000	2,615
ADVERTISING & PROMOTION	0	0	0	500	500	542	6,000	5,458
OFFICE SUPPLIES	0	0	0	1,083	1,083	75	13,000	12,925
MISCELLANEOUS	0	250	250	0	(250)	529	0	(529)
	$250	$861	$702	$2,883	$2,181	$7,730	$34,600	$26,870

Handout 4m

Payroll taxes	5405
Wages	44460
Officers Salary	20800
Prop tax	419
LICENSE	2122
Dues + Subscriptions	214
Legal + Acct	429
Interest	5176
Insurance	2888
Phone + Utilities	6708
Adv. + Promo	2136
Equip. Rental	1092
Welding	0
Scales fees	1774
Penalties	70
Emp. Medical	0
Office expense	2647
Truck + Equip. Maint	23197
Yard Supplies	20023
Depreciation	16000
TOTAL	155560

Handout 5

Sample Note Concerning Selection of a Site's Compiled versus Audited Financial Statements

In the Audited Financial Statements, many costs were combined into the cost-of-goods sold category and could not be broken out. According to Mr. Doe, owner, these costs were broken out in the Compiled Financial Statements. Because the Compiled Financial Statements offered more detail and because total costs did not vary between the Compiled and the Audited Financial Statements, we chose to use the Compiled Financial Statements. Audited Financial Statements are included for information only.

Handout 6

Sample Depreciation Schedule

DEPRECIATION

GL#	DATE	DESCRIPTION	DEPR METHOD	LIFE	Basis	12/31/09 ACCM DEPR.	12/31/10 Expense	12/31/10 Disposal	12/31/10 Accum. Depr.
1600	4 /87	JEEP	200DB	5	18,479	13,689			13,689
1600	4 /87	JEEP SOLD 7/91			(18,479)			(13,689)	(13,689)
1600	4 /87	TRUCK ROLLOFF	200DB	5	36,744	31,030	2,286		33,316
1600	1 /89	TRUCK	200DB.5	5	87,707	45,607	16,840		62,447
1600	2 /89	ROLLOFF PULL TRUCK	200DB.5	7	17,970	2,568			2,568
1600	2 /89	ROLLOFF SOLD 4/91			(17,970)			(2,568)	(2,568)
1600	5 /90	EQUIP-CONTAINER	200DB.5	7	5,682	812	1,391		2,203
1600	8 /90	TRUCK	200DB.5	5	72,234	14,447	23,115		37,562
1600	3 /91	TRUCK ROLLOFF	SL	5	20,338	0	3,390		3,290
1600	4 /91	TRUCK REPAIR	SL	5	12,525	0	1,879		1,879
1600	7 /91	BUICK –	SL	5	11,995	0	1,200		1,200
					247,225	108,153	50,100 Ⓐ	(16,257)	141,996 7-18'
1610	4 /89	LHLD IMP-PLANT	SL	31.5	4,894	265	155 D		420
1610	9 /90	LHLD IMP-PLANT	SL	31.5	11,105	103	353 D		456
1610	1 /91	LHLD IMP-PLANT	SL	30	8,712	7-3 0	290 D		290
1610	2 /91	LHLD IMP-PLANT	SL	30	21,901	0	669 D		669
1610	3 /91	LHLD IMP-PLANT	SL	30	24,482	0	680 D		680
1610	4 /91	LHLD IMP-PLANT	SL	30	18,430	0	461 D		461
1610	5 /91	LHLD IMP-PLANT	SL	30	10,454	7-4 0	232 D		232
1610	6 /91	LHLD IMP-PLANT	SL	30	10,896	0	212 D		212
1610	8 /91	LHLD IMP-WESTERN	SL	10	34,030	7-5 0	1,418 Δ		1,418
1610	9 /91	LHLD IMP-WESTERN	SL	10	10,000	7-10 0	333 Δ		333
1610	10 /91	LHLD IMP-WESTERN	SL	10	15,700	0	393 Δ		393
					170,604	368	5,196 Ⓐ	0	5,564 7-18'
1620	7 /80	SCALES	200DB	7	42,792	42,792	0		42,792
1620	8 /80	FORKLIFT	200DB	7	1,435	1,435	0		1,435
1620	8 /80	COMPRESSOR	200DB	7	82	82	0		82
1620	8 /80	TOWMOTOR	200DB	7	544	544	0		544
1620	8 /80	TRAILER	200DB	7	121	121	0		121
1620	9 /81	WHITE INTL TRAILER	200DB	7	13,780	13,062	718		13,780
1620	11 /81	78 INTL ROLLOFF	200DB	7	22,038	20,890	1,148		22,038
1620	5 /83	FORKLIFT	150DB	5	20,148	18,709	1,439 D		20,148
1620	10 /83	CLARK '843 BOBCAT	150DB	5	14,455	12,980	1,475 D		14,455
1620	4 /84	BINS	150DB	5	11,694	10,368	1,326 D		11,694
1620	4 /84	SCALE	150DB	5	1,276	1,155	121 D		1,276
1620	9 /84	910 CATERPILLAR	150DB	5	29,820	23,905	5,915 D		29,820
1620	12 /84	SCALES	200DB	7	5,240	5,101	139 D		5,240
1620	6 /86	LOGEMAN BAILER	150DB	5	166,140	132,233	33,907 D		166,140
1620	5 /87	FORKLIFT	200DB	7	23,117	16,240	1,965 D		18,205
1620	5 /88	EQUIPMENT	200DB.5	5	52,584	39,543	5,216 D		44,759
1620	3 /89	ROLLOFF BIN	200DB.5	7	3,579	1,387	626 D		2,013
1620	4 /89	SCALES	200DB.5	5	2,005	1,043	385 D		1,428
1620	6 /89	SCALES	200DB.5	5	3,728	1,939	716 D		2,655
1620	6 /89	ROLLOFF BOXES	200DB.5	7	1,142	443	200 D		643
1620	7 /89	SCALES	200DB.5	5	2,738	1,424	526 D		1,950
1620	8 /89	ROLLOFF BINS	200DB.5	7	13,126	5,091	2,296 D		7,387

Comparison of Depreciation Expense

$Ⓐ 174,401
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166,632 E2.1

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DEPRECIATION

GL#	DATE	DESCRIPTION	DEPR METHOD	LIFE	Basis	12/31/09 ACCM DEPR.	12/31/10 Expense	Disposal	Accum. Depr.
1620	11 /89	CAN MACHINERY A1	200DB.5	7	8,499	3,296	1,487 ▲ E1		4,783
1620	11 /89	ROLLOFF BOXES	200DB.5	7	14,778	5,731	2,585		8,316
1620	11 /89	ROLLOFF BOXES	200DB.5	7	15,540	6,027	2,718		8,745
1620	1 /90	SCALE	200DB.5	7	869	124	213		337
1620	2 /90	TILT BINS	200DB.5	7	5,501	525	1,422		1,947
1620	3 /90	FORKLIFT	200DB.5	7	20,819	2,975	5,098		8,073
1620	4 /90	ROLLOFF EQUIP	200DB.5	7	8,017	1,146	1,963		3,109
1620	4 /90	EQUIPMENT	200DB.5	7	5,099	729	1,249		1,978
1620	4 /90	ROLLOFF BOXES	200DB.5	7	7,968	1,139	1,951		3,090
1620	6 /90	CONTAINERS	200DB.5	7	19,928	2,848	4,880		7,728
1620	7 /90	CONTAINERS	200DB.5	7	11,615	1,660	2,844		4,504
1620	7 /90	CONTAINERS	200DB.5	7	2,300	329	563		892
1620	9 /90	REMOTE SCALES BCI	200DB.5	7	2,367	338	580		918
1620	9 /90	CONTAINERS	200DB.5	7	13,800	1,972	3,379		5,351
1620	9 /90	CONTAINERS	200DB.5	7	18,207	2,602	4,459		7,061
1620	9 /90	DROP BODIES	200DB.5	7	4,271	610	1,046		1,656
1620	10 /90	SCALE	200DB.5	5	3,864	773	1,236		2,009
1620	11 /90	TRAILER	200DB.5	5	19,638	3,928	6,284		10,212
1620	12 /90	CONTAINERS	200DB.5	7	10,220	1,460	2,503		3,963
1620	1 /91	BINS	SL	5	3,130	0	626		626
1620	3 /91	SCALE BCI	SL	5	1,835	0	306 *		306
1620	4 /91	TIME RECORDER	SL	5	2,556	0	383		383
1620	5 /91	EQUIPMENT	SL	5	4,100	0	547		547
1620	5 /91	SCALE	SL	5	578	0	77		77
1620	6 /91	COMMUNICATION EQUIP.	SL	5	6,433	0	751		751
1620	6 /91	EQUIPMENT	SL	5	3,761	0	439		439
1620	7 /91	SCALE	SL	5	1,891	0	189		189
1620	7 /91	SECURITY CAMERA	SL	5	2,947	0	295		295
1620	7 /91	COMMUNICATION EQUIP	SL	5	1,075	0	108		108
1620	7 /91	BINS	SL	5	14,781	0	1,478		1,478
1620	8 /91	SCALE	SL	5	2,652	0	221		221
1620	8 /91	DROP OFFS	SL	5	5,516	0	460		460
1620	8 /91	COMMUNICATION EQUIP	SL	5	2,938	0	245		245
1620	10 /91	BINS	SL	5	20,576	0	1,029		1,029
1620	11 /91	BINS	SL	5	8,502	0	283		283
					708,155	388,699	112,012 A	0	500,711
1630	7 /90	MONEY COUNTER	200DB.5	5	1,272	254	407		661
1630	7 /90	FILE CABINETS	200DB.5	7	1,346	192	330		522
1630	8 /90	OFFICE FURNITURE	200DB.5	7	5,711	0	1,632		1,632
1630	9 /90	FILE CABINETS	200DB.5	7	1,314	188	322		510
1630	9 /90	PORTABLE RADIO	200DB.5	5	4,816	963	1,541		2,504
1630	9 /90	SAFE	200DB.5	7	2,188	313	536		849
1630	5 /91	COMPUTER EQUIP	SL	7	6,304	0	600		600
1630	6 /91	EQUIPMENT	SL	7	1,424	0	119		119
1630	6 /91	PAGERS	SL	7	411	0	34		34
1630	8 /91	COMPUTER EQUIP	SL	7	2,375	0	141		141
1630	8 /91	COMPUTER EQUIP	SL	7	24,040	0	1,431		1,431
					51,201	1,910	7,093 A	0	9,003

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Sample Depreciation Schedule

12/31/04

GL#	Date	Description	Depr Method	Life	Basis	Prior Accum. Depr.	\--- 1 Accum. E Expense	\---12/31/2000 ---\ Accum Depr.	Expense	\---12/31/2001 ---\ Accum. Depr.	Expense	\---12/31/2002 ---\ Accum. Depr.	Expense	\---12/31/2003 ---\ Accum. Depr.	Expense	\---12/31/2004 - -\ Accum. Depr.
1620	7/80	Scales	200DB	7	42,792	42,792	0	42,792	0	42,792	0	42,792	0	42,792		42,792
1620	8/80	FORKLIFTS	200DB	7	1,435	1,435		1,435		1,435		1,435		1,435		1,435
1620	8/80	COMPRESSOR	200DB	7	82	82		82		82		82		82		82
1620	8/80	TOWMOTOR	200DB	7	544	544		544		544		544		544		544
1620	8/80	TRAILER	200DB	7	121	121		121		121		121		121		121
1620	9/81	WHITE INTL TRAILER	200DB	7	13,780	13,780		13,780		13,780		13,780		13,780		13,780
1620	11/81	78 INTL ROLLOFF	200DB	7	22,038	22,038		22,038		22,038		22,038		22,038		22,038
1620	11/92	78 INTL R/OFF SOLD 11/92	SL	5	(22,038)	(22,038)		(22,038)		(22,038)		(22,038)		(22,038)		(22,038)
1620	5/83	FORKLIFTS	150DB	5	20,148	20,148		20,148		20,148		20,148		20,148		20,148
1620	10/83	CLARK' 843 BOBCAT	150DB	5	14,455	14,455		14,455		14,455		14,455		14,455		14,455
1620	4/84	BINS	150DB	5	11,694	11,694		11,694		11,694		11,694		11,694		11,694
1620	4/84	SCALES	150DB	5	1,276	1,276		1,276		1,276		1,276		1,276		1,276
1620	9/84	910 CATERPILLAR	150DB	5	29,820	29,820		29,820		29,820		29,820		29,820		29,820
1620	12/84	SCALES	200DB	7	5,240	5,240		5,240		5,240		5,240		5,240		5,240
1620	6/86	LOGEMAN BAILER	150DB	5	166,140	166,140		166,140		166,140		166,140		166,140		166,140
1620	3/99	SALE OF BALER	SL	5	(166,140)	(166,140)		(166,140)		(166,140)		(166,140)		(166,140)		(166,140)
1620	5/87	FORKLIFTS	200DB	7	23,117	23,117		23,117		23,117		23,117		23,117		23,117
1620	5/88	EQUIPMENT	200DB.5	5	52,584	52,584		52,584		52,584		52,584		52,584		52,584
1620	3/89	ROLLOFF BIN	200DB.5	7	3,579	3,579		3,579		3,579		3,579		3,579		3,579
1620	4/89	SCALES	200DB.5	5	2,005	2,005		2,005		2,005		2,005		2,005		2,005
1620	6/89	SCALES	200DB.5	5	3,728	3,728		3,728		3,728		3,728		3,728		3,728
1620	6/89	ROLLOFF BOXES	200DB.5	7	1,142	1,142		1,142		1,142		1,142		1,142		1,142
1620	7/89	SCALES	200DB.5	5	2,738	2,738		2,738		2,738		2,738		2,738		2,738
1620	8/89	ROLLOFF BINS	200DB.5	7	13,126	13,126		13,126		13,126		13,126		13,126		13,126
1620	11/89	CAN MACHINERY	200DB.5	7	8,499	8,499		8,499		8,499		8,499		8,499		8,499
1620	11/89	ROLLOFF BOXES	200DB.5	7	14,778	14,778		14,778		14,778		14,778		14,778		14,778
1620	11/89	ROLLOFF BOXES	200DB.5	7	15,540	15,540		15,540		15,540		15,540		15,540		15,540
1620	1/90	SCALES	200DB.5	7	869	869		869		869		869		869		869
1620	2/90	TILT BINS	200DB.5	7	5,501	5,501		5,501		5,501		5,501		5,501		5,501
1620	3/90	FORKLIFTS	200DB.5	7	20,819	20,819		20,819		20,819		20,819		20,819		20,819
1620	4/90	ROLLOFF EQUIP	200DB.5	7	8,017	8,017		8,017		8,017		8,017		8,017		8,017
1620	4/90	EQUIPMENT	200DB.5	7	5,099	5,099		5,099		5,099		5,099		5,099		5,099
1620	4/90	ROLLOFF BOXES	200DB.5	7	7,968	7,968		7,968		7,968		7,968		7,968		7,968
1620	6/90	CONTAINER	200DB.5	7	19,928	19,928		19,928		19,928		19,928		19,928		19,928
1620	7/90	CONTAINER	200DB.5	7	11,615	11,615		11,615		11,615		11,615		11,615		11,615
1620	7/90	CONTAINER	200DB.5	7	2,300	2,300		2,300		2,300		2,300		2,300		2,300
1620	9/90	REMOTE SCALES	200DB.5	7	2,367	2,367		2,367		2,367		2,367		2,367		2,367
1620	9/90	CONTAINER	200DB.5	7	13,800	13,800		13,800		13,800		13,800		13,800		13,800
1620	9/90	CONTAINER	200DB.5	7	18,207	18,207		18,207		18,207		18,207		18,207		18,207
1620	9/90	DROP BODIES	200DB.5	7	4,271	4,271		4,271		4,271		4,271		4,271		4,271
1620	10/90	SCALES	200DB.5	5	3,864	3,864		3,864		3,864		3,864		3,864		3,864
1620	11/90	TRAILER	200DB.5	5	19,638	19,638		19,638		19,638		19,638		19,638		19,638
1620	12/90	CONTAINER	200DB.5	7	10,220	10,220		10,220		10,220		10,220		10,220		10,220
1620	1/91	BINS	SL	5	3,130	3,130		3,130		3,130		3,130		3,130		3,130
1620	3/91	SCALES	SL	5	1,835	1,835		1,835		1,835		1,835		1,835		1,835
1620	4/91	TIME RECORDER	SL	5	2,556	2,556		2,556		2,556		2,556		2,556		2,556
1620	5/91	EQUIPMENT	SL	5	4,100	4,100		4,100		4,100		4,100		4,100		4,100
1620	5/91	SCALES	SL	5	578	578		578		578		578		578		578

GL#	Date	Description	Depr Method	Life	Basis	Prior Accum Depr.	\--- 1 Accum. E E	\---12/31/2000 ---\ Expense	Accum Depr.	\---12/31/2001 ---\ Expense	Accum. Depr.	\---12/31/2002 ---\ Expense	Accum. Depr.	\---12/31/2003 ---\ Expense	Accum. Depr.	\---12/31/2004 ---\ Expense	Accum. Depr.
1620	6/91	COMMUNICATION EQUIP	SL	5	6,433	6,433			6,433		6,433		6,433		6,433		6,433
1620	6/91	EQUIPMENT	SL	5	3,761	3,761			3,761		3,761		3,761		3,761		3,761
1620	7/91	SCALE	SL	5	1,891	1,891			1,891		1,891		1,891		1,891		1,891
1620	7/91	SECURITY CAMERA	SL	5	2,947	2,947			2,947		2,947		2,947		2,947		2,947
1620	7/91	COMMUNICATION EQUIP	SL	5	1,075	1,075			1,075		1,075		1,075		1,075		1,075
1620	7/91	BINS	SL	5	14,781	14,781			14,781		14,781		14,781		14,781		14,781
1620	8/91	SCALE	SL	5	2,652	2,652			2,652		2,652		2,652		2,652		2,652
1620	8/91	DROP OFFS	SL	5	5,516	5,516			5,516		5,516		5,516		5,516		5,516
1620	8/91	COMMUNICATION EQUIP	SL	5	2,938	2,938			2,938		2,938		2,938		2,938		2,938
1620	10/91	BINS	SL	5	20,576	20,576			20,576		20,576		20,576		20,576		20,576
1620	11/91	BINS	SL	5	8,502	8,502			8,502		8,502		8,502		8,502		8,502
1620	1/92	ROLL OFFS	SL	5	3,626	3,626			3,626		3,626		3,626		3,626		3,626
1620	1/92	SECURITY CAMERA	SL	5	2,210	2,210			2,210		2,210		2,210		2,210		2,210
1620	4/92	DROP BODY	SL	5	7,036	7,036			7,036		7,036		7,036		7,036		7,036
1620	7/92	DROP BODY	SL	5	10,072	10,072			10,072		10,072		10,072		10,072		10,072
1620	8/92	DROP BODY	SL	5	2,794	2,794			2,794		2,794		2,794		2,794		2,794
1620	11/92	SECURITY LIGHTS	SL	5	3,217	3,217			3,217		3,217		3,217		3,217		3,217
1620	12/92	DROP BODY	SL	5	7,036	7,036			7,036		7,036		7,036		7,036		7,036
1620	12/92	ROLL OFFS	SL	5	13,000	13,000			13,000		13,000		13,000		13,000		13,000
1620	2/93	BINS	SL	5	4,866	4,866			4,866		4,866		4,866		4,866		4,866
1620	4/93	TRAILER	SL	5	9,355	9,355			9,355		9,355		9,355		9,355		9,355
1620	6/93	3 DROP BODIES	SL	5	10,958	10,958			10,958		10,958		10,958		10,958		10,958
1620	7/93	1 DROP BODY	SL	5	3,710	3,710			3,710		3,710		3,710		3,710		3,710
1620	8/93	3 DROP BODIES	SL	5	8,100	8,100			8,100		8,100		8,100		8,100		8,100
1620	1/94	ROLL OFFS	SL	5	2,064	2,064			2,064		2,064		2,064		2,064		2,064
1620	1/94	CONTAINER	SL	5	3,600	3,600			3,600		3,600		3,600		3,600		3,600
1620	2/94	RECYCLING BODY	SL	5	3,626	3,565		61	3,626		3,626		3,626		3,626		3,626
1620	6/94	STANDARD DROP BODY	SL	5	6,977	6,395			6,977		6,977		6,977		6,977		6,977
1620	6/94	CAN SORTER	SL	5	4,066	3,726			4,066		4,066		4,066		4,066		4,066
1620	6/94	STANDARD DROP BODY	SL	5	13,948	12,786			13,948		13,948		13,948		13,948		13,948
1620	7/94	BINS	SL	5	3,000	2,700			3,000		3,000		3,000		3,000		3,000
1620	7/94	DROP BODIES	SL	5	6,978	6,281			6,978		6,978		6,978		6,978		6,978
1620	8/94	CONTAINER	SL	5	4,400	3,887			4,400		4,400		4,400		4,400		4,400
1620	8/94	BOBTAIL TRAILER	SL	5	615	543			615		615		615		615		615
1620	8/94	ROLL OFFS	SL	5	6,600	5,830			6,600		6,600		6,600		6,600		6,600
1620	8/94	STANDARD DROP BODY	SL	5	7,047	6,224			7,047		7,047		7,047		7,047		7,047
1620	8/94	STANDARD DROP BODY	SL	5	8,062	7,122			8,062		8,062		8,062		8,062		8,062
1620	8/94	ROL OFF CONTAINER	SL	5	175	155			175		175		175		175		175
1620	9/94	ROLL OFF	SL	5	2,000	1,733			2,000		2,000		2,000		2,000		2,000
1620	12/94	STANDARD DROP BODY	SL	5	6,720	5,488			6,720		6,720		6,720		6,720		6,720
1620	3/95	FORKLIFTS	SL	7	100,413	54,988		14,345	83,377	14,345	98,022	2,391	100,413		100,413		100,413
1620	3/95	BINS	SL	5	6,000	4,600		200	6,000		6,000		6,000		6,000		6,000
1620	5/95	ROLL OFFS	SL	5	7,700	5,647		513	7,700		7,700		7,700		7,700		7,700
1620	6/95	BINS	SL	5	5,750	4,121		479	5,750		5,750		5,750		5,750		5,750
1620	7/95	CONTAINER	SL	5	3,464	2,424		347	3,464		3,464		3,464		3,464		3,464
1620	7/95	ROLL OFFS	SL	5	5,400	3,780		540	5,400		5,400		5,400		5,400		5,400
1620	9/95	ROLL OFFS	SL	5	1,500	1,000		200	1,500		1,500		1,500		1,500		1,500
1620	9/95	DROP BODY	SL	5	11,298	7,532		1,507	11,298		11,298		11,298		11,298		11,298

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GL#	Date	Description	Depr Method	Life	Basis	Prior Accum Depr.	\--- 1 Accum. E	\---12/31/2000 -- \ Expense	Accum. Depr.	\---12/31/2001 ---\ Expense	Accum. Depr.	\---12/31/2002 ---\ Expense	Accum. Depr.	\---12/31/2003 ---\ Expense	Accum. Depr.	\---12/31/2004 ---\ Expense	Accum. Depr.
1620	11/95	BINS	SL	5	1,800	1,140		300	1,800		1,800		1,800		1,800		1,800
1620	1/96	BINS	SL	5	1,800	1,080		360	1,800		1,800		1,800		1,800		1,800
1620	2/96	BINS/DROP BODIES	SL	5	19,370	11,299		3,874	19,047	323	19,370	0	19,370		19,370		19,370
1620	4/96	BINS/DROP BODIES	SL	5	54,912	30,202		10,982	52,166	2,746	54,912	0	54,912		54,912		54,912
1620	4/96	BALER/CONVEYER/CRUSI	SL	5	7,000	3,850		1,400	6,650	350	7,000	0	7,000		7,000		7,000
1620	5/96	BINS/DROP BODIES .01	SL	5	24,809	13,232		4,962	23,156	1,653	24,809	0	24,809		24,809		24,809
1620	6/96	BINS/DROP BODIES	SL	5	57,731	29,828		11,546	52,920	4,811	57,731	0	57,731		57,731		57,731
1620	7/96	STORAGE BODIES	SL	5	82,270	41,135		16,454	74,043	8,227	82,270	0	82,270		82,270		82,270
1620	8/96	BINS	SL	5	13,000	6,283		2,600	11,483	1,517	13,000	0	13,000		13,000		13,000
1620	9/96	BOOGIE WHEEL AXEL .01	SL	5	1,159	541		232	1,005	154	1,159	0	1,159		1,159		1,159
1620	9/96	BINS	SL	5	28,830	13,454		5,766	24,986	3,844	28,830	0	28,830		28,830		28,830
1620	9/96	EQUIPMENT SCALES	SL	5	27,000	12,600		5,400	23,400	3,600	27,000	0	27,000		27,000		27,000
1620	10/96	BINS/DROP BODIES	SL	5	19,036	8,566		3,807	16,180	2,856	19,036	0	19,036		19,036		19,036
1620	11/96	BINS/DROP BODIES	SL	5	149,497	64,782		29,899	124,581	24,916	149,497	0	149,497		149,497		149,497
1620	12/96	DROP BODIES	SL	5	166,527	69,386		33,305	135,997	30,530	166,527	0	166,527		166,527		166,527
1620	1/97	STORAGE BODIES	SL	5	8,860	3,544		1,772	7,088	1,772	8,860	0	8,860		8,860		8,860
1620	1/97	BINS	SL	5	2,600	1,040		520	2,080	520	2,600	0	2,600		2,600		2,600
1620	1/97	BINS	SL	5	2,000	800		400	1,600	400	2,000	0	2,000		2,000		2,000
1620	1/97	BINS/DROP BODIES	SL	5	3,516	1,406		703	2,813	703	3,516	0	3,516		3,516		3,516
1620	1/97	COVER BOX	SL	5	1,600	640		320	1,280	320	1,600	0	1,600		1,600		1,600
1620	2/97	STORAGE BODIES	SL	5	26,571	10,186		5,314	20,814	5,314	26,129	442	26,571	0	26,571		26,571
1620	4/97	BINS/DROP BODIES	SL	5	26,571	9,300		5,314	19,928	5,314	25,243	1,328	26,571	0	26,571		26,571
1620	4/97	BINS	SL	5	2,000	700		400	1,500	400	1,900	100	2,000	0	2,000		2,000
1620	4/97	BINS/DROP BODIES	SL	5	8,857	3,100		1,771	6,643	1,771	8,414	443	8,857	0	8,857		8,857
1620	4/97	BINS	SL	5	1,300	455		260	975	260	1,235	65	1,300	0	1,300		1,300
1620	4/97	BINS	SL	5	1,000	350		200	750	200	950	50	1,000	0	1,000		1,000
1620	4/97	BINS/DROP BODIES	SL	5	17,714	6,200		3,543	13,286	3,543	16,828	886	17,714	0	17,714		17,714
1620	6/97	BINS/DROP BODIES .01	SL	5	1,809	573		362	1,297	362	1,658	151	1,809	0	1,809		1,809
1620	6/97	BINS/DROP BODIES .01	SL	5	13,912	4,406		2,782	9,971	2,782	12,753	1,159	13,912	0	13,912		13,912
1620	7/97	BINS/DROP BODIES	SL	5	8,857	2,657		1,771	6,200	1,771	7,971	886	8,857	0	8,857		8,857
1620	7/97	BINS/DROP BODIES	SL	5	44,285	13,286		8,857	31,000	8,857	39,857	4,428	44,285	0	44,285		44,285
1620	8/97	BINS/DROP BODIES	SL	5	35,428	10,038		7,086	24,209	7,086	31,295	4,133	35,428	0	35,428		35,428
1620	9/97	BINS	SL	5	2,000	533		400	1,333	400	1,733	267	2,000	0	2,000		2,000
1620	9/97	BINS	SL	5	5,000	1,333		1,000	3,333	1,000	4,333	667	5,000	0	5,000		5,000
1620	10/97	BINS/DROP BODIES	SL	5	13,912	3,478		2,782	9,043	2,782	11,825	2,087	13,912	0	13,912		13,912
1620	10/97	BINS/DROP BODIES	SL	5	3,516	879		703	2,285	703	2,989	527	3,516	0	3,516		3,516
1620	10/97	BINS/DROP BODIES	SL	5	17,428	4,357		3,486	11,328	3,486	14,814	2,614	17,428	0	17,428		17,428
1620	10/97	BINS	SL	5	1,000	250		200	650	200	850	150	1,000	0	1,000		1,000
1620	6/97	HEATING PUMP	SL	5	3,400	1,077		680	2,437	680	3,117	283	3,400	0	3,400		3,400
1620	1/98	DROP BODIES	SL	5	13,286	2,657		2,657	7,971	2,657	10,629	2,657	13,286	0	13,286		13,286
1620	1/98	DROP BODIES	SL	5	13,286	2,657		2,657	7,971	2,657	10,629	2,657	13,286	0	13,286		13,286
1620	2/98	ROLL DUMPS	SL	5	2,540	466		508	1,18[illegible]	508	1,989	508	2,497	43	2,540	0	2,540
1620	2/98	DIGITAL BENCH SCALE	SL	5	3,990	732		798	2,328	798	3,126	798	3,924	66	3,990	0	3,990
1620	2/98	DROP BODY	SL	5	3,000	550		600	1,750	600	2,350	600	2,950	50	3,000	0	3,000
1620	3/98	DROP BODIES	SL	5	44,285	7,381		8,857	25,095	8,857	33,952	8,857	42,809	1,476	44,285	0	44,285
1620	5/98	DROP BODIES	SL	5	17,201	2,293		3,440	9,174	3,440	12,614	3,440	16,055	1,146	17,201	0	17,201
1620	9/98	CONTAINER	SL	5	1,000	67		200	467	200	667	200	867	133	1,000	0	1,000
1620	9/98	CONTAINER	SL	5	1,500	100		300	700	300	1,000	300	1,300	200	1,500	0	1,500

GL#	Date	Description	Depr Method	Life	Basis	Prior Accum. Depr.	\--- 1 Accum. E[	\---12/31/2000 ---\ Expense	Accum. Depr.	\---12/31/2001 ---\ Expense	Accum. Depr.	\---12/31/2002 ---\ Expense	Accum. Depr.	\---12/31/2003 ---\ Expense	Accum. Depr.	\---12/31/2004 ---\ Expense	Accum. Depr.
1620	9/98	SCALE	SL	5	2,646	176		529	1,235	529	1,764	529	2,294	352	2,646	0	2,646
1620	10/98	FORKLIFT	SL	5	2,000	100		400	900	400	1,300	400	1,700	300	2,000	0	2,000
1620	11/98	CONTAINER	SL	5	3,220	107		644	1,395	644	2,039	644	2,683	537	3,220	0	3,220
1620	11/98	BALER	SL	5	178,614	5,954		35,723	77,399	35,723	113,122	35,723	148,844	29,770	178,614	0	178,614
1620	12/98	ROLL OFF BOXES	SL	5	11,330	189		2,266	4,721	2,266	6,987	2,266	9,253	2,077	11,330	0	11,330
1620	4/98	CONTAINER	SL	5	1,678	252		336	923	336	1,259	336	1,594	84	1,678	0	1,678
1620	9/98	CONTAINER	SL	5	3,000	200		600	1,400	600	2,000	600	2,600	400	3,000	0	3,000
1620	1/99	FORKLIFT	SL	5	1,000			200	400	200	600	200	800	200	1,000	0	1,000
1620	1/99	BALER	SL	5	7,500			1,500	3,000	1,500	4,500	1,500	6,000	1,500	7,500	0	7,500
1620	2/99	BALER	SL	5	89,182			17,836	34,186	17,836	52,023	17,836	69,859	17,836	87,696	1,486	89,182
1620	3/99	BALER	SL	5	15,508			3,102	5,686	3,102	8,788	3,102	11,889	3,102	14,991	517	15,508
1620	3/99	BALER	SL	5	23,255			4,651	3,527	4,651	13,178	4,651	17,829	4,651	22,480	775	23,255
1620	4/98	BALER	SL	5	5,350			1,070	1,873	1,070	2,943	1,070	4,013	1,070	5,083	267	5,350
1620	4/99	BINS	SL	5	515			103	180	103	283	103	386	103	489	26	515
1620	11/99	BINS FOR BARGAIN	SL	5	3,875			775	904	775	1,679	775	2,454	775	3,229	646	3,875
1620	3/99	BINS	SL	5	5,413			1,083	1,985	180	2,165	1,083	3,247	1,083	4,330	1,083	5,413
1620	7/00	FORKLIFT & SCALE	SL	5	7,500			750	750	1,500	2,250	1,500	3,750	1,500	5,250	1,500	6,750
1620	8/00	BINS	SL	5	9,300			775	775	1,860	2,635	1,860	4,495	1,860	6,355	1,860	8,215
1620	1/01	BINS SOLD	SL	5	(12,500)			0	0		(12,500)		(12,500)		(12,500)		(12,500)
1620	6/01	TOYOTA LIFT OF LA	SL	5	50,622			0	0	5,906	5,906	10,124	16,030	10,124	26,155	10,124	36,279
1620	7/01	BINS SOLD, THEFT	SL	5	(5,578)			0	0		(5,578)		(5,578)		(5,578)	Fully Dep	(5,578)
1620	10/01	BINS SOLD	SL	5	(6,500)			0	0		(6,500)		(6,500)		(6,500)	All sold	(6,500)
1620	1/02	BALER TO CENTRAL	SL	5	(3,300)			0	0		0		(3,300)		(3,300)		(3,300)
1620	3/02	BINS SOLD/STOLEN	SL	5	(7,369)			0	0		0		(7,369)		(7,369)		(7,369)
1620	6/03	914 CATERPILLAR	SL	5	101,831			0	0		0		0	10,183	10,183	20,366	30,549
1620	6/03	BINS	SL	5	4,000			0	0	0	0	0	0	400	400	800	1,200
1620	10/03	BINS	SL	5	8,794			0	0	0	0	0	0	440	440	1,759	2,199
1620	11/03	BINS	SL	5	8,794			0	0	0	0	0	0	293	293	1,759	2,052
1620	4/04	BINS SOLD 11	SL	5	(8,800)			0	0	0	0	0	0	0	0	0	(8,800)
1620	4/04	BINS 6	SL	5	36,372			0	0	0	0	0	0	0	0	4,850	4,850
1620	6/04	BINS 2	SL	5	11,942			0	0	0	0	0	0	0	0	1,393	1,393
1620	6/04	SCRUBBER for city farm	SL	5	4,500			0	0	0	0	0	0	0	0	525	525
1620	7/04	SCRUBBER for Plant	SL	5	4,500			0	0	0	0	0	0	0	0	450	450
1620	7/04	BINS 4	SL	5	23,884			0	0	0	0	0	0	0	0	2,388	2,388
1620	8/04	3 BALERS SOLD	SL	5	(7,500)			0	0	0	0	0	0	0	0		(7,500)
1620	10/04	Scale at Bargain	SL	5	16,191			0	0	0	0	0	0	0	0	810	810
1620	10/04	Scale at Western	SL	5	11,574			0	0	0	0	0	0	0	0	579	579
1620	11/04	Scale at City Farm	SL	5	17,978			0	0	0	0	0	0	0	0	599	599
1620	11/04	BIN 2	SL	5	11,052			0	0	0	0	0	0	0	0	368	368
1620	12/04	BINS 3	SL	5	16,578			0	0	0	0	0	0	0	0	276	276
1620			SL	5	0			0	0	0	0	0	0	0	0	0	0
					2,483,275	1,173,995		292,067	1,764,859	249,697	1,989,978	127,376	2,106,685	91,754	2,198,439	55,207	2,237,345
1600	4/87	JEEP	200DB	5	18,479				0		0		0		0		0
1600	4/87	JEEP SOLD 7/91		5	(18,479)				0		0		0		0		0
1600	4/87	TRUCK ROLLOFF	200DB	5	36,744	36,744		0	36,744	0	36,744	0	36,744	0	36,744		36,744

Bargain Center Depreciation Exp

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Module 7

GL#	Date	Description	Depr Method	Life	Basis	Prior Accum. Depr	\--- 1 Accum. Expense	\---12/31/2000 ---\ Accum. Depr.	Expense	\---12/31/2001 ---\ Accum. Depr.	Expense	\---12/31/2002 ---\ Accum. Depr.	Expense	\---12/31/2003 ---\ Accum. Depr.	Expense	\---12/31/2004 ---\ Accum. Depr.
1600	1/89	TRUCK ROLLOFF	200DB	5	87,707	87,707	0	87,707	0	87,707	0	87,707	0	87,707		87,707
1600	2/89	ROLLOFF PULL TRUCK	200DB	7	17,970		0	0	0	0	0	0	0	0		0
1600	2/89	ROLLOFF SOLD 4/91	200DB		(17,970)		0	0	0	0	0	0	0	0		0
1600	5/90	EQUIP-CONTAINER	200DB	7	5,682	5,682	0	5,682	0	5,682	0	5,682	0	5,682		5,682
1600	8/90	TRUCK	200DB	5	72,234	72,234	0	72,234	0	72,234	0	72,234	0	72,234		72,234
1600	3/91	TRUCK ROLLOFF	SL	5	20,338	20,338	0	20,338	0	20,338	0	20,338	0	20,338		20,338
1600	4/91	TRUCK REPAIR	SL	5	12,525	12,525	0	12,525	0	12 525	0	12,525	0	12,525		12,525
1600	7/91	BUICK	SL	5	11,995		0	0	0	0	0	0	0	0		0
1600	12/93	SALE OF BUICK	SL	5	(11,995)		0	0	0	0	0	0	0	0		0
1600	/93	PARK AVENUE	SL	5	18,500		0	0	0	0	0	0	0	0		0
1600		TRADE IN 4/97	SL	5	(18,500)		0	0	0	0	0	0	0	0		0
1600	9/94	1994 TRUCK	SL	5	13,000	11,267	520	13,000	0	13,000	0	13,000	0	13,000		13,000
1600	9/94	1994 TRUCK sold 10/03	SL	5	(13,000)	0	0	0	0	0	0	0	0	(13,000)		(13,000)
1600	12/94	DEPOSIT FOR TRUCK	SL	5	3,000	2,400	360	3,000	0	3,000	0	3,000	0	3,000		3,000
1600	1/95	TRUCK	SL	5	104,381	83,505	12,526	104,381	0	104,381	0	104,381	0	104,381		104,381
1600	5/96	FORD EXPLORER	SL	5	16,000	8,267	0	0	0	0	0	0	0	0		0
1600		SOLD IN 11/98	SL	5	(16,000)	(8,267)	0	0	0	0	0	0	0	0		0
1600	4/97	GMC YUKON	SL	5	38,646	13,526	7,729	28,984	0	28,984	0	28,984	0	28,984		28,984
1600	4/97	GMC YUKON	SL	5	(38,646)			0	0	(28,984)	0	(28,984)	0	(28,984)		(28,984)
1600	9/97	INTL TRUCK	SL	5	24,000	6,400	4,800	15,000	4,800	20,800	2,000	22,800	0	22,800		22,800
1600	05/02	INTL TRUCK	SL	5	(24,000)			0		0	0	(22,800)	0	(22,800)		(22,800)
1600	2/97	VOLVO TRUCK	SL	5	106,725	40,911	21,345	83,601	21,345	104,946	1 779	106,725	0	106,725		106,725
1600	10/98	GMC JIMMY	SL	5	28,177	1,409	5,635	12,680	4,696	17,376	0	17,376	0	17,376		17,376
1600	11/01	GMC 98 JIMMY	SL	5	(28,177)			0		(17,376)	0	(17,376)	0	(17,376)		(17,376)
1600	7/00	LA FRT TRUCK	SL	5	99,333		9,933	9,933	19,867	29,800	19,867	49,667	19,867	69,533	19,867	89,400
1600	1/01	GMC YUKON	SL	5	39,930		0	0	7,986	7,986	7,986	15,972	7,986	23,958	7,986	31,944
1600	7/02	R/O TRK FRTLINER	SL	5	107,154		0	0	0	0	10,715	10,715	21,431	32,146	21,431	53,577
1600	7/02	R/O TRK DEPOS T (2/03)	SL	5	5,000		0	0	0	0	500	500	417	917	1,000	1,917
1600	2/03	FREIGHTLINER	SL	5	119,437			0		0		0	21,897	21,897	23,887	45,784
1600	1/03	CHEY PICKUP	SL	5	18,735								3,747	3,747	3,747	7,494
1600	7/03	DEPOSIT FOR TRUCK 3	SL	5	15,000								0	0	3,000	3,000
1600	12/03	LA FRT TRUCK (3)	SL	5	374,928								0	0	74,986	74,986
1600	2/04	TRUCK (3) tag axles	SL	5	23,088								0	0	4,233	4,233
1600	4/04	GMC ENVOY	SL	5	27,875								0	0	3,717	3,717
1600	6/04	Sold 2BASIC '85	SL	5	(36,744)								0	0		(36,744)
1600	6/04	Sold 3BASIC '89	SL	5	(87,707)								0	0		(87,707)
1600	7/04	Deposit 2 trks	SL	5	10,000								0	0	167	167
1600	12/04	Deposit 2 trks	SL	5	278,162								0	0	4,636	4,636
					1,443,527	394,648	62,849	506,610	58,694	519,143	42,847	539,190	75,344	601,534	168,656	645,739
1610	4/89	LHLD IMP-PLANT	SL	31.5	4,894	1,506	155	1,616	155	1,972	155	2,127	155	2,282	155	2,438
1610	9/90	LHLD IMP-PLANT	SL	31.5	11,105	2,926	353	3,631	353	3,984	353	4,336	353	4,689	353	5,041
1610	1/91	LHLD IMP-PLANT	SL	31.5	8,712	2,321	277	2,875	277	3,152	277	3,428	277	3,705	277	3,981
1610	2/91	LHLD IMP-PLANT	SL	31.5	21,901	5,779	695	7,169	695	7,864	695	8,560	695	9,255	695	9,950
1610	3/91	LHLD IMP-PLANT	SL	31.5	24,482	6,392	777	7,946	777	8,723	777	9,500	777	10,278	777	11,055

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GL#	Date	Description	Depr Method	Life	Basis	Prior Accum. Depr.	\--- 1 Accum. E[	\---12/31/2000 ---\ Expense	Accum Depr.	\---12/31/2001 ---\ Expense	Accum. Depr.	\---12/31/2002 ---\ Expense	Accum. Depr.	\---12/31/2003 ---\ Expense	Accum. Depr.	\---12/31/2004 ---\ Expense	Accum. Depr.
1610	4/91	LHLD IMP-PLANT	SL	31.5	18,430	4,760		585	5,930	585	6,515	585	7,100	585	7,685	585	8,270
1610	5/91	LHLD IMP-PLANT	SL	31 5	10,454	2,669		332	3,333	332	3,665	332	3,997	332	4,329	332	4,660
1610	6/91	LHLD IMP-PLANT	SL	31.5	10,896	2,754		346	3,446	346	3,792	346	4,138	346	4,484	346	4,830
1610	8/91	LHLD IMP-WESTERN	SL	10	34,030	25,239		3,403	32 045	1,985	34,030	0	34,030	0	34,030		34,030
1610	9/91	LHLD IMP-WESTERN	SL	10	10,000	7,333		1,000	9,333	667	10,000	0	10,000	0	10,000		10,000
1610	10/91	LHLD IMP-WESTERN	SL	10	15,700	11,383		1,570	14,523	1,177	15,700	0	15,700	0	15,700		15,700
1610	2/95	LHLD IMP-PLANT	SL	10	4,682	1,834		468	2 770	468	3,239	468	3,707	468	4,175	468	4,643
1610	6/97	LHLD IMP-PLANT	SL	10	17,000	2,692		1,700	6,092	1,700	7,792	1,700	9,492	1,700	11,192	1,700	12,892
1610	8/97	LHLD IMP-PLANT	SL	10	2,825	400		283	965	283	1,248	283	1,530	283	1,813	283	2,095
1610	3/99	LHLD IMP-PLANT	SL	10	21,785			2,179	3,994	2,179	6,172	2,179	8,351	2,179	10,529	2,179	12,708
1610	4/99	LHLD IMP-PLANT	SL	10	9,000			900	1 575	900	2,475	900	3,375	900	4,275	900	5,175
1610			SL	10				0	0	0	0	0	0	0	0	0	0
					225,896	77,988		15,022	107,443	12,878	120,321	9,049	129,370	9,049	138,419	9,049	147,468
1630	7/90	MONEY COUNER	200DB	5	1,272	1,272		0	1,272	0	1,272	0	1,272		1,272		1,272
1630	7/90	FILE CABINETS	200DB	7	1,346	1,346			1,346		1,346		1,346		1,346		1,346
1630	8/90	OFFICE FURNITURE	200DB	7	5,711	5,711			5,711		5,711		5,711		5,711		5,711
1630	9/90	FILE CABINETS	200DB	7	1,314	1,314			1,314		1,314		1,314		1,314		1,314
1630	9/90	PORTABLE RADIO	200DB	5	4,816	4,816			4,816		4,816		4,816		4,816		4,816
1630	9/90	SAFE	200DB	7	2,188	2,188			2,188		2,188		2,188		2,188		2,188
1630	5/91	COMPUTER EQUIP	SL	7	6,304	6,304		(299)	6,304		6,304		6,304		6,304		6,304
1630	6/91	EQUIPMENT	SL	7	1,424	1,424		(86)	1,424		1,424		1,424		1,424		1,424
1630	6/91	PAGERS	SL	7	411	411		(24)	411		411		411		411		411
1630	8/91	COMPUTER EQUIP	SL	7	2,375	2,375		(199)	2,375		2,375		2,375		2,375		2,375
1630	8/91	COMPUTER EQUIP	SL	7	24,040	24,040		(2,004)	24 040		24,040		24,040		24,040		24,040
1630	1/92	COMPUTER EQUIP	SL	7	6,242	6,243		(638)	6 242		6,242		6,242		6,242		6,242
1630	12/93	COPY MACHINE	SL	5	5,191	5,191		(866)	5,191		5,191		5,191		5,191		5,191
1630	1/95	COMPUTER CASHIER	SL	5	4,923	3,939		590	4,923		4,923		4,923		4,923		4,923
1630	3/95	WALKIE-TALKIE/PHONE	SL	5	7,854	6,021		1,257	7,854		7,854		7,854		7,854		7,854
1630	8/95	COMPUTER-CASHIER	SL	5	2,140	1,462		557	2,140		2,140		2,140		2,140		2,140
1630	6/97	CANON COPY MACHINE	SL	5	4,985	1,579		1,994	3,573	997	4,570	415	4,985		4,985		4,985
1630	6/97	COMPUTER - P. BELL	SL	5	1,429	453		572	1,025	286	1,311	118	1,429		1,429		1,429
1630	6/97	OFFICE FURNITURE	SL	7	1,158	262		330	592	165	757	401	1,158		1,158		1,158
1630	10/97	COMPUTER - DELL	SL	5	3,963	991		1,586	2,577	793	3,370	593	3,963		3,963		3,963
1630	3/98	COMPUTER SYSTEM	SL	5	7,540	628		3,016	3,644	1,508	5,152	1,508	6,660	880	7,540	0	7,540
1630	11/98	SOFTWARE	SL	5	6,438	215		2,575	2,790	1,288	4,078	1 288	5,365	1,073	6,438	0	6,438
1630	12/98	COMPUTER EQUIP	SL	5	1,013	17		405	422	203	625	203	827	186	1,013	0	1,013
1630	2/98	COPY MACHINE	SL	5	3,773	692		1,509	2,201	755	2,956	755	3,710	63	3,773	0	3,773
1630	6/98	COMPUTER EQUIP	SL	5	8,660	1,010		3,464	4,474	1,732	6,206	1,732	7,938	722	8,660	0	8,660
1630	11/98	DATA CABLE	SL	5	1,305	44		522	566	261	827	261	1,088	217	1,305	0	1,305
1630	5/98	COMPUTER	SL	5	2,724	363		1,090	1,453	545	1,997	545	2,542	182	2,724	0	2,724
1630	12/98	COMPUTER	SL	5	989	16		396	412	198	609	198	807	182	989	0	989
1630	9/98	SECURITY SYSTEM	SL	5	2,764	184		1,106	1,290	553	1,842	553	2,395	369	2,764	0	2,764
1630	3/99	SECURITY SYSTEM	SL	5	1,437	0		287	527	287	815	287	1,102	287	1,390	47	1,437
1630	2/99	COMPUTER ASSORIES	SL	5	300	0		60	115	60	175	60	235	60	295	5	300

GL#	Date	Description	Depr Method	Life	Basis	Prior Accum. Depr.	\--- 1 Accum. E D	\---12/31/2000 ---\ Expense	Accum. Depr.	\---12/31/2001 ---\ Expense	Accum. Depr.	\---12/31/2002 ---\ Expense	Accum. Depr.	\---12/31/2003 ---\ Expense	Accum. Depr.	\---12/31/2004 ---\ Expense	Accum. Depr.
1630	7/99	NAVIGATION SYSTEM	SL	5	5,234		0	1,047	1,570	1,047	2,617	1,047	3,663	1,047	4,710	524	5,234
1630	2/04	PRINTEK 4300	SL	5	2,093			0	0	0	0	0	0	0	0	384	384
1630	4/04	SECURITY SYSTEM	SL	5	7,243			0	0	0	0	0	0	0	0	966	966
1630	6/04	PRINTEK 4300	SL	5	2,735			0	0	0	0	0	0	0	0	319	319
1630	7/04	Security System-Bargain	SL	5	7,195			0	0	0	0	0	0	0	0	720	720
1630	7/04	Scale system-Western	SL	5	5,398			0	0	0	0	0	0	0	0	540	540
1630	11/04	Safe (city farm)	SL	5	1,245			0	0	0	0	0	0	0	0	42	42
1630	11/04	PRINTEK 4300	SL	5	2,237			0	0	0	0	0	0	0	0	75	75
1630	11/04	Security System color came	SL	5	4,312			0	0	0	0	0	0	0	0	144	144
1630	12/04	Copier/Toshiba&dell comp	SL	5	5,057			0	0	0	0	0	0	0	0	84	84
1630			SL	5				0	0	0	0	0	0	0	0	0	0
		TOTAL OFFICE EQUIPMENT			168,778	80,511		18,246	104,781	10,676	115,457	9,963	125,420	5,268	130,688	3,848	134,536
TOTAL ASSETS					4,321,476	1,727,142		388,184	2,483,693	331,945	2,744,900	189,235	2,900,666	181,415	3,069,081	236,759	3,165,089

2,19

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Handout 8

Long-Lived Assets and Depreciation

Provided as Handout 8 in the training manual Volume II – Supplemental Materials.

Handout 9

Accrual Basis and Cash Basis of Accounting

Provided as Handout 9 in the training manual Volume II – Supplemental Materials.

Work Assignments

1. Classify financial statements
2. Prepare a balance sheet
3. Prepare an income statement
4. Identify financial statement terms
5. Complete financial statement and transaction exercises

Classify Financial Statements

1. The enclosed statement on pages 4 and 5 is an example of a (n):
   a) Audited financial statement
   b) Reviewed financial statement
   c) Compiled financial statement
   d) Federal income tax form
   e) Source document

2. The enclosed statement on page 6 is an example of a (n):
   a) Audited financial statement
   b) Reviewed financial statement
   c) Compiled financial statement
   d) Source document
   e) None of the above

3. The enclosed statement on pages 7 and 8 is an example of a (n):
   a) Audited financial statement
   b) Reviewed financial statement
   c) Compiled financial statement
   d) Source document
   e) None of the above

4. The enclosed statement on page 9 is an example of a (n):
   a) Audited financial statement
   b) Reviewed financial statement
   c) Compiled financial statement
   d) Federal income tax form
   e) State income tax form

5. Opinion language which indicates that "we are not aware of any material modifications that should be made to the financial statements" would suggest what type of financial statement?
   a) Audited financial statement
   b) Reviewed financial statement
   c) Compiled financial statement

6. Opinion language which indicates that the audit of the financial statements was conducted in "accordance with auditing standards generally accepted in the United States of America" would suggest what type of financial statement?
   a) Audited financial statement
   b) Reviewed financial statement
   c) Compiled financial statement

7. Report language which indicates that "we have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them" would suggest what type of financial statement?
   a) Audited financial statement
   b) Reviewed financial statement
   c) Compiled financial statement

8. Opinion language which indicates an "unawareness that no material modifications be made for financial statements to be in conformity with generally accepted accounting principals" would suggest what type of financial statement?
   a) Audited financial statement
   b) Reviewed financial statement
   c) Compiled financial statement

9. Which of the following is the most preferred for the cost survey?
   a) Verifiable and reasonable source documents
   b) State tax returns
   c) Compiled financial statements

10. Which of the following is the most preferred for the cost survey?
    a) Fiscal year reviewed financial statements that do not represent calendar year results
    b) Calendar year compiled financial statements
    c) Fiscal year compiled financial statements that accurately represent calendar year results
    d) Federal tax returns for a calendar year

11. Which financial statement will an interviewer most probably not need to perform the cost survey?
    a) Balance sheet
    b) Income statement
    c) Statement of investments
    d) Statement of cash flows

12. Which financial statement will an interviewer probably take most cost information from to perform the cost survey?
    a) Balance sheet
    b) Income statement
    c) Statement of investments
    d) Statement of cash flows

13. Which financial statement contains each element of the accounting equation?
    a) Balance sheet
    b) Income statement
    c) Statement of investments
    d) Statement of cash flows

14. Which of the following does not generate a source of federal and state tax returns for use in the cost survey?

    a) Sole proprietorship
    b) Corporation
    c) Conglomeration
    d) Partnership

15. Which of the following is not a valid and reasonable source document?

    a) DE-6 form
    b) W-2 form
    c) Supplier invoice
    d) Personal check stub
    e) Payroll register

METALS RECYCLING CO., INC.
SCHEDULE OF SELLING AND ADMINISTRATIVE EXPENSES
(Compiled)
YEAR ENDED DECEMBER 31, 2010

Advertising	$ 6,550 (2)	.1%
Bank Charges	4,469	.1
Commissions	2,433 (1) E3	.1
Contributions	780 N/A	-
Depreciation - Office Equipment	1,435 (5)	-
Delivery	3,989 (3)	.1
Dues and Subscriptions	1,126 (2)	-
Entertainment and Promotion	33,702	.6
Gifts For Employees	4,226 (2)	.1
Management Fees	60,750 ≠	1.1
Miscellaneous	1,218 (2)	-
Office Salaries	57,961 (1)	1.0
Officer's Salary	10,500	.2
Office Supplies	28,379 (8)	.5
Professional Fees	51,895 (2)	.9
Taxes and Licenses	32,588	.6
Telephone	8,206	.1
Travel	4,746	.1
Year End and Periodic Bonuses	56,013 (1) E3	1.0
TOTAL SELLING AND ASMINISTRATIVE EXPENSES	$ 370,966 (A)	6.6%

Σ (A) = 1,344,568
(61,530) non-allow. costs
1,283,038 Tot. allow. costs
E2

N/A Not allowable

≠ Amt. represents corporate allocation of mgmt. fees and is not an allowable cost.

See Accompanying Accountant's Report on Supplementary Data
and Notes to Financial Statements

METALS RECYCLING CO., INC.
SCHEDULE OF OPERATING EXPENSES
(Compiled)
YEAR ENDED DECEMBER 31, 2010

Yard Salaries	$ 361,717 (1)	6.4%
Payroll Taxes	43,869 E3	.8
Employee Welfare	83,396	1.5
	488,982	8.7
Depreciation - Machinery and Equipment	59,758 (5)	1.1
- Auto and Truck	10,411	.2
Rent	176,880 (4)	3.1
Repairs and Maintenance	45,144 (12)	.8
Plant Supplies	92,023 (8)	1.6
Insurance	22,573 (10)	.4
Auto and Truck Expense	42,925 (3) *	.8
Utilities	11,380 (7)	.2
Hauling	23,526 (3)	.4
TOTAL OPERATING EXPENSES	$ 973,602 (A)	17.3%

* Per regular, the majority of this amt. is for truck transportation expenses. The regular could not break out the detail for auto. Waive further review.

See Accompanying Accountant's Report on Supplementary Data
and Notes to Financial Statements

COMPARITIVE INCOME STATEMENT
THROUGH Dec-10 ***** UNAUDITED - FOR INTERNAL USE ONLY ***

	CURRENT MONTH TOTAL CURRENT	CURRENT MONTH TOTAL PRIOR	CURRENT MONTH TOTAL DIFFERENCE	YEAR TO DATE TOTAL CURRENT	YEAR TO DATE TOTAL PRIOR	YEAR TO DATE TOTAL DIFFERENCE
SALES - ALUMINUM	22,750	30,705	(7,955)	335,789	838,975	(503,187)
COS - ALUMINUM	(2,004)	(17,919)	15,915	(114,309)	(491,219)	376,910
GROSS PROFIT - ALUMINUM	20,747	12,787	7,960	221,480	347,756	(126,276)
SALES - GLASS	5,768	9,534	(3,766)	93,027	221,939	(314,966)
COS - GLASS	(5,180)	(7,516)	2,336	(59,028)	(167,407)	108,379
GROSS PROFIT - GLASS	587	2,018	(1,430)	33,999	54,532	(20,533)
SALES - PLASTIC	1,764	3,337	(1,573)	31,716	37,693	(5,977)
COS - PLASTIC	(939)	(2,506)	1,566	(20,858)	(26,692)	5,834
GROSS PROFIT - PLASTIC	825	831	(6)	10,857	11,000	(143)
SC SALES (NET)	(2)	51	(53)	487	(288)	775
TOTAL GROSS PROFIT	22,157	15,687	6,470	266,823	413,001	(146,177)
EXPENSES						
WAGES	8,276	14,482	(6,205)	143,549	201,040	(57,491)
PAYROLL TAXES	2,974	8,115	(5,142)	19,273	24,943	(5,670)
COMP INS	0	1,744	(1,744)	17,657	22,480	(4,823)
TRUCK LICENSE	644	1,228	(584)	3,043	9,244	(6,201)
POWER	1,548	1,095	453	13,083	13,095	(12)
WEIGH TAGS	40	405	(365)	2,592	6,090	(3,498)
R/M RECYCLING EQUIP	416	1,693	(1,277)	4,846	14,364	(9,518)
LAUNDRY	105	0	105	1,974	2,639	(666)
FUEL	41	444	(404)	2,180	7,118	(4,938)
OFFICE SUPPLIES	415	0	415	6,344	8,467	(2,123)
TRAVEL & PROMO	525	795	(270)	3,036	2,629	407
TRUCK R & M	743	93	651	2,479	7,522	(5,042)
OUTSIDE SERVICES	1,322	0	1,322	1,322	1,201	121
MISC.	(1,264)	829	(2,093)	0	829	(829)
SUBTOTAL - EXPENSES	15,785	30,923	(15,138)	221,379	321,661	(100,282)
NET BEFORE OTHER INCOME & EXP	6,372	(15,236)	21,608	45,445	91,340	(45,895)
OTHER INCOME & (EXP)						
INTEREST INCOME	400	509	(109)	5,139	5,442	(303)
GAIN (LOSS) - SALE OF ASSETS	0	564	(564)	1,239	6,323	(5,084)
OFFICER WAGES	(31,000)	(151,000)	120,000	(103,000)	(160,000)	57,000
MISC (NET)	(17,816)	(19,215)	1,399	(39,468)	(26,375)	(13,092)
NET PROFIT (LOSS)	(42,044)	(184,379)	142,335	(96,645)	(83,271)	(7,374)

other labor 2 6 36,930 E 3

INCOME STATEMENT
AS OF DECEMBER 31, 2010

PAGE 2

	CURRENT PERIOD	%	YEAR TO DATE	%
OPERATING EXPENSES CON'T.				
POSTAGE	793	0.04	6,891	0.64
PROFESSIONAL SERVICES	21,210	1.05	239,005	1.22
PROFIT SHARING TRUST	0	0.00	0	0.00
CLERICAL SALARIES	9,356	0.46	88,579	0.45
EXECUTIVE SALARIES	15,420	0.76	134,770	0.69
SALESMEN SALARIES	19,822	0.98	153,559	0.78
SERVICE CHARGES	37,500	1.85	40,294	0.21
TELEPHONE & COMMUNICATION	4,323	0.21	33,331	0.17
TRAFFIC CITATIONS	0	0.00	483	0.00
TRAVEL & ENTERTAINMENT	11,167	0.55	49,426	0.25
WORKMENS COMPENSATION	616	0.03	3,862	0.02
BAD DEBT EXPENSE	0	0.00	0	0.00
TOTAL OPERATING EXPENSES	$135,779	6.70	$906,297	4.62
PROFIT/LOSS BEFORE OTHER	$141,933-	7.00-	$24,265	0.12
OTHER INCOME/EXPENSE				
DISCOUNTS EARNED	$0	0.00	$0	0.00
MISC NON-OP INCOME	0	0.00	287	0.00
INTEREST INCOME	0	0.00	0	0.00
INTEREST EXPENSE	987	0.6	31,247	0.16
GAIN/LOSS SALE OF ASSETS	0	0.00	0	0.00
LITIGATION SETTLEMENTS	0	0.00	0	0.00
HORSE RACING PROFIT (LOSS)	56,785-	2.80-	740,036-	3.78-
TOTAL OTHER INCOME/EXPENSE	$57,772-	2.85-	$770,996-	3.94-
NET INCOME	$199,705-	9.86-	$746,730-	3.81-

INCOME STATEMENT
AS OF DECEMBER 31, 2010

PAGE 2

OTHER COSTS	CURRENT PERIOD	%	YEAR TO DATE	%
BAGHOUSE SUPPLIES	$0	0.00	$0	0.00
CALIF OIL REFINERY	0	0.00	0	0.00
DIESEL FUEL M	1,562	0.08	17,906	0.09
DIESEL FUEL NON HWY USE	162	0.01	9.453	0.05
DEPRECIATION	29,545	1.46	265,911	1.36
ELECTRICITY	14,150	0.70	138,484	0.71
EQUIPMENT RENTAL	2,700	0.13	15,196	0.08
FREIGHT & DUMP	5,056	0.25	37,995	0.19
FUEL OIL	0	0.00	0	0.00
FURNACE CONTROL SUPPLIES	0	0.00	88	0.00
FURNACE SUPPLIES	0	0.00	3,576	0.02
FURNACE TOOLS	3,588	0.18	51,693	0.26
GAS & OIL HWY	1,450	0.07	33,386	0.17
GAS & OIL NON HWY USE	3,378	0.17	20,599	0.11
GROUP MEDICAL INSURANCE	3.808	0.19	31,757	0.16
INSURANCE AUTO & LIABILITY	3,416	0.17	34,296	0.18
LAB SUPPLIES	0	0.00	62	0.00
DRIVERS LABOR - INDIRECT	18,882	0.93	149,304	0.76
MAINTENANCE LABOR-INDIRECT	19,567	0.97	225,742	1.15
PLANT LABOR - DIRECT	83,828	4.14	567,406	2.90
LICENSES PERMITS & FEES	3,206	0.16	12,022	0.06
NATURAL GAS-FURNACES	50,729	2.50	451,568	2.31
OUTSIDE SERVICES	0	0.00	5,619	0.03
PACKAGING SUPPLIES	395	0.02	8,843	0.05
PAYROLL TAXES	4,616	0.23	68,619	0.35
PROPANE LIFT TRUCKS	0	0.00	0	0.00
PROPANE OFFICE	570	0.03	1,498	0.01
PROPERTY TAXES	0	0.00	23,576	0.12
RENT RR DOCK	0	0.00	0	0.00
R & M BAGHOUSE	0	0.00	9.213	0.05
R & M BUILDINGS	1.037	0.05	23,531	0.12
R & M FURNACES	47,029	2.32	242,374	1.24
R & M LAB EQUIP	0	0.00	10,954	0.0G
R & M MFG EQUIPMENT	7,284	0.36	44,388	0.23
R & M RR DOCK	0	0.00	0	0.00
R & M SCRAP PROCESSING EQUIP	0	0.00	69,141	0.35
R & M SECURITY EQUIP	0	0.00	0	0.00
R & M TRUCKS	747	0.04	47,609	0.24
R & M YARD EQUIP	2,248	0.11	115,859	0.59
SAFETY EQUIPMENT	1,497	0.07	1,686	0.01
SAFETY APPLIES	590	0.03	18,029	0.09
SECURITY EQUIPMENT	**0**	**0.00**	3,147	9.02
SHOP SUPPLIES	3,522	0.17	22,639	0.12
SMALL TOOLS	0	0.00	4,046	0.02
STRAPPING SUPPLIES	202	0.01	22,072	0.11
TAXES BOARD OF EQUALIZATION	321	0.02	38,965	0.20
TAXES IRS & FRANCHISE	0	0.00	1,600	0.01
WATER	0	0.00	3,635	0.02
WELDING SUPPLIES	1,080	0.05	17,200	0.09
WORKMENS **COMPENSATION**	14,873	0.73	171,143	0.87
OVERHEAD APPLIED N	78,003	3.85	14,061	0.07
TOTAL OTHER COSTS	$409,103	20.19	$3,027,689	15.46

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Business

(Sole Proprietorship)

▶ **Partnerships, joint ventures, etc., must file Form 1065 or 1065-B.**

▶ **Attach to Form 1040 or 1041.** ▶ **See Instructions for Schedule C (Form 1040).**

OMB No. 1545-0074

2010

Attachment Sequence No. **09**

Name of proprietor | **Social security number (SSN)**

A Principal business or profession, including product or service (see page C-1 of the instructions) | **B** Enter code from pages C-7, 8, & 9 ▶

C Business name. If no separate business name, leave blank. | **D** Employer ID number (EIN), if any

E Business address (including suite or room no.) ▶
City, town or post office, state, and ZIP code

F Accounting method: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify) ▶

G Did you "materially participate" in the operation of this business during 2010? If "No," see page C-3 for limit on losses . ☐ **Yes** ☐ **No**

H If you started or acquired this business during 2010, check here . . . . . ▶ ☐

Part I Income

1	Gross receipts or sales. **Caution.** If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-3 and check here ▶ ☐	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42 on page 2)	4	
5	**Gross profit.** Subtract line 4 from line 3	5	
6	Other income, including Federal and state gasoline or fuel tax credit or refund (see page C-3)	6	
7	**Gross income.** Add lines 5 and 6 ▶	7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		19	Pension and profit-sharing plans	19	
9	Bad debts from sales or services (see page C-3)	9		20	Rent or lease (see page C-5):		
10	Car and truck expenses (see page C-3)	10		a	Vehicles, machinery, and equipment	20a	
11	Commissions and fees	11		b	Other business property	20b	
12	Depletion	12		21	Repairs and maintenance	21	
13	Depreciation and section 179 expense deduction (not included in Part III) (see page C-4)	13		22	Supplies (not included in Part III)	22	
14	Employee benefit programs (other than on line 19)	14		23	Taxes and licenses	23	
15	Insurance (other than health)	15		24	Travel, meals, and entertainment:		
16	Interest:			a	Travel	24a	
a	Mortgage (paid to banks, etc.)	16a		b	Meals and entertainment		
b	Other	16b		c	Enter nondeductible amount included on line 24b (see page C-5)		
17	Legal and professional services	17		d	Subtract line 24c from line 24b	24d	
18	Office expense	18		25	Utilities	25	
				26	Wages (less employment credits)	26	
				27	Other expenses (from line 48 on page 2)	27	

28	**Total expenses** before expenses for business use of home. Add lines 8 through 27 in columns ▶	28	
29	Tentative profit (loss). Subtract line 28 from line 7	29	
30	Expenses for business use of your home. Attach **Form 8829**	30	
31	**Net profit or (loss).** Subtract line 30 from line 29. • If a profit, enter on **Form 1040, line 12,** and **also** on **Schedule SE, line 2** (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3. • If a loss, you **must** go to line 32.	31	

32 If you have a loss, check the box that describes your investment in this activity (see page C-6).
• If you checked 32a, enter the loss on **Form 1040, line 12,** and **also** on **Schedule SE, line 2** (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3.
• If you checked 32b, you **must** attach **Form 6198.**

32a ☐ All investment is at risk.
32b ☐ Some investment is not at risk.

Part III **Cost of Goods Sold** (see page C-6)

33 Method(s) used to value closing inventory: **a** ☐ Cost **b** ☐ Lower of cost or market **c** ☐ Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation . . . ☐ **Yes** ☐ **No**

35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35	
36	Purchases less cost of items withdrawn for personal use	36	
37	Cost of labor. Do not include any amounts paid to yourself	37	
38	Materials and supplies	38	
39	Other costs	39	
40	Add lines 35 through 39	40	
41	Inventory at end of year	41	
42	**Cost of goods sold.** Subtract line 41 from line 40. Enter the result here and on page 1, line 4	42	

Part IV **Information on Your Vehicle.** Complete this part **only** if you are claiming car or truck expenses on line 10 and are not required to file Form 4562 for this business. See the instructions for line 13 on page C-4 to find out if you must file.

43 When did you place your vehicle in service for business purposes? (month, day, year) ► ____/____/____ .

44 Of the total number of miles you drove your vehicle during 2008, enter the number of miles you used your vehicle for:

a Business _____ **b** Commuting _____ **c** Other _____

45 Do you (or your spouse) have another vehicle available for personal use? . . . ☐ **Yes** ☐ **No**

46 Was your vehicle available for personal use during off-duty hours? . . . ☐ **Yes** ☐ **No**

47a Do you have evidence to support your deduction? . . . ☐ **Yes** ☐ **No**

b If "Yes," is the evidence written? . . . ☐ **Yes** ☐ **No**

Part V **Other Expenses.** List below business expenses not included on lines 8–26 or line 30.

48 **Total other expenses.** Enter here and on page 1, line 27	48	

Work Assignment 2

Prepare a Balance Sheet

Here is a list of accounts and balances for XYZ Company as of December 31, 2010:

1.	Cash	$19,933
2.	Machinery and equipment	356,429
3.	Income taxes payable	1,845
4.	Contract payable	558
5.	Inventory	38,790
6.	Automotive equipment	17,274
7.	Prepaid expenses	10,500
8.	Accounts payable	150,835
9.	Common stock	20,000
10.	Office furniture and equipment	7,396
11.	Accounts receivable	625,728
12.	Accrued liabilities	28,853
13.	Other receivables	48,815
14.	Retained earnings	839,223
15.	Deposits	33,957
16.	Due to stockholder	2,100
17.	Accumulated depreciation	115,408

Prepare a balance sheet for XYZ Company for December 31, 2010.

Balance Sheet
December 31, 2010

CURRENT ASSETS		
		_____
Total current assets		_____
FIXED ASSETS (note 1)		
	_____	
Accumulated depreciation	_____	_____
OTHER ASSET		
		_____
		_____
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
		_____
Total current liabilities		
		_____
STOCKHOLDERS' EQUITY	_____	_____
		_____

Work Assignment 3

Prepare an Income Statement

Here is a schedule of ABC Salvage, Inc. revenues and expenses for the year ended December 31, 2010:

Freight out	$279,210
Machinery rent - plant	184,171
Salaries	170,135
Repairs	142,689
Workers compensation	75,027
Trash removal	61,313
Office expense	38,882
Depreciation	37,405
Insurance	34,821
Rent - equipment	34,242
Accounting	26,715
Utilities	25,202
Tax and license	15,595
Miscellaneous	14,480
Payroll taxes	13,878
Advertising	7,940
Sales	1,299,103
Bank charges	6,480
Telephone	6,121
Other income	77,190
Outside consultants	4,360
Provisions for income taxes	8,638
Meals and entertainment	4,360
Selling expense	1,245

Prepare a statement of earnings for ABC Salvage.

Identify Financial Statement Terms

1. Identify which of the following are not assets:
   a) Machinery and Equipment
   b) Inventory
   c) Revenue
   d) Cash
   e) Accounts Receivable

2. Which of the following assets would not be depreciated?
   a) Buildings
   b) Land
   c) Equipment
   d) Furniture
   e) Trucks

3. Cost-of-goods sold means:
   a) Beginning inventory minus ending inventory, but excluding purchases
   b) An entity's original acquisition cost of inventory sold to customers during a given reporting period
   c) The sum of operating expenses
   d) Sales revenues less net income
   e) What the business spends on inventory during the period

4. Of the following, which is the highest level of cost data?
   a) Internally prepared financial statements
   b) Federal and State tax returns
   c) Internally compiled financial statements
   d) Independently reviewed financial statements
   e) Actual invoices and checks for expenses

5. Owner's equity is not:
   a) Stockholder's equity
   b) Residual interest in an organization's assets after deducting liabilities
   c) Net worth
   d) What the company would be worth if it were sold
   e) Investment by the owner plus earnings from profitable operation of the business

6. Which of the following is false about income statements?
   a) They are a report of all revenues and expenses pertaining to a specific time period
   b) They may also be called profit and loss statements
   c) They often are assembled monthly, quarterly, and annually
   d) Income statements should be regarded as useful approximations of annual income rather than as absolutely accurate determinations
   e) They recognize the impact of transactions when they are incurred

7. Which of the following is false about the balance sheet?
   a) They must always foot to the income statement
   b) They show the financial position of a business at a particular date
   c) They list all assets first, then liabilities and owner's equity of the business
   d) Other names for the balance sheet include the Statement of Financial Position, and Statement of Financial Condition
   e) Liabilities are often divided into short-term and long-term categories

8. Operating expenses of a business include all of the following, <u>except:</u>
   a) Employee salaries
   b) Payroll taxes
   c) Dividends
   d) Administration costs
   e) Rent

9. A Statement of Cash Flows does not:
   a) List cash flows from operating, investing, and financing activities
   b) Report past cash flows as an aid to predict future cash flows, evaluate management's generation and use of cash, determine a company's ability to pay interest and dividends and to pay debts when they are due
   c) Explain the causes for the change in cash
   d) Report cash receipts and cash payments of an entity during a period
   e) Show the status of an entity at a day in time

10. For most recyclers, which of the following is false?
   a) A large portion of sales revenues are received from the sale of scrap metals
   b) Cost of goods sold does not include any freight cost
   c) Cost of goods sold is primarily purchases of materials from customers
   d) Sales revenues include CRV redemption receipts
   e) Operating expenses are largely comprised of salaries, rent, and depreciation

True or False

1. While the income statement summarizes the financial activities of a business across a given period of time, the balance sheet provides a summary of the financial condition of that firm at a given point in time.

2. Generally, net Income is equal to Sales less Cost of Goods Sold less Operating Expenses.

3. Assets are economic resources which are owned by a business and are expected to benefit future operations.

4. The three forms of reports possible for a company's financial statements are audited, reviewed, and compiled.

5. Assets = Liabilities + Paid in Capital

6. Rent, advertising, and utility expenses all appear on the balance sheet.

7. Accounts payable are amounts which a company expects to collect from its customers for goods and services sold to them on credit.

8. Other names for the Income Statement include the Statement of Revenues and Expenses, Statement of Earnings, Results of Operations.

9. Dividends paid are expenses.

10. Revenue, earnings, and profits are synonyms.

11. In accrual accounting revenues and expenses are accompanied by an immediate cash receipt or disbursement.

12. Revenues and expenses are actually components of the retained income portion of owner's equity.

13. The transactions of a personal entity should not be mingled with those of a business entity.

14. Owner's draws are expenses on the income statement.

15. Income statements are always generated based upon a fiscal year.

Complete Financial Statement and Transaction Exercises

1. An income statement is designed PRIMARILY to:
   a. help a company budget its monthly expenses.
   b. summarize a firm's income and expenses for a given period.
   c. provide a comparison of assets and liabilities.
   d. sum up the net worth of a company at a given point in time.

2. Operating expenses at a retail department store might include all but ONE of the following:
   a. Rent
   b. Cost of the items purchased for sale
   c. Employee salaries
   d. Advertising

3. Joe's Place, a restaurant, has NET SALES of $20,000 for the current period. Their GROSS profit is $15,000 and their NET INCOME is $7,500. Their OPERATING EXPENSES must therefore be:
   a. $5,000
   b. $7,500
   c. $12,500
   d. There is no way to determine this from the information given.

4. How much did Joe's Place (Question 3) PAY for the goods they sold to the public? In other words, what was the COST of those goods to Joe's?
   a. $5,000
   b. $7,500
   c. 12,500
   d. There is no way to tell from the information given.

5. Which of the following would tend to increase the PERCENT NET INCOME if no other changes occurred that affected the income statement?
   a. ALL of the following would tend to increase the PERCENT NET INCOME.
   b. An increase in returns
   c. A decrease in cost of goods sold
   d. An increase in expenses

6. The BEST TERM to use in describing either cash or items that can quickly be converted to cash is:
   a. fixed assets
   b. current assets
   c. accounts payable
   d. owner's equity

7. A MORTGAGE PAYABLE is an example of:
   a. a long-term liability
   b. owner's equity
   c. a fixed asset
   d. a current liability

8. Collins Publishing House recently paid $3,000 cash for a new word processing computer. This piece of equipment is an example of:
   a. a fixed asset
   b. a current asset
   c. a current liability
   d. a long-term liability

9. FREIGHT is generally considered a part of:
   a. cost
   b. overhead
   c. gross sales
   d. net profit

10. At Glass Unlimited, the value of the initial inventory on January 1 was $100,000. During the year, the company purchased $150,000 worth of glass products and had freight charges of $5,000. The value of the inventory on December 31 was $86,000. Therefore, the COST OF GOODS SOLD during this period was:
    a. $238,000
    b. $169,000
    c. $164,000
    d. $36,000

11. On a balance sheet, ACCOUNTS RECEIVABLE would be classified as:
    a. current assets
    b. fixed assets
    c. current liabilities
    d. long-term liabilities

12. The MAIN PURPOSE of a balance sheet is to show:
    a. the financial affairs of a business across a specified period of time.
    b. the ratio of total liability to owner's equity.
    c. the financial condition of a business at one specific point in time.
    d. the worth of a business.

Module 8
Allowable Costs

Objectives:

- Define allowable and non-allowable costs
- Explain how a site's allowable costs are categorized and then summed

Key Topics:

- Understanding applicable regulations
- What costs are allowed and not allowed?
- Splitting and categorizing costs shown reported as a single line item on the financial statement
- Using the automated cost survey model to input and sum costs by allowable category

Curriculum Materials:

Reading List/Handouts:

1. Allowable cost regulations that define allowable costs
2. Sample **Cost Summary** worksheet from the allowable cost survey model
3. *Cost Category Directory* (examples of allowable and non-allowable costs)
4. Splitting grouped costs
5. Costs of goods sold

Work Assignments:

1. Determine total costs by category from company's financial statements, enter cost data into automated cost survey model, and verify that output foots to original financial statement
2. Identify non-allowable costs
3. Identify allowable and non-allowable costs
4. Split a line item cost into more than one category
5. Categorize costs

Key Topics

Understanding Applicable Regulations

Current statutes require CalRecycle to determine the statewide weighted average cost per container type for each of 10 CRV materials (e.g., CRV aluminum, CRV glass, and CRV PETE plastic containers). To compute this cost, the law specifies that audited surveys of recyclers (excluding those that received a handling fee) be conducted to determine the cost of recycling. Subsequent regulations [CCR Title 14, Division 2, Chapter 5, Subchapter 12, Article 2, § 2960] indicate that the cost of recycling should be based on the average "allowable" costs per container type.

What Costs are Allowed and Not Allowed?

In general terms, for recycling centers, allowable costs include a site's actual costs of receiving, handling, processing, storing, and transporting post-filled beverage containers [§ 2960]. Repair and maintenance and reasonable overhead expenses necessary to perform the above activities also are allowable [§ 2960]. For processors, allowable costs include actual costs of receiving, handling, processing, storing, and maintaining equipment, necessary for accepting, canceling and readying beverage containers prior to shipment to scrap purchasers [§ 2965]. For handling fee reycling centers, allowable costs are identified in § 2990 (emergency regulations). These HF allowable costs are similar to those for recycling centers.

Regulations specify that costs shall include, but not be limited to, the following allowable costs:

1) Labor
2) General business overhead
3) Transportation
4) Rent
5) Depreciation
6) Property taxes
7) Utilities
8) Supplies
9) Fuel
10) Insurance
11) Interest
12) Maintenance
13) Cost of bonding (processors only, not recycling centers)
14) Disposal costs (processors only, not recycling centers).

The scrap price paid to the consumer by the recycling center is not an allowable cost [§ 2960].

Recycling centers are allowed costs in the first twelve categories. Processors are allowed these same costs, plus bonding costs, and, if previously approved by CalRecycle, disposal costs. Both recycler and processor costs are reduced by any administrative fee received from CalRecycle.

For example, a site's income statement might include a line item called "freight expense". Because this cost is associated with transporting CRV material, it is categorized as a transportation cost (category number 3). Alternatively, legal and accounting fees are categorized as a general business overhead cost (category number 2).

In conducting cost surveys, all allowable line item costs from a site's financial statements are categorized into one of the above 14 allowable cost categories, plus two added cost categories:

15) Administrative Fee (paid by CalRecycle to the RC/PR to offset costs of compliance)
16) Shipping/Handling (a non-allowable cost discussed below)

Certain costs that a site may incur are not related to the operation of the business and are not allowed for purposes of determining costs of recycling. These nonallowable costs include:

- Charitable contributions/donations
- Lobbying
- Penalties imposed by government/ business
- Promotion items increasing the scrap value and other incentives (i.e., coupons)
- Royalty expenses
- Scrap value
- Settlements
- Brokering activities/commissions
- Sales taxes.

A handout is provided in this module to assist in recognizing and categorizing allowable costs from a site's financial statements. The *Cost Category Directory* provides examples of costs for each of the 14 categories, as well as non-allowable costs (cost category "0" when coding costs in the cost model). This summary is compiled from actual allowable and non-allowable costs identified during previous costs surveys.

In the automated cost survey model, non-allowable costs are not allocated to any CRV material, other material, nor other business. However, non-allowable costs are input into the model (as cost category "0") so that total recycling costs will foot with total costs from the financial statements.

A final cost category ("2a") is for costs paid by the recycling center to a supermarket that provides space for the recycling center operations. This cost may exist for those sites receiving a "handling fee" from CalRecycle. During 2010, 1,093 supermarket sites received a handling fee. A random sample of these sites will be surveyed. However, do not record as "2a" cost. Instead, inquire about the cost, determine whether allowable, and categorize the cost. For example, categorize as "4" (Rent) if a rent cost.

In summary, the automated cost model requires that every cost of a recycler and processor be recorded as one of the 14 categories shown below when inputting into the automated cost survey model (0, 1, 1a, 2, 3-12). For recycling centers, only categories "0" through "12" should be used, a total of 14 different cost categories.

Number	Category
0	Non Allowable
1	Labor
1B	Labor Other
2	GBO
2a	Supermarket Site Contract (no longer used)
3	Transportation
4	Rent
5	Depreciation
6	Property Taxes
7	Utilities
8	Supplies
9	Fuel
10	Insurance
11	Interest
12	Maintenance
13	Bonding (PR cost only)
14	Disposal (PR cost only)
15	Administrative (PR cost only)
16	Shipping/Handling (no longer used)

Splitting and Categorizing Costs Shown Reported as a Single Line Item on the Financial Statements

Some costs listed in a site's financial statements may relate to more than one of the 14 allowable cost categories. For example, an insurance cost of $5,000 might include $3,000 of liability insurance (a category number 10 cost) and $2,000 of truck insurance (a category number 3 cost).

To accurately categorize these costs, it is necessary to first identify whether a specific line item cost is related to more than one cost category. The primary technique to determine if a cost is grouped is asking site management to explain the cost found on the financial statement. For example, the survey team might ask, "Does this fuel expense include only fuel for yard vehicles, or does it also include fuel for vehicles used to transport the material to a buyer?" Similarly, an interviewer might ask, "Do wages shown on the income statement include benefits (e.g., workers' compensation, payroll taxes, or general liability insurance) or are they only direct wages?"

Once a grouped cost is identified, it is necessary to note and quantify how this cost is split between categories. A handout in this module, titled: *Splitting Grouped Costs*, provides examples of line item costs which are split into more than one category. In cases where an interviewee cannot identify or quantity how to split costs, it may be necessary to review with the interviewee the business' check register, journal, supplier invoices, or other applicable accounting documentation.

Using the Automated Cost Survey Model to Input and Sum Costs by Allowable Category

As discussed above, the survey team must input in the automated cost survey model each line item cost shown on a site's financial statement and categorize it into one of the 14 allowable cost categories. As an example, assume a portion of the financial statement read:

Operating expenses:	
Computer expense	$3,000
Heat, light, and power	2,000
Freight out	4,000
Water	1,000
Laundry	2,000
Total	$12,000

The above costs would be input by the user into the automated cost model as follows[1]:

Amount	Category
$3,000	2
2,000	7
4,000	3
1,000	7
2,000	2

The model then automatically totals these allowable costs by each allowable cost category. In this example, the model would produce the following result:

Category	Description	Total
2	General Business Overhead	$5,000
3	Transportation	4,000
7	Utilities	3,000
	Total	$12,000

All grouped costs must be first split into individual categories before key entering into the automated model. The user then would check that the sum of all line item costs input into the model ($12,000 in the example above) matches the total of costs shown on the financial statements.

1 The user would not have to enter the dollar signs or commas.

Schedule

Estimated module time:		**4.4 Hours**	
	Outline of Module	**Technique**	**Training Time** ***(including self study) (min.)***
1.	Review objectives and applicable regulations	Lecture	45
2.	Complete preliminary reading	Self-Study	15
3.	Do work assignment #1 - Determine total costs by category from a company's financial statements	Work Assignment	20
4.	Do work assignment #2 - Identify non-allowable costs	Work Assignment	10
5.	Discuss results and answer questions	Q & A	10
6.	Do work assignment #3 – Identify allowable and non-allowable costs	Work Assignment	15
7.	Discuss results and answer questions	Q & A	10
8.	Do work assignment #4 – Split a line item cost into more than one category	Work Assignment	10
9.	Complete work assignment #5 – Categorize costs	Self-Study	120
		Totals	**265**

Readings and Handouts

1. Allowable cost regulations that define allowable costs
2. The **Cost Summary** worksheet from the allowable cost survey model
3. *Cost Category Directory* (examples of allowable and non-allowable costs)
4. Splitting grouped costs
5. Cost of goods sold

§2960. Allowable Costs for Recycling Centers.

(a) Prior to January 1, 2004, and every second year thereafter, the Division shall survey a statistical sample of recycling centers to determine statewide average allowable costs per container type.

(b) Allowable costs for calculation of the processing fee and processing payment shall include the actual costs of receiving, handling, processing, and storing and transporting postfilled beverage containers. Allowable costs also include maintaining equipment necessary for the above activities. More specifically these costs shall include, but not be limited to:

(1) labor,

(2) property taxes,

(3) depreciation,

(4) utilities,

(5) supplies,

(6) fuel,

(7) insurance,

(8) interest,

(9) general business overhead exclusive of administrative costs,

(10) facilities and equipment rent or lease,

(11) maintenance,

(12) transportation,

(13) disposal costs.

(c) The scrap price paid to the consumer by the recycling center shall not be included in allowable costs.

NOTE
Authority cited: Section 14530.5(b), Public Resources Code. Reference: Sections 14518.5, 14526, 14573.5 and 14575(a), (b), (c) and (k), Public Resources Code.

Emergency Regulations

§2990. Allowable Costs for Handling Fee Recycling Centers.

(a) On or before January 1, 2008, and every second year thereafter, the Division shall survey a statistical sample of recycling centers receiving handling fees to determine the average allowable costs per empty beverage container redeemed.

(b) Allowable costs for calculation of the handling fee shall include the actual costs of receiving, handling, processing, and storing and transporting postfilled beverage containers. Allowable costs also include maintaining equipment necessary for the above activities. More specifically these costs shall include, but not be limited to:

(1) labor,

(2) property taxes,

(3) depreciation,

(4) utilities,

(5) supplies,

(6) fuel,

(7) insurance,

(8) interest,

(9) general business overhead exclusive of administrative costs,

(10) facilities and equipment rent or lease,

(11) maintenance,

(12) transportation,

(13) disposal costs.

(c) The scrap price paid to the consumer by the recycling center shall not be included in allowable costs.

Authority: Section 14530.5(b) and 14536(b), Public Resources Code. Reference: Sections 14513.4, 14526.6, 14581, and 14585, Public Resources Code.

§2965. Allowable Costs for Processors.

(a) Allowable costs for calculation of the processing fee shall include the actual costs of receiving, handling, processing, storing, and maintaining equipment, necessary for accepting, canceling, and readying postfilled beverage containers prior to shipment to scrap purchasers. More specifically, these costs shall include, but not be limited to:

(1) labor,

(2) property taxes,

(3) depreciation,

(4) utilities,

(5) supplies,

(6) fuel,

(7) insurance,

(8) interest,

(9) general business overhead exclusive of administrative costs,

(10) facilities and equipment rent or lease,

(11) maintenance,

(12) disposal costs pursuant to (c) below,

(13) transportation.

(b) The scrap price paid to recycling centers by processors shall not be included in allowable costs.

(c) The Division shall calculate a statewide average disposal cost per container for each beverage container type if the scrap value of a container type is negative as determined in section 2955(c) of these regulations.

(1) When 200% of the disposal cost is less than the absolute value of scrap value pursuant to section 2955 of these regulations, the Division shall use disposal cost, not scrap value, in the calculation of processing fees and processing payments.

(2) When 200% of the disposal cost is greater than or equal to the absolute value of scrap value pursuant to section 2955 of these regulations, the Division shall use only scrap value in the calculation of processing fees and processing payments.

(3) If the scrap price is zero, the Division shall use disposal cost, not scrap value in the calculation of processing fees and processing payments.

NOTE
Authority cited: Section 14530.5(b), Public Resources Code. Reference: Sections 14501(d) and (h), 14518.5, 14526, 14573.5 and 14575(a), (b), (c) and (k), Public Resources Code.

Cost Summary Sheet

No PR

Total of all costs from financial statement.

Total of all costs less other business wages.

	Description	Allowable Costs by Category from Financial	Other Business Wages	Total of Allowable Costs Less Other Business Wages
1	Labor			
	a. Salaries and Wages	$0.00	$0.00	$0.00
	b. All Other Labor	0.00		0.00
2	General Business Overhead	0.00		0.00
2a	Supermarket Site Contract	0.00		0.00
3	Transportation	0.00		0.00
4	Rent	0.00		0.00
5	Depreciation	0.00		0.00
6	Property Taxes	0.00		0.00
7	Utilities	0.00		0.00
8	Supplies	0.00		0.00
9	Fuel	0.00		0.00
10	Insurance	0.00		0.00
11	Interest	0.00		0.00
12	Maintenance	0.00		0.00
13	Cost of Bonding	0.00		0.00
14	Disposal Costs	0.00		0.00
	Subtotal	$0.00	$0.00	$0.00
15	Administrative Fee	0.00		0.00
16	Shipping/Handling	0.00		0.00
	Total Allowable Costs	$0.00	$0.00	$0.00
	Total Non Allowable Costs	$0.00		
	Total Costs Per Financial Statemer	$0.00		

PR ONLY

Total above should match financial information source.

Category 15 in column H should show $0. If not, you have an input error.

Labor Reconciliation

	Source of Labor Costs	Cost
1	Labor Per Financial Information	$0
2	Labor Per Labor Input Sheet	$0
3	Labor Financial Statement Category 1B	$0
4	**Unlocated Difference** (line 1 - line 2 - line 3)	$0

Unlocated Difference as a % of Labor per Financial Information

No Wages

% ULD of Labor

Cost Category Directory

ALLOWABLE:

Recycler and Processor:

1 **Direct Labor**
- Contract (or outside) labor
- Direct labor
- Officer's salary
- Overtime
- Safety incentive program
- Temporary service (contract, office, site)
- Vacation/holidays (paid)
- Wages (administration, field supervisors, site, truck drivers)

lb **Other Labor/Overhead**
- Accrued vacation and holidays
- Employee benefits (pension, profit sharing, union)
- Employee welfare
- Group insurance
- Insurance (dental, health, legal, vision, life)
- Payroll taxes
- Retirement
- Unemployment tax
- Union benefits
- Workers compensation insurance

2 **General Business Overhead**
- Accounting/administrative/legal fees
- Advertising/promotion
- Automobile (fuel, payments)
- Auto fuel
- Automobile
- Bad debt accrual
- Bank charges
- Business meals
- Cash short
- City franchise tax
- Computer expense
- Consulting fees
- Courier/postage
- Credit card fees
- Demurrage (a charge for detaining a ship, freight car, or truck)
- Dues/subscriptions
- Entertainment/meetings/meals
- Laundry
- Legal services
- Miscellaneous
- Office expense
- Payroll processing fees
- Pension administrative fees
- Physical exam
- Printing
- Reproduction (faxes, printing, Xerox)
- Safety awards
- Security (alarms, dogs)
- Service (exterminator, janitorial, lab analysis, laundry)
- Site mileage – auto
- Taxes/licenses/permits (business)
- Telephone/fax
- Training/recruiting expenses
- Travel/relocation expenses
- Voucher redemption fees

3 **Transportation**
- Auto/Truck expense
- Auto/Truck fuel
- Freight In-recycler & processor
- Freight Out (excluding scrap value deduction)
- Fuel
- Gas, oil, and tires
- Hauling
- Insurance (auto, truck)
- Permits/license/taxes (auto, truck)
- Road expense (truck driver)
- Service (outside maintenance)
- Tolls
- Truck (maintenance/repair, outside service)
- Weight fees

4 **Rent**
- Building
- Equipment
- Facilities
- Trucks

5 **Depreciation**
- Amortization
- Depreciation expense

6 **Property Taxes**
- Building property tax
- Taxes - unsecured property

7 **Utilities**
- Gas
- Electricity
- Refuse collection
- Sewer
- Water

8 **Supplies**
- Parts
- Printing and stationary
- Office
- Safety equipment
- Shop Supplies
- Site
- Small equipment
- Small tools
- Uniforms
- Yard Supplies

9 **Fuel**
- Gas and Oil
- Gasses
- Propane
- Yard fuel

10 **Insurance**
- Business
- Fire
- Liability

11 **Interest**
- Interest

12 **Maintenance**
- Equipment
- Painting
- Radio maintenance
- Repairs
- Repairs and Maintenance
- Scale expense – repairs

Processor Only:

13 **Security**

14 **Disposal**
- Landfill fee (beverage container material)

Cost Category Directory

NONALLOWABLE:

1. Brokering activities/commissions
2. Charitable contributions/donations
3. Corporate overhead allocation (officer's salary and administration)
4. Exclusivity payments (or administration fee) – (supermarket contract)
5. Litigation
6. Lobbying
7. Penalties (imposed by government/business)
8. Promotion items increasing scrap value, and other incentives
9. Royalty expense
10. Scrap value deduction
11. Scrap value paid to the consumer
12. Settlements
13. Shipping/handling (incurred by processors for s/h beverage containers to the end user - these are deducted from site's total allowable costs)
14. Shrink (also called shrinkage, moisture short, inventory change – refers to difference in CRV payments recycler makes to customer, and processor makes to recycler)
15. Taxes (income, sales)

Handout 4

Splitting Grouped Costs

1) Small Recycling Co. had a fuel expense of $3,276. The survey team inquired how this fuel was used. The owner estimated that 66 percent of the expense was for a company automobile and the remaining 34 percent was used for yard equipment. The survey team computed an auto expense of $2,162 (a category number 2 cost) and the yard fuel expense of $1,114 (a category number 9 cost).

2) A $39,948 tax and license expense is shown on Pollard Recycling Corporation's schedule of operating expenses. After a discussion with the controller, the survey team determined that this expense consisted of two components: licenses (a category number 10 cost), and property tax (a category number 6 cost). The controller was able to obtain additional information from company journals and invoices to split the tax and license expense into $23,708 in licenses and $16,240 in property taxes.

3) CWEB Salvage indicated they paid a $140,185 head office charge to their parent, KJAM Company. Because survey team did not understand the components of this cost she asked the general manager to explain this cost. The general manager indicated that the head office charge consisted of rent and overhead. Rent was paid by KJAM and charged back to CWEB for the amount of actual rent incurred by CWEB. During 2008, this cost was $64,800 (property rent is a category number 4 cost). The remaining $75,385 of general business overhead included accounting fees, utilities, water, phone, postage, and miscellaneous office expenses (category number 2 cost).

4) A P&L statement for Bibby Waste Disposal Company listed an insurance cost of $26,455. During the interview with the owner, he could not detail this cost, but knew there were several components. The interviewee was able to review Bibby's check stubs for the calendar year and determined the cost consisted of $7,778 in truck insurance (a category number 3 cost), $9,849 of worker's compensation (a category number 1 cost), and $8,828 of business insurance (category number 10 cost).

5) At Aluminum Company, an income statement line item for taxes expense of $4,697 included $162 of property tax (a category number 6 cost) and $4,535 in payroll tax (a category number 1 cost).

Handout 5

Cost of Goods Sold

Direct Material	Direct Labor	O.H.
Beginning Inventory	Direct Yard Labor	- Rent
+ Purchases		- Depreciation
- Ending Inventory		- Corp Allocation
Direct Material Consumed		- Insurance
		- Maintenance
		- Transportation

"COGS"

Need to inquire about COGS because may include allowable costs

Work Assignments

1. Determine total costs by category from a company's financial statements, enter cost data into automated cost survey model, and verify that output foots to original financial statement
2. Identify non-allowable costs
3. Identify allowable and non-allowable costs
4. Split a line item cost into more than one category
5. Categorize costs

Work Assignment 1
Page 1 of 2

Determine Total Costs by Category from a Company's Financial Statements, Enter Cost Data into Automated Cost Survey Model, and Verify that Output Foots to Original Financial Statement

For Area Towing & Recycling, identify the category of each cost and, using the cost model, prepare a summary of costs by each of the 15 recycler cost categories. Included is a consolidated income statement for Area Towing & Recycling. You may assume that you can ask site management about any of the expense items shown to clarify its purpose in order to properly record in the cost model. For example, are "Partner's Salaries" draws? Are "outside Services" for yard labor? Do "Taxes and Licenses" include sales taxes? Verify also that the total cost in the model agrees with costs from the income statement.

When you have completed the entry of costs into the model, identify for the group your total for the following cost categories:

- 1. Labor
- 1b. Other labor
- 2. General Business overhead

AREA TOWING & RECYCLING
INCOME STATEMENT
CONSOLIDATED STATEMENT
PERIOD ENDING: DECEMBER 31, 2010

Income	
Income - towing	$ 71,606
Income - recycling	358,939
Sales - batteries	1,463
Soft drinks	545
Junk cars	12,570
Building rental	5,856
Total income	450,980
Cost of sales	
Cost of sales	246,387
Wages	60,168
Payroll taxes	5,588
Total cost of sales	312,143
Gross profit	138,837
Expenses	
Partners salaries	25,510
Advertising & promotion	11,318
Alarm service	399
Answering service	1,416
Bank service charges	936
Bank merchant charge	507
Depreciation	9,159
Dues & subscriptions	89
Equipment rental	9,390
Insurance	14,822
Insurance - workers comp	431
Interest	4,003
Laundry	936
Legal & accounting	3,514
Office expense	2,598
Outside services	4,835
Rent	27,936
Repairs & maintenance	4,510
Shop supplies	2,986
Taxes & licenses	2,638
Telephone	13,480
Truck expense	9,144
Utilities	3,504
Total expenses	154,061
Operating income (loss)	(15,222)
Other income	
Interest income	290
Total other income	290
Other expenses	
Penalties	31
Total other expenses	31
Net income (loss)	(14,963)

Work Assignment 2

Identify Non-Allowable Costs

For each of the following problems, determine which expense is non-allowable:

1. a) Consulting
   b) Legal
   c) Accounting
   d) Legal settlement
   e) Entertainment

2. a) Temporary labor
   b) Outside services
   c) Corporate allocation of officer's salary
   d) Overtime labor
   e) Fringe benefits

3. a) Charitable contributions
   b) Dues
   c) Subscriptions
   d) Meals
   e) Travel

4. a) Interest expense
   b) Payroll taxes
   c) Property tax expense
   d) State income tax
   e) Vehicle tax

5. a) Dumping fees
   b) License fees
   c) Refuse expense
   d) Hauling
   e) Scrap value

6. a) Trucking
   b) Processor freight out to end-user
   c) Freight in
   d) Postage
   e) Transportation

7. a) Supplies expense
   b) Equipment rent expense
   c) Automobile expense
   d) Cost of sales
   e) Depreciation

8. a) Brokering commissions
   b) Security
   c) Profit sharing payments
   d) Amortization
   e) Transportation fuel

9. a) Group insurance
   b) Beginning inventory
   c) Workers compensation
   d) Printing
   e) Paint

10. a) Government fines
    b) Public relations
    c) Conferences
    d) Advertising
    e) Plant lease

Work Assignment 3

Identify Allowable and Non-Allowable Costs

Categorize all of the allowable costs, and identify all non-allowable costs. If further inquiry is needed to determine whether cost is allowable, indicate so next to the cost.

Description	Allowable?	Cost Category Number
1. Automobile cost - company car		
2. Recycling expense		
3. Scrap purchases		
4. Incentive fee to grocer to operate site		
5. Shop supplies		
6. Trash removal		
7. Corporate assessment		
8. Incentive payment to grocer to operate site		
9. Franchise Tax Board collection		
10. Cost of goods sold		
11. Rental – uniform		
12. Rental – land		
13. Voucher service fee to grocer to cash voucher		
14. Fuel – truck		
15. Inventory change – aluminum		
16. Travel expenses		
17. Group insurance		
18. Scales fees		
19. Repair and maintenance		
20. Fire/liability insurance		
21. Charitable contributions		
22. Shrink		
23. Penalties		
24. Commissions for brokering activities		
25. Equipment repair parts		
26. Profit sharing		
27. Property tax		
28. Amortization		
29. Litigation		
30. Liability insurance		
31. Interest expense		
32. Training		

Work Assignment 4

Split a Line Item Cost into More Than One Category

Role Play Exercise
(work in teams of two: an interviewer and an owner)

Interview the owner, Mr. Geoff Petrie, concerning the costs identified below.

Requirements:
1) Determine which costs need to be split
2) Quantify the split costs
3) Provide adequate notation

Description	Cost
1. Fuel, fuel tax, and lubricants	$435,011
2. Insurance	$811,280
3. Depreciation	$174,401
4. Income tax	$15,838
5. Labor	$550,000

Categorize Costs

For the following ten companies, categorize costs into the 14 cost categories. For all of the companies shown, you may use the automated model.

1. Southland Recycling
2. Westside Recycling
3. CRV Recycling, Inc.
4. Christie Fibers, Inc.
5. Lotus Metals, Inc.
6. Pacific Metals Recycling Co., Inc.
7. Northern Corporation
8. Excel Salvage Company
9. Upland Metal Company
10. Westown Salvage Corporation

Southland Recycling
As of December 31, 2010

Expenses	
Advertising	$ 4,300
Accounting and legal	29,400
Depreciation	53,000
Yard fuel	11,000
Transportation	81,800
Equipment rental	21,100
Insurance	84,600
Licenses	11,700
Miscellaneous	18,400
Labor	267,400
Interest	41,000
Office	22,300
Repairs	161,400
Sub-haul	37,200
Supplies	6,200
Utilities and telephone	42,300
Payroll taxes	21,392
Taxes and fees	31,808
Rent	54,000
Total expenses	**$1,000,300**

Westside Recycling
Year Ended December 31, 2010

Expenses	
Scrap purchase	$395,641
Hauling	4,740
Payroll & taxes	51,051
Property - loan interest	17,400
Property - loan principal	8,160
Yard fuel	1,200
Truck fuel	897
Maintenance & repair	1,619
License and permits	658
Supplies & stationary	2,973
Advertisement	3,646
Phone	3,593
Utilities	1,406
Insurance - payroll & liability	14,270
Autos	965
Bank charges	1,295
Property tax	2,400
Travel & entertainment	600
Accounting fees	495
Aluminum hauling	11,052
Trailer rental	840
Total	**$524,901**

CRV Recycling, Inc.
Notes to Financial Statements
For the Year Ended June 30, 2010
(Unaudited)

Administrative Expenses

Advertising	$6,076
Alarm service	1,202
Amortization	57
Auto expense	19,665
Bad debts	78
Bank charges	619
Cash over/short	425
Contributions	39
Depreciation	33,476
Equipment rental	6,801
Fuel	23,194
Insurance	33,221
Interest	41,845
Joint venture expense	3,736
Laundry	4,110
Legal and accounting	15,112
Miscellaneous	876
Office expense	4,261
Outside services	9,937
Payroll taxes	19,594
Penalties	1,924
Promotion	93
Property taxes	2,192
Rent	49,241
Repairs and maintenance	13,942
Supplies	13,613
Taxes and licenses	2,032
Telephone	12,389
Utilities	5,950
Wages	167,719
Workman's compensation	25,430
Total administrative expenses	**$518,849**

Christie Fibers, Inc.
Schedule of Operating Expenses
For the 12 Months Ended December 31, 2010

Fuel	$21,450
Repairs & maintenance	187,898
Supplies - shop	84,488
Trash removal	24,111
Depreciation	166,632
Insurance - plant	3,264
Insurance - auto	4,829
Insurance - trucks	74,977
Insurance - officers' life	9,244
Insurance - fire	3,282
Tax & license	39,190
Rent expense - plant	253,132
Rent expense - equipment	2,791
Utilities	35,875
Office salaries & wages	830,413
Security	41,660
Office expense	47,756
Office supplies	24,024
Postage	1,571
Petty cash over (short)	4,430
Consulting	75,157
Accounting	37,207
Legal and professional	115,284
Outside services	297,230
Donations	1,258
Bank charges	15,184
Commissions	8,580
Automobile expense	42,569
Telephone	31,046
Uniforms	2,556
Dues & Subscriptions	1,612
Stationery & printing	23,345
Advertising	21,655
Entertainment & promotion	15,179
Payroll taxes	67,752
Workers compensation	85,945
Group insurance	101,556
Insurance - general	23,024
Miscellaneous	30,818
Total operating expenses	**$2,857,974**

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Business

(Sole Proprietorship)

▶ **Partnerships, joint ventures, etc., must file Form 1065 or 1065-B.**

▶ **Attach to Form 1040 or 1041.** ▶ **See Instructions for Schedule C (Form 1040).**

OMB No. 1545-0074

2010

Attachment Sequence No. **09**

Name of proprietor

Social security number (SSN)

A Principal business or profession, including product or service (see page C-1 of the instructions)
Lotus Metals, Inc.

B Enter code from pages C-7, 8, & 9 ▶

C Business name. If no separate business name, leave blank.

D Employer ID number (EIN), if any

E Business address (including suite or room no.) ▶
City, town or post office, state, and ZIP code

F Accounting method: **(1)** ☑ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify) ▶

G Did you "materially participate" in the operation of this business during 2010? If "No," see page C-3 for limit on losses . ☐ **Yes** ☑ **No**

H If you started or acquired this business during 2010, check here . . . . . ▶ ☐

Part I Income

1	Gross receipts or sales. **Caution.** If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-3 and check here ▶ ☐	1	2,492,338 00
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	2,492,338 00
4	Cost of goods sold (from line 42 on page 2)	4	2,132,502 00
5	**Gross profit.** Subtract line 4 from line 3	5	359,836 00
6	Other income, including Federal and state gasoline or fuel tax credit or refund (see page C-3)	6	
7	**Gross income.** Add lines 5 and 6 ▶	7	359,836 00

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		19	Pension and profit-sharing plans	19	
9	Bad debts from sales or services (see page C-3)	9		20	Rent or lease (see page C-5):		
				a	Vehicles, machinery, and equipment	20a	347 00
10	Car and truck expenses (see page C-3)	10	3,732 00	b	Other business property	20b	*17,183 00
11	Commissions and fees	11		21	Repairs and maintenance	21	7,340 00
12	Depletion	12		22	Supplies (not included in Part III)	22	8,796 00
13	Depreciation and section 179 expense deduction (not included in Part III) (see page C-4)	13	12,752 00	23	Taxes and licenses	23	14,357 00
				24	Travel, meals, and entertainment:		
				a	Travel	24a	
14	Employee benefit programs (other than on line 19)	14		b	Meals and entertainment		
15	Insurance (other than health)	15	33,843 00	c	Enter nondeductible amount included on line 24b (see page C-5)		
16	Interest:						
a	Mortgage (paid to banks, etc.)	16a	9,840 00	d	Subtract line 24c from line 24b	24d	
b	Other	16b		25	Utilities	25	25,084 00
17	Legal and professional services	17	9,395 00	26	Wages (less employment credits)	26	119,811 00
18	Office expense	18	1,778 00	27	Other expenses (from line 48 on page 2)	27	8,804 00

28	**Total expenses** before expenses for business use of home. Add lines 8 through 27 in columns ▶	28	255,879 00
29	Tentative profit (loss). Subtract line 28 from line 7	29	103,957 00
30	Expenses for business use of your home. Attach **Form 8829**	30	
31	**Net profit or (loss).** Subtract line 30 from line 29. • If a profit, enter on **Form 1040, line 12,** and **also** on **Schedule SE, line 2** (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3. • If a loss, you **must** go to line 32.	31	103,957 00
32	If you have a loss, check the box that describes your investment in this activity (see page C-6). • If you checked 32a, enter the loss on **Form 1040, line 12,** and **also** on **Schedule SE, line 2** (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3. • If you checked 32b, you **must** attach **Form 6198.**	32a ☐ All investment is at risk. 32b ☐ Some investment is not at risk.	

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11334P **Schedule C (Form 1040) 2010**

*This is a cost that was identified by the survey team which was not orginally shown in this schedule.

Part III Cost of Goods Sold (see page C-6)

33 Method(s) used to value closing inventory: a ☐ Cost b ☐ Lower of cost or market c ☐ Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation . . . ☐ Yes ☐ No

35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35		
36	Purchases less cost of items withdrawn for personal use	36		
37	Cost of labor. Do not include any amounts paid to yourself	37		
38	Materials and supplies	38		
39	Other costs	39		
40	Add lines 35 through 39	40		
41	Inventory at end of year	41		
42	Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on page 1, line 4	42		

Part IV Information on Your Vehicle. Complete this part only if you are claiming car or truck expenses on line 10 and are not required to file Form 4562 for this business. See the instructions for line 13 on page C-4 to find out if you must file.

43 When did you place your vehicle in service for business purposes? (month, day, year) ► ____/____/____

44 Of the total number of miles you drove your vehicle during 2010, enter the number of miles you used your vehicle for:

a Business _____ b Commuting _____ c Other _____

45 Do you (or your spouse) have another vehicle available for personal use? . . . ☐ Yes ☐ No

46 Was your vehicle available for personal use during off-duty hours? . . . ☐ Yes ☐ No

47a Do you have evidence to support your deduction? . . . ☐ Yes ☐ No

b If "Yes," is the evidence written? . . . ☐ Yes ☐ No

Part V Other Expenses. List below business expenses not included on lines 8- 26 or line 30.

Bank Charges	**3,887**	**00**
Hauling	**4,917**	**00**
48 Total other expenses. Enter here and on page 1, line 27 . . . 48	**8,804**	**00**

Pacific Metals Recycling Co., Inc.
Schedule of Selling and Administrative Expense
Year Ended December 31, 2010
(Compiled)

Advertising	$6,550
Bank Charges	4,469
Commissions	2,433
Contributions	780
Depreciation - office equipment	1,435
Delivery	3,989
Dues and subscriptions	1,126
Entertainment and promotion	33,702
Gifts for employees	4,226
Management fees	60,750
Miscellaneous	1,218
Office salaries	57,961
Officer's salary	10,500
Office supplies	28,379
Professional fees	51,895
Taxes and licenses	32,588
Telephone	8,206
Travel	4,746
Year end and periodic bonuses	56,013
Total selling and administrative expenses	**$370,966**

Schedule of Operating Expense
Year Ended December 31, 2010
(Compiled)

Yard Salaries	$361,717
Payroll taxes	43,869
Employee welfare	83,396
	488,982
Depreciation - machinery and equipment	59,758
Depreciation - auto and truck	10,411
Rent	176,880
Repairs and maintenance	45,144
Plant supplies	92,023
Insurance	22,573
Auto and truck expense	42,925
Utilities	11,380
Hauling	23,526
Total operating expenses	**$973,602**

Northern Corporation
Schedule of Operating Expenses
For the Period Ended December 31, 2010

	3 months ended 12/31/10	12 months ended 12/31/10
Operating Expenses		
Accounting	$3,165	$5,620
Advertising	109	1,326
Auto and truck expense	10,599	27,953
Bank charges	0	16
Depreciation	11,929	47,716
Donations	250	1,744
Dues and subscriptions	155	748
Dump fees	42	110
Entertainment	117	467
Equipment rental	0	232
Freight	2,140	13,950
Health and life insurance	0	1,761
Insurance (primarily business)	10,046	31,618
Interest	5,140	38,666
Laundry	121	241
Legal	936	5,018
Licenses and fees	3,063	8,724
Office expense	476	1,765
Payroll processing fees	277	1,193
Postage	42	76
Propane	0	469
Rent	2,400	4,800
Repairs and maintenance	4,426	11,794
Salaries and wages	20,583	96,624
Safety equipment	0	199
Scale expense - repairs	0	983
Shop supplies	1,524	4,962
Small tools	687	1,953
Taxes - payroll	1,200	8,590
Taxes - other	2,259	4,417
Telephone	1,422	3,796
Travel	245	4,301
Uniform expense	42	424
Utilities	2,962	9,293
Total operating expense	**$86,357**	**$341,549**

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Business

(Sole Proprietorship)

▶ **Partnerships, joint ventures, etc., must file Form 1065 or 1065-B.**

▶ **Attach to Form 1040 or 1041.** ▶ **See Instructions for Schedule C (Form 1040).**

OMB No. 1545-0074

2010

Attachment Sequence No. **09**

Name of proprietor

Social security number (SSN)

A Principal business or profession, including product or service (see page C-1 of the instructions)
Excel Salvage Company

B Enter code from pages C-7, 8, & 9 ▶

C Business name. If no separate business name, leave blank.

D Employer ID number (EIN), if any

E Business address (including suite or room no.) ▶
City, town or post office, state, and ZIP code

F Accounting method: **(1)** ☑ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify) ▶

G Did you "materially participate" in the operation of this business during 2010? If "No," see page C-3 for limit on losses . ☑ **Yes** ☐ **No**

H If you started or acquired this business during 2010, check here . . . . . ▶ ☐

Part I Income

1	Gross receipts or sales. **Caution.** If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-3 and check here ▶ ☐	1	456,584 00
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	456,584 00
4	Cost of goods sold (from line 42 on page 2)	4	384,232 00
5	**Gross profit.** Subtract line 4 from line 3	5	72,352 00
6	Other income, including Federal and state gasoline or fuel tax credit or refund (see page C-3)	6	
7	**Gross income.** Add lines 5 and 6 ▶	7	72,352 00

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8	5,234 00	19	Pension and profit-sharing plans	19	
9	Bad debts from sales or services (see page C-3)	9		20	Rent or lease (see page C-5):		
				a	Vehicles, machinery, and equipment	20a	
10	Car and truck expenses (see page C-3)	10	11,285 00	b	Other business property	20b	
				21	Repairs and maintenance	21	
11	Commissions and fees	11		22	Supplies (not included in Part III)	22	
12	Depletion	12		23	Taxes and licenses	23	
13	Depreciation and section 179 expense deduction (not included in Part III) (see page C-4)	13	4,500 00	24	Travel, meals, and entertainment:		
				a	Travel	24a	
14	Employee benefit programs (other than on line 19)	14		b	Meals and entertainment		
15	Insurance (other than health)	15		c	Enter nondeductible amount included on line 24b (see page C-5)		
16	Interest:						
a	Mortgage (paid to banks, etc.)	16a		d	Subtract line 24c from line 24b	24d	
b	Other	16b		25	Utilities	25	2,715 00
17	Legal and professional services	17	1,075 00	26	Wages (less employment credits)	26	
				27	Other expenses (from line 48 on page 2)	27	34,025 00
18	Office expense	18	1,085 00				

28	**Total expenses** before expenses for business use of home. Add lines 8 through 27 in columns ▶	28	59,892 00
29	Tentative profit (loss). Subtract line 28 from line 7	29	12,460 00
30	Expenses for business use of your home. Attach **Form 8829**	30	
31	**Net profit or (loss).** Subtract line 30 from line 29. • If a profit, enter on **Form 1040, line 12,** and **also** on **Schedule SE, line 2** (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3. • If a loss, you **must** go to line 32.	31	12,460 00

32 If you have a loss, check the box that describes your investment in this activity (see page C-6).
• If you checked 32a, enter the loss on **Form 1040, line 12,** and **also** on **Schedule SE, line 2** (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3.
• If you checked 32b, you **must** attach **Form 6198.**

32a ☐ All investment is at risk.
32b ☐ Some investment is not at risk.

Part III Cost of Goods Sold (see page C-6)

33 Method(s) used to value closing inventory: a ☐ Cost b ☐ Lower of cost or market c ☐ Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation . . . ☐ Yes ☐ No

35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35		
36	Purchases less cost of items withdrawn for personal use	36		
37	Cost of labor. Do not include any amounts paid to yourself	37		
38	Materials and supplies	38		
39	Other costs	39		
40	Add lines 35 through 39	40		
41	Inventory at end of year	41		
42	Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on page 1, line 4	42		

Part IV Information on Your Vehicle. Complete this part only if you are claiming car or truck expenses on line 10 and are not required to file Form 4562 for this business. See the instructions for line 13 on page C-4 to find out if you must file.

43 When did you place your vehicle in service for business purposes? (month, day, year) ► ____/____/____

44 Of the total number of miles you drove your vehicle during 2010, enter the number of miles you used your vehicle for:

a Business _____ b Commuting _____ c Other _____

45 Do you (or your spouse) have another vehicle available for personal use? ☐ Yes ☐ No

46 Was your vehicle available for personal use during off-duty hours? ☐ Yes ☐ No

47a Do you have evidence to support your deduction? ☐ Yes ☐ No

b If "Yes," is the evidence written? ☐ Yes ☐ No

Part V Other Expenses. List below business expenses not included on lines 8-26 or line 30.

Equipment Leases	16,755	00
Hauling Costs	11,149	00
Bank Charges	6,121	00

48 Total other expenses. Enter here and on page 1, line 27 . . . 48 34,025

Upland Metal Company
Income Statement
For the 4th Quarter Ended December 31, 2010

Sales	
Sales - papers	$1,234,926
Sales - aluminum cans	518,138
Sales - glass	825,647
Sales - plastic	58,378
Total sales	2,637,089
Cost of sales	
Purchase	1,787,350
Ocean freight	40,460
Trucking charges	61,880
Inventory change	(220,580)
Labor	226,501
Yard fuel	2,400
Supplies	76,946
Utilities	27,789
Total cost of sales	2,002,746
Gross Profits	634,343
Selling and G&A expense	
Amortization	2,522
Bank charges	7,329
Interest	56,476
Commissions	2,534
Depreciation	39,356
Auto insurance	6,253
Business insurance	15,832
Workers compensation	47,301
Business promotion	12,709
Legal & professional	9,944
Office supplies	11,381
Taxes & licenses	2,867
License & permit	892
Property tax	3,067
Wages	77,313
Rent	189,094
Payroll taxes	30,300
Telephone	10,443
Entertainment	13,143
Equipment rental	71,687
Uniform rental	905
Miscellaneous expense	100
Total selling and G&A	$611,448
Income (loss) from operations	22,895
Other income	
Total other income	0
Other expenses	
Total other expenses	0
Income (loss) before taxes	22,895
Net income (loss)	$22,895

Westown Salvage Corporation
Summary of Expenses

	10/09-9/10	10/09-12/09	10/10-12/10	1/10-12/10
Direct labor				
Total salaries & wages	$ 328,549	$ 65,205	$ 74,292	**$337,636**
Total fringe benefits	98,360	17,824	25,263	**105,799**
Direct expenses				
Equipment rental & lease	48,238	12,624	16,123	**51,737**
Fuel (all yard)	2,352	0	996	**3,348**
Operating supplies	67,517	15,658	3,182	**55,041**
Outside labor	270	80	0	**190**
Subcontract labor	57,308	15,859	16,590	**58,039**
Indirect expenses				
Salaries & wages	620	0	0	**620**
Other indirect				
Depreciation	7,525	1,913	1,427	**7,039**
Fuel (all yard)	9,775	2,956	314	**7,133**
Operating supplies	11,523	1,078	2,624	**13,069**
Taxes & licenses	735	0	106	**841**
Uniforms	2,527	750	349	**2,126**
Repairs & maintenance	113,122	23,623	18,200	**107,699**
Inter-company costs				
Mainstream labor/overhead	70	0	0	**70**
G&A				
Advertising	739	0	1,163	**1,902**
Salaries & wages	89,621	19,560	29,721	**99,782**
Fringe benefits	9,527	2,126	3,799	**11,200**
Auto	8,718	2,646	2,875	**8,947**
Business - promo	2,029	120	1,000	**2,909**
Insurance - liability	10,274	2,087	2,907	**11,094**
Interest expense	1,036	1,036	0	**0**
Miscellaneous expense	5,820	2,263	2,987	**6,544**
Office equipment - rents	1,068	44	373	**1,397**
Office supplies	1,510	317	693	**1,886**
Physical exam	1,220	430	420	**1,210**
Postage	2,490	609	895	**2,776**
Rent	132,000	33,000	33,000	**132,000**
Security	3,314	676	233	**2,871**
Telephone	19,796	3,475	4,865	**21,186**
Utilities	16,779	3,086	3,604	**17,297**
Corp O/H allocation	24,000	6,000	6,000	**24,000**
Freight	244,208	(68,974)	34,451	**347,633**
Total				**$1,445,021**

Module 9
Direct and Indirect Costs

Objective:

- Explain what direct costs and indirect costs are

Key Topics:

- Identifying direct costs through the interview process
- Allocating a site's remaining indirect costs
- Classifying direct and indirect costs:
  - Direct beverage container costs:
    - Aluminum
    - Bi-metal
    - Glass
    - Plastic (PET, resin #1)
    - Plastic (HDPE, resin #2)
    - Plastic resins #3 – #7
  - Other material (e.g., newspaper) and other business (e.g., towing) direct costs
  - Beverage container indirect (BCI) costs
  - Site's all materials indirect (AMI) costs
  - All locations AMI costs
- Determining direct costs of a site
- Direct costing guidelines
- Treating direct costs at dual (or multiple) sites
- Allocating costs with automated cost survey model
- Identifying property, plant, and equipment purchases made in calendar year

Curriculum Materials:

Reading List/Handouts:

1. California Code of Regulations
2. Allocation of costs to CRV materials and determination of combined CRV costs
3. Sample **Recycler Direct Costs** sheet – automated cost survey model
4. All locations AMI and recycler AMI costs
5. Flow of data and results – Labor allocation model and indirect cost allocation sub-models

Work Assignments:

1. Complete a confidential allowable cost summary
2. Use automated cost survey model to input a site's direct and indirect costs
3. Conduct role playing assignments
4. Complete direct and indirect cost summary cost identification exercise
5. Complete cost allocation and input exercises

Key Topics

Identifying Direct Costs Through the Interview Process

After categorizing allowable costs from a company's financial statements, the automated cost survey model totals these costs into each of the allowable cost categories. The next step for the survey team is to identify which of the non-labor allowable costs can be directly allocated to each beverage container material or to other materials and businesses. To identify direct costs, the survey team must review each line item cost with site management to determine whether the allowable cost is directly related to a material type or other business. Where possible, costs should be directly identified as costs of CRV aluminum, CRV bi-metal, CRV glass, CRV plastic resins #1 through #7, or other materials/other business (including processor direct costs).

For example:

- First example: The site manager tells the survey team that the site's entire $5,000 maintenance cost was only for repair of an aluminum can crusher, and thus a direct aluminum cost. The survey team should allocate the $5,000 maintenance cost to aluminum.
- Second example: The site owner tells the survey team that he used his Ferret baler during the last calendar year only to bale aluminum and PETE containers. The site owner says that he generates about 15 bales per month of aluminum and 5 bales per month of PETE from the baler. The site owner does not have documentation on how he developed his estimates. The site team should not use the site owner's allocation estimates. Rather, the site team should use the cost model's BCI percentages, adjusted for just aluminum and PETE, to allocate the entire baler's cost to just aluminum and PETE.

Costs are considered "indirect" and will be allocated based on the site's labor hours. You should not take management's estimates of how a cost should be allocated unless management provides direct evidence that the cost is clearly for a specific activity.

Another important direct cost is any cost that is clearly for non-CRV materials or for operations of other businesses. For example, the cost of a paper baler can be directly allocated to other materials. Also, the cost of an on-site truck service can be directly allocated to other business. A goal of each site visit is to identify all direct costs and allocate these costs directly to a CRV material type or to other materials/business.

Allocating a Site's Remaining Indirect Costs

Allowable costs not directly attributable to one material or to another business are considered indirect costs. These "indirect costs" are allocated to each container type on a proportional basis, based upon the site's total labor hours determined for the specific material. A majority of a site's costs are typically indirect, and thus are allocated by labor hours. The automated cost survey model allocates these indirect costs using the percentage of direct labor hours as determined during the labor allocation interviews (see Module 12).

Classifying Direct and Indirect Costs

A cost must be classified as one of the following types of costs:

1) **Direct costs** – costs which can be attributed to just one CRV material or to another business. Examples include costs of: (1) a baler used exclusively to bale newspaper would be directly allocated to other

materials, (2) an aluminum can crusher would be directly allocated to CRV aluminum, and (3) a truck used exclusively for curbside collection (allocated directly to other business).

2) **Beverage Container Indirect (BCI)** – costs attributable to more than one of the three CRV beverage container types, but which can not be directly allocated to a specific beverage container type. BCI costs do not include other materials or other business costs. Examples of items whose costs are BCI include: (1) a scale used to weigh only CRV aluminum, glass, and plastic material, and (2) a computer used only to calculate DR-6s and DR-7s (Department of Conservation forms used by businesses to report CRV volumes). These BCI costs then are allocated using labor hours for just the three CRV materials. For example, BCI costs are allocated to aluminum based on the ratio of aluminum labor hours to total CRV beverage container hours for that site.

3) **All materials indirect (AMI)** – costs of the site determined to be attributable to both redeemable beverage containers and non-beverage container materials or other business. Most costs of a site are AMI costs, including rent for offices and buildings, general administrative costs, and indirect labor costs.

If the site being surveyed is a dual certified site (a recycler and processor) or is one of several sites owned by the same company, there can be two types of AMI costs. The first type are those AMI costs which are for just the site being surveyed, but not for any other site. For example, at a dual site, the cost of the recycler's weigh scale may be indirect, but just for the recycler at the site, not for the on-site processor. Like direct costs and BCI costs, AMI costs must be identified separately during the interview. The second type of AMI cost is an "all locations" AMI cost. This is an indirect cost which cannot be attributable to either the site being surveyed or to the other sites. These costs are automatically determined in the automated model by subtracting direct costs, BCI costs, and AMI costs from a site's total costs to obtain all locations AMI cost.

The two distinctions for AMI costs (AMI, all locations AMI) are made because the basis for allocating each to CRV material is different:

- AMI costs are allocated to CRV materials using labor hours for CRV and non-CRV materials. For example, AMI costs are allocated to aluminum based on the ratio of aluminum labor hours to total labor hours of that site. If the site handled only CRV materials, then this ratio would be identical to the BCI ratio.
- All locations AMI costs are first allocated between sites using labor hours for all sites. Next, the all locations AMI costs which have been allocated to a site are added to its AMI costs and then allocated to CRV materials.

Determining Direct Costs of a Site

When conducting on-site interviews, the interviewer should make efforts to determine which allowable costs can be directly allocated. If a direct cost is not identified, the costs per ton by CRV material may be misrepresented. An overlooked direct cost must instead be treated as an indirect cost and, therefore, allocated to all materials. The result is that the cost of the material with the direct cost is underestimated, while costs of all other materials are overestimated.

As long as it is a material cost and there is direct evidence that a cost can be directly allocated, it should be done.

Direct Costing Guidelines

When assessing whether a cost can be directly allocated to a CRV material, all CRV materials, or to other business activities, the following is a general hierarchy in recording a cost in the cost model:

1. Physical observation provides clear evidence that depreciation associated with fixed assets on site is directly attributable to handling CRV materials, non-CRV materials or, alternatively, to other businesses. In this case, the depreciation can be recorded as a direct cost.

2. Inquiry of informed management (level of management responsible for interpretation of the results of operations) concerning a site expense for which each of the following criteria are met:

   - The cost exceeds the applicable quality control range, and;
   - The cost in question is significant in relation to the operations of the site in total, and;
   - Management is able to convey with certainty and specificity, their representations concerning the allocation of costs to CRV activities, non-CRV activities or other businesses.

   In this case, the cost can be recorded as a direct cost.

3. Equipment that is clearly not used for one of the CRV materials (e.g., a baler is not used to bale glass beverage containers, but may be used to bale aluminum, plastic, and possibly paper). In this case, the beverage container indirect (BCI) percentages adjusted to remove glass or the all materials indirect (AMI) percentages can be used to determine an allocation of a cost to the materials that the equipment does process.

4. A cost cannot be directly attributable to CRV materials, non-CRV materials or, alternatively, to other businesses. In this case, no direct cost is recorded.

Treating Direct Costs at Dual (or Multiple) Sites

For a dual site, when a cost can be directly assigned to either the recycler or processor, this cost also is treated as a direct cost of other business for the related processor or recycler. This treatment allows the allowable cost survey model's output to foot to the site's financial statements. As an example, a $5,000 cost for CRV plastic transportation of the recycler at a dual site is a $5,000 cost for other business of the related processor. Likewise, a $2,000 cost for AMI maintenance of a processor is a $2,000 cost for other business of the related recycler. Any indirect costs related to both recycler and processor operations at a dual site are considered "all locations" AMI costs.

Although these examples are provided for dual sites, the same treatment applies to a site with multiple recyclers. For example, at a multiple recycler site a $1,000 AMI rent cost of one recycler would be treated as a $1,000 cost of other business of the related recycler(s).

Allocating Costs with Automated Cost Survey Model

For single sites, the interviewer will identify costs as either direct costs (for a CRV material, or for all other materials and businesses) or BCI costs. The AMI cost for the single site is then automatically calculated by subtracting direct and BCI costs from the total site costs. For dual sites, the interviewer must, in addition, identify AMI costs for the site. All locations AMI costs are then automatically computed based on subtracting all direct costs, BCI costs, and AMI costs for the site from total costs.

Schedule

Estimated module time:		**4.3 Hours**	
	Outline of Module	**Technique**	**Training Time *(including self study) (min.)***
1.	Introduce Module	Lecture	25
2.	Read key topics and handouts	Work Assignment	25
3.	Do work assignment #1 – Complete a confidential allowable cost summary	Work Assignment	20
4.	Discuss results and answer questions	Q & A	5
5.	Do work assignment #2 – Use automated cost survey model to input a site's direct and indirect costs	Work Assignment	10
6.	Discuss results and answer questions	Q & A	5
7.	Do work assignment #3 – Conduct role playing assignments	Work Assignment	25
8.	Do work assignment #4 – Complete direct and indirect cost identification exercise	Work Assignment	25
9.	Do work assignment #5 – Complete cost allocation input exercises	Work Assignment	120
		Totals	**260**

Readings and Handouts

1. California Code of Regulations §2970
2. Allocation of costs to CRV materials and determination of combined CRV costs
3. Sample **Recycler Direct Costs** sheet – automated cost survey model
4. All locations AMI and recycler AMI costs
5. Flow of data and results - labor allocation model and indirect cost allocation sub-models

Handout 1

California Code of Regulations

§2970. Allocation of Allowable Costs.

(a) The Division shall determine allowable costs per container pursuant to sections 2960 and 2965 of this subchapter that can be directly allocated to each beverage container type. (For example: depreciation and labor expenses for operating an aluminum can crusher shall be directly allocated to the allowable costs of aluminum beverage containers.)

(b) Allowable costs pursuant to sections 2960 and 2965 of this subchapter that cannot be directly allocated shall be allocated using the direct labor cost percentages for each container type as determined in the allowable cost surveys pursuant to sections 2960 and 2965 of this subchapter.

NOTE
Authority cited: Section 14530.5(b), Public Resources Code. Reference: Sections 14518.5 and 14575(a) and (b), Public Resources Code.

Emergency Handling Fee Regulations

§2995. Allocation of Allowable Costs For Handling Fee Sites.

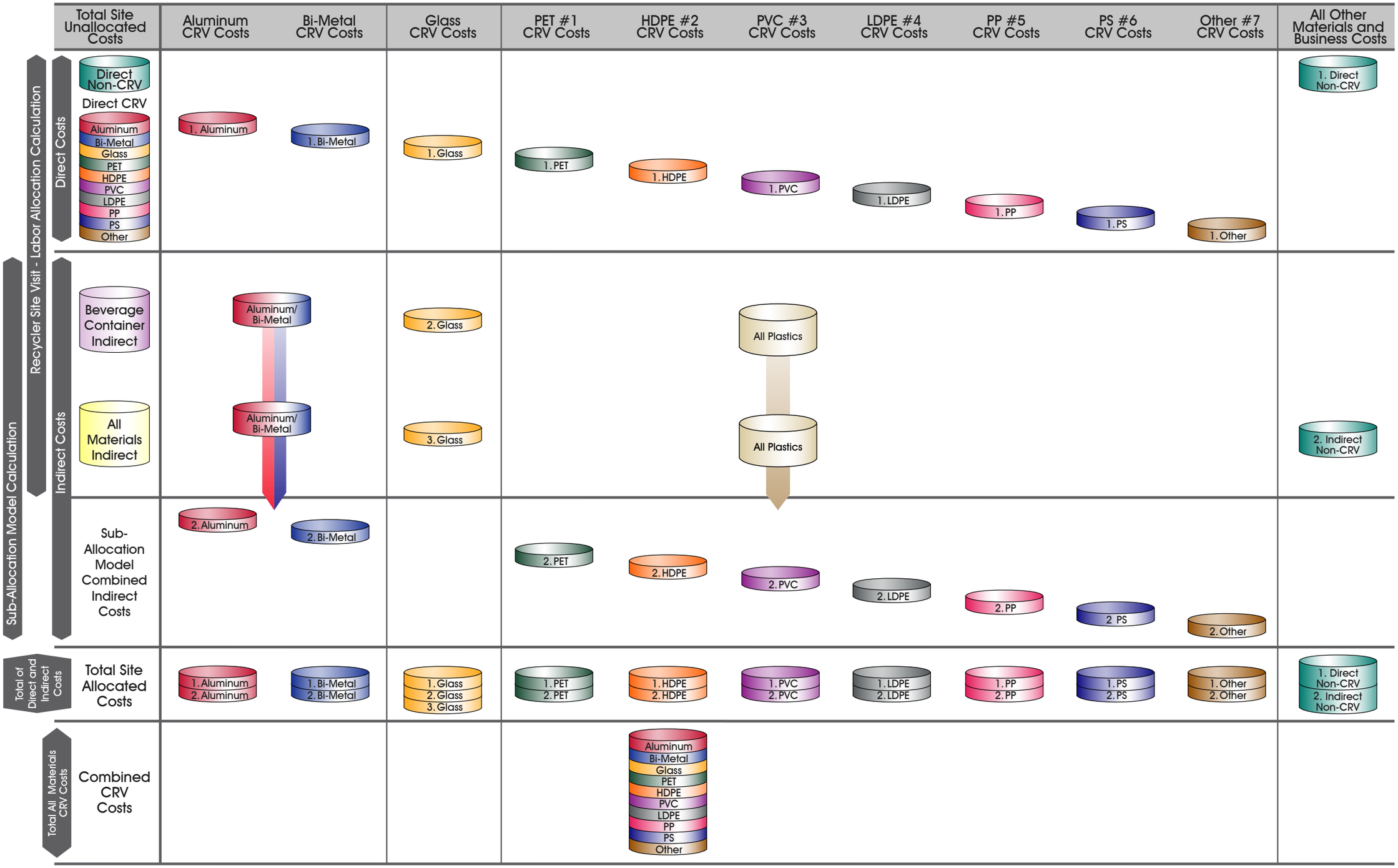
(a) The Division shall determine allowable costs per container pursuant to section 2990 of this subchapter that can be directly allocated to each beverage container type. (For example: depreciation and labor expenses for operating an aluminum can crusher shall be directly allocated to the allowable costs of aluminum beverage containers.)

(b) Allowable costs pursuant to section 2990 of this subchapter that cannot be directly allocated shall be allocated using the direct labor cost percentages for each container type as determined in the allowable handling fee cost surveys pursuant to section 2990 of this subchapter.

Authority cited: Section 14530.5(b) and 14536(b), Public Resources Code. Reference: Sections 14513.4, 14526.6, 14581, and 14585, Public Resources Code.

Handout 2

Allocation of Costs to CRV Materials and Determination of Combined CRV Costs



Handout 3

Sample Recycler Direct Costs Sheet
Automated Cost Survey Model

Enter amount of direct cost in unshaded areas

0			Aluminum	Bi-Metal	Glass	Recycler BCI	Recycler Non CRV Materials	Recycler AMI	PET #1	HDPE #2	PVC #3	LDPE #4	PP #5	PS #6	Other #7
2	General Business Overhe.	6													
2a	Supermarket Site Contrac	7													
3	Transportation	8													
4	Rent	9													
5	Depreciation	10													
6	Property Taxes	11													
7	Utilities	12													
8	Supplies	13													
9	Fuel	14													
10	Insurance	15													
11	Interest	16													
12	Maintenance	17													

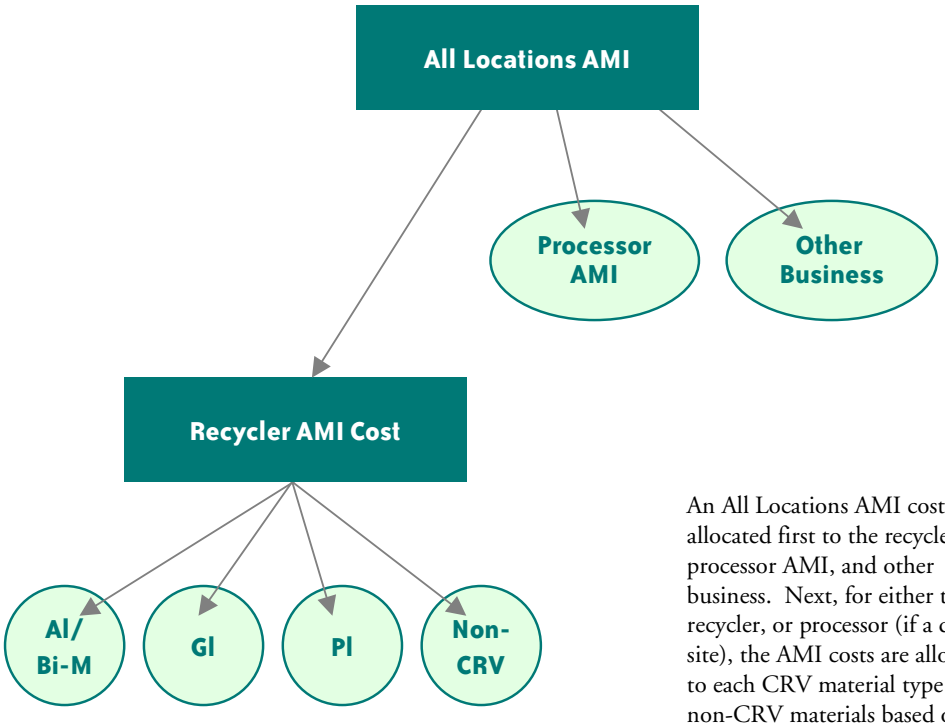
Cost categories 13, 14, 15, and 16 are non-allowable costs for the Recycler

Calculated Recycler Direct Costs

Description		Total	Aluminum	Bi-Metal	Glass	Plastics Total	Recycler BCI	Recycler Non CRV Materials	Recycler AMI	Processor Direct Costs	All Locations AMI	PET #1	HDPE #2	PVC #3	LDPE #4	PP #5	PS #6	Other #7
	Column		I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X
1 Labor	Row																	
a. Per Labor Input Sheet		$0.00	$0.00		$0.00	$0.00		$0.00		$0.00	$0.00							
b. All Other Labor		0.00				0.00				0.00	0.00							
2 General Business Overhe.	27	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2a Supermarket Site Contrac	28	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3 Transportation	29	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4 Rent	30	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5 Depreciation	31	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6 Property Taxes	32	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
7 Utilities	33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8 Supplies	34	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
9 Fuel	35	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10 Insurance	36	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
11 Interest	37	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12 Maintenance	38	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
13 Cost of Bonding		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
14 Disposal Costs		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
15 Administrative Fee		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
16 Shipping/Handling		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total w/o Labor			0.00		0.00	0.00												

Handout 4

All Locations AMI and Recycler AMI Costs

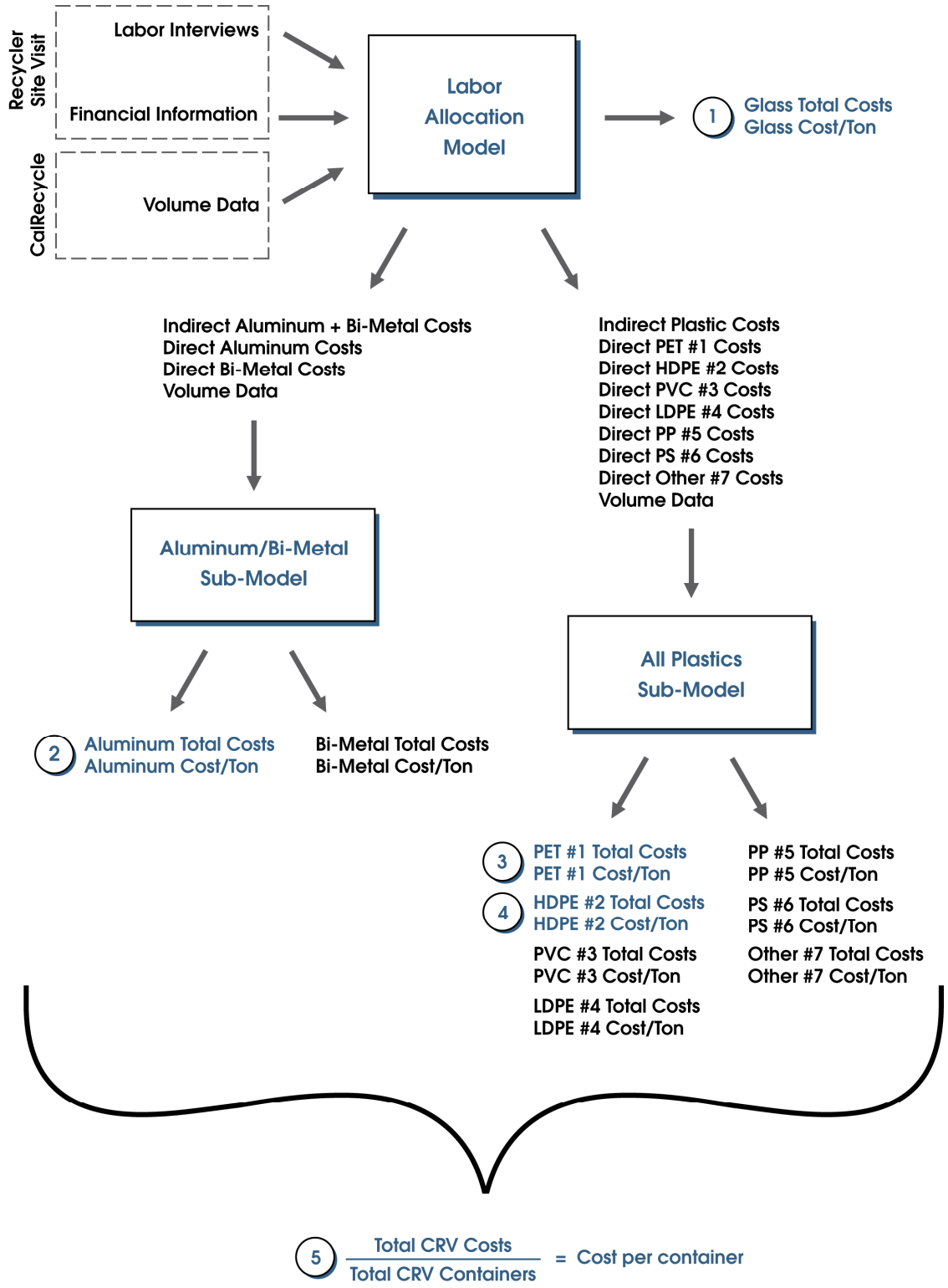


An All Locations AMI cost is allocated first to the recycler AMI, processor AMI, and other business. Next, for either the recycler, or processor (if a dual site), the AMI costs are allocated to each CRV material type and to non-CRV materials based on the AMI percentages determined by the model.

Note: In the case where the site is an RC-only (i.e., not a dual site) without any labor time allocated to other business, there is no difference between All Locations AMI and Recycler AMI costs.

Handout 5

Flow of Data and Results - Labor Allocation Model and Indirect Cost Allocation Sub-Models



Work Assignments

1. Complete a confidential allowable cost summary
   - 2010 Slo Recycling Company
2. Use automated cost survey model to input a site's direct and indirect costs
   - Speedy Recycler
3. Conduct role playing assignments
   - Glasco Glass Company
   - AGP Materials, Inc.
4. Complete direct and indirect cost identification exercise
5. Complete cost allocation and input exercises
   - Scrap Metal Recyclers
   - Iron and Metal, Inc.
   - Divac Recycling Corporation
   - Recycling, Inc.
   - Future Metal's Corporation

Complete a Confidential Allowable Cost Summary

Using the expense summary for Slo Recycling Company on the following page, and inputting data into the cost model, complete a confidential allowable cost summary. To complete the summary, do the following:

1. Categorize Slo Recycling's costs
2. Sum costs into the recycler's 12 cost categories
3. Record the totals on to the **Recycler Direct Costs** worksheet
4. Determine direct costs based on the results of the interview with Slo Recycling's owner, and record these on the worksheet.
5. Total costs for:
   - CRV aluminum
   - CRV glass
   - CRV plastic
   - Recycler BCI (beverage container indirect)
   - Recycler non-CRV materials
   - Recycler all materials indirect.

2010 SLO Recycling Co. Expenses

Scrap purchases	$395,641	
Hauling	4,740	
Payroll & taxes	51,051	
Property pymnt	25,560	(a)
Fuel	2,097	(b)
Maintenance & repair	1,619	(c)
Licenses & permits	658	
Supplies & stationary	2,973	
Advertisement	3,646	
Phone	3,593	
Utilities	1,406	
Insurance - payroll & liability	14,270	(d)
autos	965	
Bank charges	1,295	
Property tax	2,400	
Travel & entertainment	$ 600	(e)
Accounting Fees	495	
Aluminum Hauling	11,052	
Trailer Rental	840	(f)
Total	$524,901	

Results of Interview with Slo Recycling Company's Owner

a. This property payment is the actual payment expense on loans or notes for the property. Per review of loan invoices, it was noted that one loan is an interest only loan of $500 per month. The second commercial loan is fully amortizing and averaging $950 per month of interest and $680 per month of principal. This amount reconciles as follows:

Loan #1 - Interest only ($500 x 12)	$ 6,000
Loan #2 - Interest portion ($950 x 12)	11,400
Loan #2 - Principal portion ($680 x 12)	8,160
	$ 25,560

b. Of this fuel expense roughly $100 per month or $1,200 per year relates to the propane fuel for the forklift. The remaining expense relates to truck fuel used for transporting all three CRV materials, and only CRV materials, to a processor. The reconciliation is as follows:

Yard fuel	$1,200
Truck fuel	897
	$2,097

c. The maintenance cost was related to repair of equipment used for newspaper bundling.

d. This expense contains both worker's compensation and general business insurance. Per review of the latest policy, the following reconciliation is provided:

Worker's compensation	$ 7,279
General business insurance	6,991
	$14.270

e. This travel expense was imputed by reviewing credit card statements displaying that roughly $50 per month is paid for travel and entertainment.

f. The Company indicated that in 2010 it paid $70 per month to rent a trailer to hold CRV glass.

Work Assignment 1
Page 4 of 4

Recycler Direct Costs

Enter amount of direct cost in unshaded areas

0			Aluminum	Bi-Metal	Glass	Recycler BCI	Recycler Non CRV Materials	Recycler AMI	PET #1	HDPE #2	PVC #3	LDPE #4	PP #5	PS #6	Other #7
2	General Business Overh	6													
2a	Supermarket Site Contra	7													
3	Transportation	8													
4	Rent	9													
5	Depreciation	10													
6	Property Taxes	11													
7	Utilities	12													
8	Supplies	13													
9	Fuel	14													
10	Insurance	15													
11	Interest	16													
12	Maintenance	17													

Cost categories 13, 14, 15, and 16 are non-allowable costs for the Recycler

Calculated Recycler Direct Costs

	Description		Total	Aluminum	Bi-Metal	Glass	Plastics Total	Recycler BCI	Recycler Non CRV Materials	Recycler AMI	Processor Direct Costs	All Locations AMI	PET #1	HDPE #2	PVC #3	LDPE #4	PP #5	PS #6	Other #7
		Column	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X
1	Labor	Row																	
	a. Per Labor Input Sheet		$0.00	$0.00		$0.00	$0.00		$0.00		$0.00	$0.00							
	b. All Other Labor		0.00				0.00				0.00	0.00							
2	General Business Overh	27	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2a	Supermarket Site Contra	28	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3	Transportation	29	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4	Rent	30	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5	Depreciation	31	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6	Property Taxes	32	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
7	Utilities	33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8	Supplies	34	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
9	Fuel	35	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10	Insurance	36	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
11	Interest	37	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12	Maintenance	38	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
13	Cost of Bonding		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
14	Disposal Costs		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Subtotal		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
15	Administrative Fee		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
16	Shipping/Handling		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Total		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Total w/o Labor			0.00		0.00	0.00												

Use Automated Cost Survey Model to Input a Site's Direct and Indirect Costs

Use the automated cost survey model to input Speedy Recycler's direct and indirect costs. First, input the totals shown below for each cost category shown on the **Cost Input Sheet** of the cost model. Then use the results of the interview with the owner to identify the site's direct and indirect costs, and input these results on the **Recycler Direct Costs** worksheet of the cost model (a sample of this worksheet is printed on the prior page).

Be prepared to discuss the model's cost summary (**Cost Summary** tab of model).

Cost	Category
$417,034	1
29,821	lB
87,069	2
37,115	3
47,193	4
79,211	5
2,326	6
63,602	7
47,313	8
40,105	10
717	11
195,316	12

Results of Interview with Speedy Recycler's Owner

1. Per owner, $400 of general business overhead represents an expense of advertising for recycling operations – CRV aluminum, glass, and plastic.

2. Per owner, $6,000 of rent expense is for equipment used to recycle CRV aluminum, glass, and plastic. The equipment was rented during the year as back-up whenever owned equipment was being maintained or repaired.

3. Per review of depreciation schedule and discussion with owner, $5,464 represents the depreciation expense on a densifier used for CRV aluminum cans.

4. A total of $1,384 of depreciation expense is for glass equipment (e.g., crusher, bins).

5. An additional $65,506 represents a depreciation expense on depreciable assets used at the convenience store, and does not relate to the recycling operation.

6. The remaining depreciation expense is for miscellaneous aluminum, glass, plastic, and paper recycling equipment (i.e., bailer, forklifts, trailer, truck, scales, etc.).

7. Per owner, interest expense is for a liability pertaining to the convenience store and is unrelated to the recycling operation.

8. Per owner, $24,000 of the maintenance expense pertains to the recycling operation.

9. All other costs could not be directly allocated.

Work Assignment 3
Page 1 of 6

Conduct Role Playing Assignments
(work in teams of two: an interviewer and an owner)

The objective of the following role-playing exercises is to gather enough information through interviews with an owner to complete the allowable cost summary.

- In the first exercise for Glasco Glass Company (an RC), the interviewer must complete an allowable cost survey by obtaining direct and indirect cost information from the owner.
- In the second exercise for AGP Materials, Inc., the interviewer must obtain cost information from the owner, while using the automated cost survey model.

Note: The person playing the role of the owner can use some judgment in reminding the interviewer to perhaps inquire about subjects the interviewer may have completely missed discussing with the owner.

Glasco Glass Company

Roleplay Exercise

Interviewee Information:

1. The following calculations were performed using information obtained from the recycler.

   a) The flattener/blower of aluminum cans is "rented" to the recycler for $.01/1 lb. and is netted against sales price.

   Calculation: $.01/lb. x 728,214/lbs. (yearly aluminum received weight) = $7,282

   b) Transportation costs are netted against sales price; therefore, these costs do not show on the expense statement. The calculation is as follows:

Material	Calculation		Result
Aluminum	$.015/lbs. x 728,214	=	$10,923
Glass	$400/load x 20 loads	=	8,000
PET Plastic	$.11/lbs. x 48,840 lbs.	=	5,372
Total transportation cost			**$24,295**

2. See enclosed depreciation schedule for additional allocation information.

6/30/10
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FEDERAL DEPRECIATION SCHEDULE

NO.	DESCRIPTION	DATE ACQUIRED	DEPR. BASIS	PRIOR DEPREC.	METHOD	LIFE	RATE	DEPR.
FORM 1120								
1	RECYCLING EQUI	6/01/07	4,800	2,114	200DB 1/2	7	.12490	(a) 600
2	RECYCLING EQUI	6/01/07	100000		200DB 1/2	7	.12490	0
3	RECYCLING EQUI	1/03/09	60000		200DB 1/2	7	.24490	0
4	BEST WAY SCALE	2/14/09	3569 0		200DB 1/2	5	.32000	0
5	SECURITY SYSTE	11/29/08	799	160	200DB 1/2	5	.32000	(b) 256
6	COMPUTER SYSTE	12/29/08	3,028	606	200DB 1/2	5	.32000	(c) 969
7	1988 LINCOLN M	1/01/08	26,994	6,860	200DB 1/2	5	.19200	(c) 2,550
8	1983 CHEVY	10/27/08	4,382	876	200DB 1/2	5	.32000	(c) 1,402
9	LEASEHOLD IMPR	6/01/08	2,548	1,122	200DB 1/2	7	.12490	(c) 318
10	ORGANIZATION E	7/01/08	1,564	313	S/L	5		(c) 313
11	ALARM SYSTEM	6/28/10	0		200DB 1/2	5	.20000	0
			44,115	12,051				6,408

(a) For glass crusher

(b) For all CRV materials

(c) For all materials

Partially Complete Input Screen Form for Glasco Glass Company

Work Assignment 3
Page 4 of 6

Enter amount of direct cost in unshaded areas

RCzzz

			Aluminum	Bi-Metal	Glass	Recycler BCI	Recycler Non CRV Materials	Recycler AMI	PET #1	HDPE #2	PVC #3	LDPE #4	PP #5	PS #6	Other #7
2	General Business Overh	6													
2a	Supermarket Site Contra	7													
3	Transportation	8													
4	Rent	9													
5	Depreciation	10													
6	Property Taxes	11													
7	Utilities	12													
8	Supplies	13													
9	Fuel	14													
10	Insurance	15													
11	Interest	16													
12	Maintenance	17													

Calculated Recycler Direct Costs

Cost categories 13, 14, 15, and 16 are non-allowable costs for the Recycler

Description		Total	Aluminum	Bi-Metal	Glass	Plastics Total	Recycler BCI	Recycler Non CRV Materials	Recycler AMI	Processor Direct Costs	All Locations AMI	PET #1	HDPE #2	PVC #3	LDPE #4	PP #5	PS #6	Other #7
	Column		I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X
1 Labor	Row																	
a. Per Labor Input Sheet		$417,045.00	$33,903.00		$5,705.00	$6,279.00		$371,158.00		$0.00	$0.00							
b. All Other Labor		0.00				0.00				0.00	0.00							
2 General Business Overh	27	92,571.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	92,571.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2a Supermarket Site Contra	28	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3 Transportation	29	29,455.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	29,455.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4 Rent	30	102,642.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	102,642.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5 Depreciation	31	34,373.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	34,373.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6 Property Taxes	32	13,757.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	13,757.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
7 Utilities	33	14,499.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	14,499.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8 Supplies	34	36,082.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	36,082.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
9 Fuel	35	2,241.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,241.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10 Insurance	36	32,682.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	32,682.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
11 Interest	37	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12 Maintenance	38	96,910.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	96,910.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
13 Cost of Bonding		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
14 Disposal Costs		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal		$872,257.00	$33,903.00	$0.00	$5,705.00	$6,279.00	$0.00	$371,158.00	$0.00	$0.00	$455,212.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
15 Administrative Fee		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
16 Shipping/Handling		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total		$872,257.00	$33,903.00	$0.00	$5,705.00	$6,279.00	$0.00	$371,158.00	$0.00	$0.00	$455,212.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total w/o Labor			0.00		0.00	0.00												

AGP Materials, Inc. (a dual site)

Roleplay Exercise

Interviewee Information

The following information is provided by the owner:

1) Yard fuel ($53) was only recorded separately for one week. For most of the year, yard fuel was not tracked. However the owner stated that she spends $70 a week on yard fuel (i.e., $30/wk. on diesel for bobcat, which is used for cardboard & paper, and $40/wk on general fuel for forklifts, etc.).

2) Rent on the aluminum can densifier is $75/month or $900/year.

3) Rent on the glass crusher is $75/month or $900/year.

4) Stripping wire used to contain aluminum can briquettes costs $6.50 for 2,000 lbs. This is shown in the supplies category.

   $\frac{679{,}248 \text{ lbs. (yearly received weight)}}{2{,}000 \text{ lbs.}} \times \$6.50 = \$2{,}203$

5) The owner is not paid a salary due to economic conditions. She only takes what she needs. The survey team continued their inquiry, and she did say she took $11,000 to use during the year. She says her job duties would cost the company about $70/day from the business last year. Should the survey team compute her salary from this information?

AGP Material, Inc.
2010

Labor	$164,427
G BA	87,177
Transportation	17,946
Rent	9,804
Depreciation	0
Property tax	0
Utilities	8,191
Supplies	12,033
Fuel	53
Insurance	695
Interest	0
Maintenance	23,151
	$323,477

Work Assignment 4

Complete Direct and Indirect Cost Identification Exercise

Types of possible cost allocations:

A	Direct cost	-	Aluminum
B	Direct cost	-	Glass
C	Direct cost	-	PET Plastic, resin #1
D	Direct cost	-	HDPE Plastic, resin #2
E	Direct cost	-	PVC Plastic, resin #3
F	Direct cost	-	LDPE Plastic, resin #4
G	Direct cost	-	PP Plastic, resin #5
H	Direct cost	-	PS Plastic, resin #6
I	Direct cost	-	Other Plastic, resin #7
J	Direct Cost	-	Other materials/Other Business
K	Direct Cost	-	Bi-Metal
L	Beverage Container Indirect (BCI)		
M	Recycler All Materials Indirect (AMI)		
N	All locations AMI		
O	Non-allowable		

For each of the following costs, assign a letter (**A-O**) which **best** matches how the direct or indirect cost category should be treated. Some costs may have more than one answer (that is, costs are split). Keep in mind that identification of costs as either direct or indirect should be confirmed by site management as a part of the on-site interview process.

1. An equipment cost for a CRV aluminum can crusher _____
2. Depreciation cost for equipment used for CRV aluminum crushing and baling _____
3. Rent expense for equipment used in a processor's wrecking yard _____
4. Cost of goods sold (transportation) for CRV glass, paper, and steel _____
5. A scale used for CRV glass and CRV aluminum _____
6. Trucking expense to haul cardboard, paper and non-CRV material _____
7. Rent on magnetic separator for CRV aluminum _____
8. Freight for scrap non-ferrous metals _____
9. A recycler's plastic (PET and HPDE) freight-out cost (paid to a third party) of $300 for 4 loads per year _____
10. Property taxes _____
11. Security guard to prevent theft of CRV aluminum cans _____
12. Curbside expense for hauling CRV aluminum, CRV glass, CRV plastic, paper, and cardboard _____
13. Bobtail rental for the paper portion of business _____
14. Roll-off bin used strictly for CRV glass _____
15. Principal portion of loan for CRV glass processing equipment _____

16. Property taxes for the buyback center building _____
17. A bin rented solely for CRV PET plastic _____
18. A bin rented to hold bi-metal containers _____
19. At a dual site, a maintenance cost for yard equipment used exclusively for all of the recycler's operations
    Recycler: _____ Processor: _____
20. At a dual site, the recycler's transportation cost, some of which could be assigned to CRV PET and HDPE plastic
    Recycler: _____ Processor: _____
21. At a dual site, the entire site's utility costs
    Recycler: _____ Processor: _____
22. At a dual site, a site's rent cost, some of which could be assigned to the processor's ferrous metals equipment
    Recycler: _____ Processor: _____
23. At a dual site, the recycler's depreciation cost could be allocated to each of five types: (1) CRV aluminum, (2) CRV glass, (3) CRV plastic, (4) bi-metal, (5) related to all three CRV materials. The processor had no depreciation costs as all equipment was either fully depreciated or rented
    Recycler: _____ Processor: _____
24. At a site with two recyclers, Recycler 1 and Recycler 2 have consolidated financial statements. Both Recycler 1 and Recycler 2 are sites selected to be surveyed, and both can assign a separate portion of the total transportation costs to CRV glass
    Recycler 1: _____ Recycler 2: _____
25. The owner could not assign any of the site's costs to a particular material type _____
26. Depreciation costs of a site where the only depreciable asset is a glass crusher _____
27. Depreciation costs of a baler used only for #1 plastic _____

Complete Cost Allocation and Input Exercises

For the five companies listed below, use the information and financial statements provided to complete the automated **Recycler Direct Costs** sheet. You must first categorize costs into allowable cost categories on the **Cost Input Summary,** then utilize interview results to identify direct and indirect costs that you enter on the **Recycler Direct Costs** worksheet.

- Scrap Metal Recyclers
- Iron and Metal, Inc.
- Divac Recycling Corporation
- Recycling, Inc.
- Future Metal's Corporation

For each recycler, one participant will be asked to present:

- Total costs by category (**Cost Summary** worksheet)
- Categorization of each line item cost (**Cost Input Sheet**)
- Total direct costs for CRV AL, CRV Bi-Metal, CRV GL, CRV PL, Recycler BCI, Recycler Non-CRV Materials, and Recycler AMI (**Recycler Direct Costs** worksheet)

Scrap Metal Recyclers

According to interviews with the Controller and a review of appropriate accounting documentation, the following information was obtained.

1. Transportation (vehicle costs):
   a) 44 mile round trip
   b) Estimated cost = $1/mile
   c) Yearly transported weight:

	600	tons aluminum
	850	tons glass
	50	tons plastic
Total:	1,500	tons

   d) Each trip transports 7.5 tons

2. Maintenance:

a)	CRV scales	$800
b)	Paper cutter	350
		$1,150

3. Rent:

a)	Bins	$5,000
b)	Forklift	5,000
c)	Baler	9,000
d)	Buyback building	23,000
		$42,000

4. Training/seminars were for a glass processing informational workshop.

5. A total of $1,100 of general business overhead cost was for other material/business.

Scrap Metal Recyclers
Expenses

	12 mos. Ended 6/30/10	6 mos. Ended 12/31/09	6 mos. Ended 12/31/10	1/10-12/10
Expenses				
Payroll	$137,443	$66,934	$76,456	**$ 146,965**
Payroll taxes	10,927	5,120	6,079	**11,886**
Employee benefits	6,371	3,107	3,387	**6,651**
Taxable payroll	154,741	75,161	85,922	**165,502**
Other costs				
Insurance - fire/liability	1,220	484	704	**1,440**
Insurance - workers comp	10,852	5,228	6,201	**11,825**
Vehicle costs	10,075	6,407	5,292	**8,960**
Aluminum purchases	251,712	125,550	145,182	**271,344**
Operating supplies	3,352	1,784	1,514	**3,082**
Advertising	0	0	0	**0**
Conferences	0	0	185	**185**
Janitorial	1,010	545	520	**985**
Licenses	114	0	30	**144**
Office	790	395	143	**538**
Public relations	0	0	0	**0**
Rent	36,000	18,000	24,000	**42,000**
Repairs & maintenance	1,967	1,212	395	**1,150**
General supplies	54	28	10	**36**
Telephone	499	250	252	**501**
Training/seminars	444	15	0	**429**
Utilities	5,319	2,363	2,889	**5,845**
Miscellaneous overhead	250	250	275	**275**
Depreciation				**13,032**
Total expenses	478,399	237,672	273,514	**$ 527,273**

Iron and Metal, Inc.

During interviews, the owner provided the following information (see corresponding notes to the attached financial statement):

1. The following notes correspond to the attached financial statement:

   a. Per review of depreciation schedule, and discussion with operations manager, $74,560 represents depreciation taken in 2010 on equipment used exclusively for secondary scrap materials - other materials.

   b. This expense consists of truck fuel and yard fuel. According to the owner, you are able to break this cost out as follows:

Yard fuel	$3,600	
Truck fuel	37,372	(CRV plastic and glass)
	$40,972	

   c. Per owner, yard fuel primarily pertains to cranes, shears, and other equipment which is only used for scrap metal - other materials. The can crusher/scooter and bailer are electric.

   d. This expense consists of all insurance expense for the site including workers compensation, medical, business, and truck. The breakout, estimated by owner, is as follows:

Worker's Comp. ($7,000/mo.)	$84,000
Business	40,000
Truck	40,000
Medical	132,128
	$296,128

   e. Per owner, $145,000 of lease represents amount paid for equipment used for scrap materials - other materials.

   f. This expense represents a fee paid to outside weighers to weigh trucks of the Company so as to conform to industry regulations. For this reason, we shall classify this cost as General Business Overhead.

2. Maintenance expense is for:

Plant Repairs & Maintenance	$126,356
Aluminum densifier	15,000
Front loader	14,941
Conveyer	10,000
	$166,297

Iron And Metal, Inc.
Statement Of Income And Retained Earnings
For the Twelve Months Ended August 31, 2010

	Revenue:	
	Sales - resale	$7,611,614
	Total revenue	7,611,614
	Cost of goods sold:	
	Purchases	5,613,247
	Total cost of goods sold	5,613,247
	Gross margin	1,998,367
	Expenses:	
	Advertising	84,273
	Equipment repair	39,941
	Legal & accounting	21,356
	Auto & truck expense	98,469
	Profit sharing plan	4,479
	Bad debts	26,556
	Contributions	989
	Dues & subscriptions	5,595
a.	Depreciation	129,700
	Entertainment	103,666
b. & c.	Gas & oil	40,972
d.	Insurance	296,128
	Interest	26,038
	Laundry & uniforms	7,544
e.	Plant lease	300,000
	Payroll service	(330)
	Miscellaneous	16,103
	Office supplies	31,390
	Bank analyst	1,507
	Payroll taxes	60,017
	Dumping & rubbish	2,227
	Plant repairs & maintenance	166,297
f.	Public scale weighing	1,423
	Taxes & licenses	23,458
	Telephone	31,347
	Utilities	30,812
	Wages	807,001
	Salesman promotional expense	15,445
	Provision for state tax	800
	Total expenses	2,373,203
	Income (loss) from operations	$ (374,836)

Divac Recycling Corporation

The Company's Controller made the following comments:

1. $1,000 of vehicle repair was for a curbside vehicle.
2. License expenses are for all CRV-related materials.
3. Transportation-related gas and oil was equally split between CRV aluminum and CRV glass. CRV plastic was handled as a service of the parent company (a related party transaction).
4. $3,000 in property tax was for a building, which houses curbside collection vehicles.
5. $3,500 of advertising expense was for buyback center and $10,000 was for scrap materials/other business.
6. A $3,639 alarm was installed on the building which houses aluminum, glass, and plastic.

Divac Recycling Corporation
Income Statement
For the Twelve Months Ending December 31, 2010

Cost of goods sold	$4,896,924
Freight	0
Salaries/wages	562,702
Payroll taxes	200,005
Employee benefits	33,583
Advertising/promo	62,507
Dues/subscriptions	1,013
Travel/entertainment	198
Utilities	15,389
Interest	123,474
Licenses	2,231
Office supplies	13,388
Postage	635
Telephone	9,437
Sales Taxes	24,194
Property tax	14,000
Miscellaneous expenses	(4,697)
Legal fees	107,336
Accounting fees	4,775
Equipment & supplies	27,709
Vehicle repairs	2,241
Forklift repairs	10,433
Equipment repairs	13,623
Miscellaneous repairs	62
Miscellaneous fees	4,715
Commission	96,000
Alarm	3,639
Towing fees	75
Insurance/compensation	78,781
Insurance/liability-auto	57,510
Insurance/misc.	7,236
Lease	23,054
Gas & oil - yard	2,998
Gas & oil - transportation	26,981
Rubbish	4,341
Donations	945
Check charges	5,931
Total expenses	$ 6,433,368

Recycling, Inc.

The following information was obtained from various managers at the site:

1. $12,123 of GBO expenses are for outside services relating to the ferrous metals[1] operation.

2. Per general manager, $28,325 of depreciation expense is for equipment and facilities used specifically in the ferrous metals operation.

3. Per general manager, $16,458 of operating supply expenses are exclusively for the ferrous metals operation.

4. Per operations manager, $2,241 of fuel expense is for oxygen gas used for equipment which is not used for CRV-materials.

5. Per general manager, $17,000 of repairs and maintenance expense is for equipment used in the ferrous and non-ferrous metals operations (i.e., cranes, bulldozers, etc.). This equipment is not used for CRV-materials.

[1] Ferrous metals refers to non-CRV scrap metal.

Recycling, Inc.
Cost of Sales 2010
Schedule I

Inventory, December 31, 2009	$485,387
Purchases	5,236,324
Direct labor	105,936
Metal processing	30,419
Salaries - other	38,861
Special handling	3,830
Insurance - workman's compensation	27,812
Insurance - medical	11,654
Insurance - general	29,004
Telemarket	3,072
Registrations - truck only	5,850
Delivery charges - all freight out	25,875
Depreciation	85,417
Disposal charges - waste removal	3,460
Payroll taxes	13,441
Equipment repairs	36,054
Forklift - repairs	12,045
Officers salaries	59,754
Rent	42,000
Small tools and supplies	27,122
Truck and fuel expense	54,626
Utilities	18,529
	6,356,472
Inventory, December 31, 2010	(255,284)
Cost of sales	6,101,188

Recycling, Inc.
Selling, General and Administrative Expenses 2010
Schedule 2

Accounting	$40,872
Advertising	81,048
Bank charges	141,480
Business licenses and taxes	66,960
Consulting	31,248
Custom duty	125,328
Dues and subscriptions	1,740
Equipment rentals	29,916
Insurance - life	36,408
Insurance - other	202,272
Licenses and permits	117,948
Miscellaneous	54,264
Office salaries	608,736
Office supplies	161,532
Payroll taxes	105,804
Security	3,432
Telephone and utilities	197,040
Travel	159,648
Uniforms	66,240
	$2,231,916

Future Metals Corporation

According to Jimmer Fredette, CEO:

1. Transportation expenses are split as follows:

CRV materials	$100,000
Non-CRV materials	150,593
	$250,593

2. All other materials/business depreciation is as follows:

Dual site	$102,891
Bargain center	12,150
	$115,041

3. All other material/business property tax is as follows:

Dual site	$8,500
Bargain center	400
	$8,900

4. Maintenance expenses are:

Newspaper baler	$ 6,250
Aluminum crusher	4,650
Glass sorter	6,451
	$17,351

5. Amortization of $480 is for other materials/business.

6. Uniform rental is 60 percent of other material/business.

7. Rent is as follows:

Building rental	$120,000
Equipment:	
Newspaper baler	13,513
Aluminum crusher	10,000
Glass sorter	20,000
	$163,513

Future Metals Corporation
Statement of Income
For The Twelve Months Ended August 31, 2010

Sales	
Sales - exports	$4,862,243
Sales - aluminum can	2,472,814
Sales - glass	1,524,231
Sales - miscellaneous	797,816
Sales - plastic	291,654
Returns and allowances	(6,355)
Total sales	9,942,403
Cost of sales	
Purchase	7,086,301
Ocean freight	146,423
Trucking charges	250,593
Inventory change	(300,530)
Labor	438,971
Yard supplies and tools	202,591
Utilities	54,433
Total cost of sales	7,878,782
Gross profit	2,063,621
Selling and G&A expense	
Advertising	17,077
Amortization	480
Bank charges	13,504
Automobiles	132,397
Contributions	0
Interest	324,948
Commissions (non-1099)	68,943
Repair & maintenance	17,351
Depreciation	253,363
Dues and subscriptions	1,733
Insurance	227,398
Business promotion	164,309
Legal & professional	70,361
Office supplies	41,988
Officer's salaries	24,000
Taxes & licenses	14,915
Sales tax	1,264
Property tax	22,397
Wages	304,519
Rent	120,000
Payroll taxes	68,632
Telephone	54,116
Entertainment	69,077
Equipment rental	43,513
Uniform rental	6,577
Miscellaneous expense	897
Total selling and G&A	2,063,759
Income (loss) from operations	(138)
Miscellaneous income	62,363
Income (loss) before taxes	62,225
Provision for federal taxes	25,141
Provision for state taxes	8,870
Net income (loss)	$28,214

Module 10
Actual Costs

Objective:

- Explain how to calculate actual costs not included in a site's financial statements

Key Topics:

- Determining an actual cost
- Understanding actual costs
- Identifying the "entity being surveyed"
- Treating different scenarios that may involve imputing a cost
- Citing examples of how actual costs are imputed

Curriculum Materials:

Reading List/Handouts:

1. Sample imputed costs (if necessary)

Work Assignments:

1. Impute costs
2. Calculate owner's salary

Key Topics

Determining an Actual Cost

In conducting allowable cost surveys, survey teams should identify **actual costs** of recycling for the "entity being surveyed." A survey team may determine, however, that an actual cost is not identified on the source of financial information for the entity being surveyed. To accurately account for that cost, the survey team may need to impute, or determine from another source, the actual cost.

Understanding Actual Costs

Actual costs are not what the costs of the entity being surveyed should be, but rather those costs truly incurred by an entity. Actual costs are not necessarily equal to Generally Accepted Accounting Practices (GAAP) or "best practices" costs. Survey teams should recognize that financial statements may not completely reflect actual costs of the entity and that additional actual costs not identified in the financial statements may need to be included in that site's total costs of recycling. The survey team need only impute an actual cost if the cost is also allowable.

Identifying the "Entity Being Surveyed"

For purposes of conducting cost surveys, actual costs relate only to the recycler and/or processor entity being surveyed. Therefore, to determine actual costs for a site, it is necessary to define the "entity being surveyed." Generally, an entity is an organization, or a section of an organization, that stands apart from other organizations and individuals as a separate economic unit. Sole proprietorships, partnerships, corporations, and subsidiaries are recycler and processor entities that a survey team may encounter in cost surveys. A description of how each of these entities should be treated for cost surveys is provided below:

Sole proprietorship

Costs of the proprietorship are actual costs of the entity. However, costs of personal items (e.g., an owner's costs of renting an apartment), while actual costs of the proprietorship, are not allowable costs, and are not included in cost surveys.

Partnership

Costs of the partnership, not those incurred by individual partners, are actual costs of the entity.

Corporation

For a corporation, the recycler entity is related to the type of financial statements obtained for the corporation. Where financial statements are consolidated for the corporation, the entity is the entire corporation. In this case actual costs should be obtained for the entire corporation.

Where financial statements are not consolidated for the corporation, but are for a specific site, then the entity surveyed is the specific site. The survey team should obtain only those costs of the site, not costs of the entire corporation. Note that the site may incur some corporate charges that may be actual costs of that site and may need to be identified or determined from another source.

Subsidiary

For a subsidiary, the recycler entity is related to the type of financial statements obtained by the survey team. Where financial statements are consolidated, both parent and subsidiary are the entity surveyed. Where financial statements are not consolidated, then only the subsidiary is the entity. Note that the subsidiary may incur corporate allocations that may be actual costs of that entity and therefore may need to be identified or imputed.

Treating Different Scenarios that May Involve Imputing a Cost

Several scenarios that can occur during cost surveys are presented below. Procedures for treating these scenarios also are provided. Where necessary, cost survey teams should determine costs using the best available data, documenting the reasons why the actual cost was determined, identifying the source of information, and showing how the actual cost was determined (e.g., calculations).

Actual costs not included in the financial statements

If the financial statements do not show an actual cost, and you know it exists, the actual cost should be determined and used. We are not conducting allowable cost surveys to correct their financial statements or to point out errors in them. An example of actual costs not in the financial statements that may need to be added to the costs includes depreciation.

To identify a missing depreciation expense, the survey team should correlate field observations with equipment shown on the depreciation schedule provided by site management, noting any major equipment that is not being depreciated. The depreciation expense for equipment missing from the schedule could be hidden in another cost. Where equipment has been fully depreciated by the site or left out by management, do not impute a depreciation expense. Site management may be able to provide information needed for the team to identify the depreciation expense.

The survey team should not impute a "more reasonable" depreciation expense to replace one that is identified in the depreciation schedule obtained from site management. Further, survey teams should not impute a depreciation expense for donated equipment.

Costs understated in the financial statements

Where actual costs of the entity are understated in the financial statements, the survey team should not impute a more reasonable cost. Examples include where the financial statements reflect no cost for an owner's salary (and no owner's draws were taken).

In situations where the owner of a proprietorship or partners of a partnership retain a business' net income at the end of the year for their own personal use, this net income amount should be used in determining owners' salaries. Survey teams should interview site management and/or the owner at each site to determine how much income is retained for personal use by owners. Where net income is reinvested in the business, no owner's salary need be imputed.

Costs overstated in the financial statements

Costs overstated in the financial statements should be treated similarly to understated costs. Because overstated costs represent actual costs, the survey team should not impute a "more reasonable" cost. An

example of an overstated cost might be an "excessive salary" paid to an owner. For example, the owner may rent the land to the recycling business. In comparison to similar sites, the rent may be an overstated cost.

Cash expenses not identified in the financial statements

Cash expenses not identified in the financial statements that represent actual costs of an entity should be located and used. Examples of types of costs that may not be identified include cash payments for temporary or part-time labor.

Expenses illegally avoided

Where an entity failed to pay a legally required expense, no costs should be used. An example of an illegally avoided expense is non-payment of payroll taxes. In this example, no payroll taxes need be determined.

Related party transactions

When a family member rents a site from another family member at no cost, and no formal business relationship exists between these related parties, no rent cost should be determined.

When a parent company rents a site at no cost to a subsidiary being surveyed, then the transaction should be evaluated based upon the financial statements obtained for the site. If the financial statements are consolidated, then a corporate cost of rent for the site should be identified on the consolidated financial statements and used. If the statements are for a specific subsidiary (i.e., not consolidated), then a corporate allocation should not be imputed if the rent cost is not identified on the financial statements.

Donated equipment or labor

Donated equipment or labor represents a cost that the entity does not actually incur. Costs of donated equipment or donated labor, therefore, should not be imputed. For a site with donated labor, the hours for each donated employee should be recognized like any other employee, however no salary should be included (i.e., $0 in salary for donated employees).

Citing examples of How Costs are Imputed

An example of how to identify an owner's salary is presented below:

Owner's salary

Owner's salary is not imputed when it can be identified on the source of financial information. Where it is zero, no salary should be imputed. An owner's draw is not a business expense and is not compensation. The net income distributed to partners (partnership entity) and net income for a sole proprietorship is the owner's compensation.

Schedule

Estimated module time:	**1.2 Hours**	
Outline of Module	**Technique**	**Training Time** ***(including self study) (min.)***
1. Introduce module	Lecture	10
2. Read key topics and handouts	Reading	10
3. Do work assignment #1 – Impute costs	Work Assignment	20
4. Do work assignment #2 – Calculate owner's salary	Work Assignment	20
5. Review results and check answers	Self Review	10
	Totals	**70**

Readings and Handouts

1. Sample imputed costs

Handout 1

Sample Imputed Costs

Rent

1) Per the site manager, a recycler who is a subsidiary of a parent corporation does not report a rent cost for using land owned by the parent. An attempt was made to obtain actual costs from the parent company's corporate financial statements. From this effort, a rent expense of $24,000 per year was identified and documented, and the survey team determined this to be the rent cost.

Miscellaneous

2) No transportation charges are included on a recycler's expense sheet. These charges are an actual cost of the recycler that are paid to a third party. Based on discussion with the owner, we calculated the following costs that were not recorded:

   a) Glass shipping charge paid to a third party:

      Cost: $130 per load
      Each load averages 1,200 lbs. of CRV glass
      469,628 lbs of CRV glass was shipped at a cost of $50,876
      ($130/load x 469,628 lbs. – 1,200 lbs./load)

   b) Plastic shipping charge paid to a third party:

      Cost: $190 per load
      Each load averages 1,000 lbs. of CRV plastic
      31,274 lbs. of CRV plastic was shipped, at a cost of $5,942
      ($190/load x 31,274 lbs. = 1,000 lbs./load)

3) An actual cost of transportation incurred by a recycler is not identified on the financial statements. The recycler's cost accounting group performed an analysis that states that $55 per hour ($12.70 labor + $42.30 transportation costs) is the amount the company applies to its own cost budgets. Note that the labor component of the transportation cost was included on the source of wages, but not identified in the financial statements. As explained by John Griffin, Area Manager, each trip hauls 2,490 lbs of consolidated containers. Each trip totals 3.5 hours for a round trip. The calculation of this site's transportation costs are as follows:

Transportation Costs

Month	CRV Pounds
Jan	33,047
Feb	26372
Mar	28,966
Apr	32,691
May	35,459
Jun	40,475
Jul	40,718
Aug	41,565
Sept	33,920
Oct	36,694
Nov	28,740
Dec	24,433
Total	403,080

Calculation:

403,080 lbs./2,490 lbs./trip = 162 trips

162 trips x 3.5 hr./trip = 567 hrs.

Labor costs (a category 1 cost):

$12.70 per hour x 567 hours = $7,201

Transportation costs (a category 3 cost):

$42.30 per hour x 567 hours = $23,984

Salary

4) For a recycler that is part of a corporation, upper management costs (i.e., area business manager and staff expenses) are not reflected on the specific site's financial statements. The manager estimated 15% of total upper management costs are an actual cost of the site and should be allocated to the site. The survey team found the area business manager and staff expenses costs during the calendar year was $197,373. Fifteen percent to this cost is $29,606. The survey team considered the allocation reasonable based on our knowledge of number of sites, the size of this site, and that these managers actually spend time on site business.

Work Assignments

1. Impute costs
2. Calculate owner's salary

Work Assignment 1

Impute Costs

In the following exercises, interviewers should use the information provided to determine whether to impute an actual cost, and, if so, what the cost is. Provide sufficient documentation and appropriate calculations to support the imputed cost.

① B&D uses a blower from Golden Aluminum, and Golden Aluminum deducts $0.01 per pound from the scrap value it pays to B&D on all of the CRV aluminum B&D sells to Golden. Should you impute a rental expense for the blower assuming B&D sold 380,662.90 pounds of CRV aluminum to Golden Aluminum? Why or why not? Show calculations and amount, if any.

② Payroll information for Turkoglu Recycler did not include wages nor hours for several employees. Should you impute hours and wages? Use the following information:

- According to Mary Harris, Office Manager, Jeff worked 10 hours per week all last year at the recycling center and is paid an hourly rate of $10 per hr.
- According to Mary Harris, Office Manager, Mike worked 25 hours/wk all last year at an hourly rate of $10 per hour.
- Mary Harris states that she earned $460 per week spending 10 hours each week all last year working on the accounting portion of the business.
- According to Mary Harris, Office Manager, both Dennis and a revolving employee, each worked 5 hours on Saturdays at a rate of $10 per hr.
- According to Jimmy Jackson, the owner, he spent roughly 1.5 hours per day, five days per week, working with the RC, after basketball practice. Because he is not paid a salary, Mary estimated an hourly rate of $15 per hour would be reasonable considering wages paid to his workers and the level of work for the wages.

③ Recycler A has one glass crusher and five aluminum bins that are provided by a Parent Company at no charge. They appear to be only one year old. Upon inquiry with site management, none of the equipment shows up in the depreciation schedule, nor as a rent expense on the income statement for Recycler A. Describe the steps you might take to determine whether or not to impute a cost for this equipment. If costs should be imputed, describe the steps you might take to do so.

④ Should you impute or not impute a transportation cost for CRV Plastic at Cycler Recycling Co.? Why or why not? If yes, use the information below:

Loads per year:	6
Pounds per load:	4,000
Miles per trip (one-way):	42
Total cost per mile:*	$1.50

* Includes cost for truck, laborer, and insurance on the truck
Note: one load is taken per trip.

Work Assignment 2

Calculate Owner's Salary

Problem 1

The owners of a recycler did not take a salary during the year; however they retained the business' net income at year end. Estimate wages earned by Ruy Lopez and her husband, Melvin, who drives the truck, based on the following information:

- As explained by Ruy, the only money pulled out of the company is the income of $83,620 remaining at year end after expenses. None of this income is retained in the business, but instead represents the combined owner's salary.

Should we allocate this income between both Ruy and Melvin? If so, should we use hours worked and allocate the year-end income as a percentage of hours worked? In our discussion with Ruy, we were informed that Melvin worked 1,710 hours, whereas Ruy worked 2,090 hours that year. Show calculations if we allocate.

Problem 2

All Metal Recycling is a very small operation, in its first year of business. The operation is family run. James and Elaine Martin (Owners) received a combined draw of $25,000 in 2010, with each working 2,080 hours. The only other two employees were James Martin Jr. and Martin Martin, who are relatives. They only worked part-time and received wages "under the table." Therefore, no labor cost was reported in the financial statements, and there were no payroll registers or W-2's. You determined that the combined owners draw is representative of the true labor cost of the owners. In what way do you account for the Martins, if any?

Module 11
Obtaining Employee Wages and Hours

Objectives:

- Instruct how to obtain total annual wages and hours for each site employee for the year reviewed

Key Topics:

- Using the correct 12-month period when identifying wages and hours
- Using a valid source for labor wages and hours (e.g., W-2 form, DE-6, DE-3, payroll register, time sheets)
- Using Medicare wages for each employee
- Determining total hours for each employee (regular and overtime)
- Determining wages and hours

Curriculum Materials:

Reading List/Handouts:

1. Sample W-2 forms
2. Sample DE-6 and DE-3 forms
3. *Payroll Records and Procedures* (copy of a textbook article)
4. Sample payroll register (Payroll Plus® Payroll Journal)
5. Sample automated cost survey **Labor Input Sheet**

Work Assignments:

1. Use the automated cost survey model to enter wages and hours of each employee
2. Annualize partial year wage and hour data
3. Combine two fiscal years to calculate calendar year wages and hours
4. Determine wages and hours
5. Determine wages and hours from W-2s, DE-3s, and DE-6s
6. Interpret a payroll register

Key Topics

Using the Correct 12-Month Calendar Year when Identifying Wages and Hours

The survey team must identify annual Medicare wages and number of hours paid to each of a site's employees. Every effort should be made by the survey team to obtain employee wages and hours for the relevant 12-month calendar year. Any other fiscal year wage and hour data may not necessarily reflect calendar year results due to a recycler's change in staffing, wage rates, operations and processes, and economic conditions. For example, a recycler's fiscal year wage and hour information ending June 30, 2010, would likely misrepresent 12-month 2010 calendar year results if the recycler hired ten new employees and added a materials recovery facility on September 1, 2010.

To obtain employee wages and hours, the survey team should ask site management to provide 12-month calendar year wages and hours for each employee who worked for the business during the year[1]. A site may maintain accounting records that include employee wages (e.g., W-2 forms) and hours (e.g., payroll register). If such records exist, the survey team should ask to copy employee wages and hours from them. Physical copies of accounting records are not required; however, the survey team should note in the *Site Memorandum* (Module 6) the sources of wages and hours.

In cases where wage and hour data are unavailable for an entire calendar year, but are available for part of that year, it may be necessary to annualize partial year wages or hours, if they were actually paid. The survey team first must confirm with site management that partial year wage or hour data reflects patterns consistent for the entire calendar year. Only then can annualized data be used. To annualize, the survey team should multiply partial year wage or hour data by the ratio of weeks in a year (52) divided by the weeks of available data. For example, a full-time, full-year employee with wages of $7,000 in 43 weeks would have wages of $8,465 in 52 weeks ($7,000 x (52 ÷ 43)).

Frequently, 12-month calendar year wages do not equal a site's labor costs shown in their financial statements (e.g., if fiscal year or partial year financial statements are used). Any difference in wages obtained from site management and labor costs listed in the financial statements are treated in the labor reconciliation (Module 13), and **must be resolved.**

Using a Valid Source for Labor Wages and Hours

The survey team should attempt to review accounting records that will provide accurate calendar year employee wages and hours. Several sources of labor wages and hours are described below:

W-2 Forms – A Federal wage and tax statement called a "W-2 form" may be used to obtain calendar year Medicare wages for an employee. Sample 2010 W-2 forms are included as handouts in this module. Although the orientation of information on a company's W-2 form varies (i.e., where the boxes are positioned), every company provides the same information (i.e., boxes lettered a through f, and numbered 1 to 20 on the sample 2010 form). Referring to the handout, in 2010 Medicare wages always are located in a box 5. In subsequent years, Medicare wages might be located in a different box.

[1] It is important to collect wages and hours for all employees paid by the business, regardless of whether the employee specifically worked for the selected recycler or processor (e.g., include employees on the payroll who worked for a related business).

DE-6 and DE-3 Forms – One primary form submitted by companies to the State of California Employment Development Department (EDD) contain employee wages. A second, for household workers, might be submitted by a recycler. Both are provided as handouts to this module and include the Quarterly Wage and Withholding Report, or DE-6 form, and the Quarterly Report of Wage and Withholding for Household Workers, or DE-3BHW form.

The DE-6 form must be submitted quarterly by employers to the EDD. In this form, employers report quarterly payments for unemployment and disability insurance contributions, withheld personal income taxes, and wage reporting for benefit and tax purposes. In the sample 2010 form, employee wages are listed in box G of form DE-6. This form provides space for up to seven employees.

A separate DE-3BHW form includes space for employee wage information of up to four employees. Quarterly employee wages paid are listed in box E of form DE-3BHW.

Payroll Register – At the end of each pay period, most businesses prepare a payroll showing each employee's hours and earnings. This information is entered into a payroll register or journal (see handout). Types of payroll records and procedures used by companies vary, depending upon degree of automation and business size.

Most payroll registers will include the rate of pay, number of hours worked (separated by regular and overtime hours), and total wages for each employee. A common type of register is an automated payroll register, provided by ADP (Automated Data Processing) Services, Inc.

Time cards – Employee time cards are a source to use for obtaining employee wages and hours. The survey team should total for each employee his/her wages and hours from all time cards. The survey team should prepare workpapers that document wages and hours obtained from time cards.

Site management should provide the survey team accounting records for wages and hours. Further, sources of wages and hours will vary between sites. For example, one site's controller might provide W-2 forms for wages and a payroll register for hours. Another site's controller might keep an internally prepared journal that identifies both wages and hours.

Independent contractors of the business are not included in any of the above sources. Businesses often treat independent contractors as an expense in the income statement (e.g., contractor expense). For sites with many temporary employees, it may be necessary to obtain wage and hour data directly from the temporary agency.

Employees paid cash are not recognized in the above sources. Similarly, owner's draws (where a business owner makes withdrawals of cash from a company for personal use) from a company will not be reflected in these accounting records. The survey team should obtain all wages and hours of employees not explicitly included in a site's records. For example, owner's draws often are listed as an owner's equity line item in the balance sheet.

Using Medicare Wages for Each Employee

Medicare wages are used in cost surveys because they are total paid wages, and they include all of an employee's non-taxable contributions (e.g., 401(k) plan, or the United Way fund). Other wages, such as those used for purposes of calculating federal and state tax, or social security tax, do not reflect these non-taxable contributions, and, therefore, are less than actual wages.

As an example, boxes #1 and #16 of the 2010 W-2 form reflect wages used to compute federal and state tax respectively, while box #3 includes wages used to calculate social security tax. Each of these three wage figures may reflect a reduction by some non-taxable contributions. Alternatively, box #5 reflects Medicare wages, that will not have non-taxable contributions removed.

Determining Total Hours for Each Employee (Regular and Overtime)

Total paid hours for each employee must include both regular time and overtime. There are 2,080 regular hours in one year (52 weeks per year x 40 hours per week). Additional hours are considered overtime hours. For example, an employee paid $25,000 for 2,550 hours, worked 470 overtime hours and 2,080 regular hours.

Determining Hours and Wages

Site management may not always provide accounting records that include employee wages or hours. In these situations, the survey team must determine wages or hours from other available information.

If either an employee's wages or hours are unknown, each may be derived by using the hourly rate of the employee. For example, if Employee A's hours are unknown, the survey team might divide A's $15,000 gross wages by his $7.50 per hour pay rate, resulting in an annual hours of 2,000 hours (with no overtime). Similarly, Employee B's unknown wages may be computed by multiplying her 1,650 hours by her $10.00 per hour rate to obtain wages of $16,500.

When an employee has worked overtime, it is still possible to determine either hours or wages knowing a regular time hourly rate and an overtime hourly rate. As an example of imputing hours, assume an employee has a regular hourly rate of $5.00 and an overtime rate of $7.50. If his gross wages are $13,000 and he worked full time during the year (2,080 hours), then his total hours are equal to 2,427 (2,080 + [($13,000 - ($5.00 x 2,080)) _ $7.50]).

Schedule

Estimated module time:	**3 Hours**	
Outline of Module	**Technique**	**Training Time *(including self study) (min.)***
1. Review module objectives and procedures for obtaining employee wages and hours	Lecture	10
2. Read key topics and handouts	Reading	20
3. Do work assignment #1 – Use automated cost survey model to enter wages and hours of each employee	Work Assignment	10
4. Do work assignment #2 – Annualize partial year wage and labor data	Work Assignment	10
5. Do work assignment #3 – Combine two fiscal years to calculate calendar year wages and hours	Work Assignment	10
6. Do work assignment #4 – Determine wages and hours	Work Assignment	20
7. Do work assignment #5 – Determine wages and hours from W-2s, DE-3s, and DE-6s	Work Assignment	100
8. Do work assignment #6 – Interpret a payroll register	Work Assignment	10
	Totals	**180**

Readings and Handouts

1. Sample W-2 forms
2. Sample DE -3 forms:
   - Form DE-6
   - Form DE-3BHW
3. *Payroll Records and Procedures* (copy of a textbook article)
4. Sample payroll register (Payroll Plus® Payroll Journal)
5. Sample automated cost survey **Labor Input Sheet**

Sample W-2 Forms

Withholding

If an employee received wages during a calendar year, the employee should receive a statement by January 31 of the following year, showing their income and the tax withheld, if any. Depending on the source of the employee's income, the employee will receive:

Form W-2, Wage and Tax Statement
Form W-2G, Certain Gambling Winnings, or a form in the 1099 series.

Forms W-2 and W-2G. The employee files these forms with their income tax return. The employee should get at least two copies of each form. Copy B is attached to the front of an employee's federal income tax return. Copy C is for retained for an employee's records. The employer retains Copy D.

Example

Ted Taxpayer is employed by ABC Company, Inc. His W-2, box 2, reflects that he had $10,675.50 in federal tax withheld by ABC Company on wages of $46,958. His state income tax of $2,817.48 withheld for the state of California is reflected in box 17 on the same amount of wages. Box 12 indicates (Code D – Code definitions can be found on the back of the W-2 form) that Ted contributed $2,546.21 to his company's 401 (k) plan. That amount of income was not included in the federal or state wages, but it is included in determining how much was withheld from Ted's income for social security and Medicare purposes. Refer to boxes 3 and 5. The Social Security tax withheld is in box 4, and the Medicare tax withheld is in box 6. Box 14 shows any other deductions that were made from Ted's income and that he contributed $325.61 to the United Way. The pension plan box is checked in box 13 and lets Ted (and the IRS) know that he is covered by a pension plan and, therefore, may be limited in his ability to make deductible IRA contributions.

a Control number 012345	OMB No. 1545-0008	Safe, accurate, FAST! Use e-file	Visit the IRS Web Site at www.irs.gov.
b Employer identification number 58-2345-790	1 Wages, tips, other compensation 46,958.00	2 Federal income tax withheld 10,675.50	
c Employer's name, address, and ZIP code ABC Company, Inc. 1400 Main Street Anytown, GA 91221	3 Social security wages 49,504.21	4 Social security tax withheld 2,911.40	
	5 Medicare wages and tips 49,504.21	6 Medicare tax withheld 717.81	
	7 Social security tips	8 Allocated tips	
d Employee's social security number 357-34-5454	9 Advance EIC payment	10 Dependent care benefits	
e Employee's first name and initial Last name Ted Taxpayer 237 East Street Anytown, GA 90210	11 Nonqualified plans	12a See instructions for box 12 D 2,546.21	
	13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐	12b	
	14 Other UN Way 325.61	12c	
f Employee's address and ZIP code		12d	

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
GA	235749-Q	46,958.00	2,817.48			

Form **W-2** Wage and Tax Statement **2010** Department of the Treasury- Internal Revenue Service

Copy B To Be Filed with Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

Sample 2010 W-2 Form

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number		1 Wages, tips, other compensation	2 Federal income tax withheld
c Employer's name, address, and ZIP code		3 Social security wages	4 Social security tax withheld
		5 Medicare wages and tips	6 Medicare tax withheld
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial	Last name	11 Nonqualified plans	12a See instructions for box 12 Code
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b Code
		14 Other	12c Code
			12d Code
f Employee's address and ZIP code			

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** **2010**

Copy D For Employer.

Department of the Treasury- Internal Revenue Service

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Box #5 – Medicare wages and tips

Employment Development Department
State of California

QUARTERLY WAGE AND WITHHOLDING REPORT

PLEASE TYPE THIS FORM PER INSTRUCTIONS ON REVERSE
You must FILE this report even if you had no payroll. If you had no payroll, complete Items C or D and P.

Page number _____ of _____

00060198

YR QTR

QUARTER ENDED

DUE

DELINQUENT IF NOT POSTMARKED OR RECEIVED BY

EMPLOYER ACCOUNT NO.

DO NOT ALTER THIS AREA

P1 C T S W A

EFFECTIVE DATE
Mo. Day Yr.

WIC

A. **EMPLOYEES** full time and part time who worked during or received pay for the payroll period **which includes the 12th** of the month.

1st Mo. 2nd Mo. 3rd Mo.

B. ☐ Check this box if you are reporting ONLY Voluntary Plan DI wages on this page. Report PIT Wages and PIT Withheld, if appropriate. (See instructions for Item B.)

C. ☐ NO PAYROLL

D. ☐ OUT OF BUSINESS/FINAL REPORT

E. SOCIAL SECURITY NUMBER F. EMPLOYEE NAME (FIRST NAME) (M.I.) (LAST NAME)
G. TOTAL SUBJECT WAGES H. PIT WAGES I. PIT WITHHELD

E. SOCIAL SECURITY NUMBER F. EMPLOYEE NAME (FIRST NAME) (M.I.) (LAST NAME)
G. TOTAL SUBJECT WAGES H. PIT WAGES I. PIT WITHHELD

E. SOCIAL SECURITY NUMBER F. EMPLOYEE NAME (FIRST NAME) (M.I.) (LAST NAME)
G. TOTAL SUBJECT WAGES H. PIT WAGES I. PIT WITHHELD

E. SOCIAL SECURITY NUMBER F. EMPLOYEE NAME (FIRST NAME) (M.I.) (LAST NAME)
G. TOTAL SUBJECT WAGES H. PIT WAGES I. PIT WITHHELD

E. SOCIAL SECURITY NUMBER F. EMPLOYEE NAME (FIRST NAME) (M.I.) (LAST NAME)
G. TOTAL SUBJECT WAGES H. PIT WAGES I. PIT WITHHELD

E. SOCIAL SECURITY NUMBER F. EMPLOYEE NAME (FIRST NAME) (M.I.) (LAST NAME)
G. TOTAL SUBJECT WAGES H. PIT WAGES I. PIT WITHHELD

E. SOCIAL SECURITY NUMBER F. EMPLOYEE NAME (FIRST NAME) (M.I.) (LAST NAME)
G. TOTAL SUBJECT WAGES H. PIT WAGES I. PIT WITHHELD

J. TOTAL SUBJECT WAGES THIS PAGE 0.00 K. TOTAL PIT WAGES THIS PAGE 0.00 L. TOTAL PIT WITHHELD THIS PAGE 0.00

M. GRAND TOTAL SUBJECT WAGES N. GRAND TOTAL PIT WAGES O. GRAND TOTAL PIT WITHHELD

P. I declare that the information herein is true and correct to the best of my knowledge and belief.

Preparer's Signature _____ Title _____ (Owner, Accountant, Preparer, etc.) Phone ( ) _____ Date _____

DE 6 Rev. 3 (1-98) **(INTERNET)** MAIL TO: State of California / Employment Development Department / P.O. Box 826288 / Sacramento, CA 94230-6288

QUARTERLY REPORT OF WAGES AND WITHHOLDINGS FOR EMPLOYERS OF HOUSEHOLD WORKERS

Employment Development Department
State of California

APPROVED EXTENSION TO: _____

Instructions for completion are available on page 2.

PLEASE TYPE ALL INFORMATION

QUARTER ENDED _____ DUE _____ DELINQUENT IF NOT POSTMARKED OR RECEIVED BY _____

YR QTR

EMPLOYER ACCOUNT NUMBER

DEPT. USE ONLY	DO NOT ALTER THIS AREA
	P1 ☐ C ☐ T ☐ S ☐ W ☐ A ☐
	EFFECTIVE DATE Mo. Day Yr. ☐ ☐ ☐ WIC ☐ ☐

A. **NUMBER OF EMPLOYEES** full-time and part-time who worked during or received pay subject to UI for payroll period **which includes the 12th** of the month.

1ST MONTH	2ND MONTH	3RD MONTH

B. ☐ No Payroll This Quarter

C. SOCIAL SECURITY NUMBER	D. EMPLOYEE NAME (FIRST, MIDDLE INITIAL, LAST)		
	E. TOTAL SUBJECT WAGES	F. PIT WAGES	G. PIT WITHHELD
C. SOCIAL SECURITY NUMBER	D. EMPLOYEE NAME (FIRST, MIDDLE INITIAL, LAST)		
	E. TOTAL SUBJECT WAGES	F. PIT WAGES	G. PIT WITHHELD
C. SOCIAL SECURITY NUMBER	D. EMPLOYEE NAME (FIRST, MIDDLE INITIAL, LAST)		
	E. TOTAL SUBJECT WAGES	F. PIT WAGES	G. PIT WITHHELD
C. SOCIAL SECURITY NUMBER	D. EMPLOYEE NAME (FIRST, MIDDLE INITIAL, LAST)		
	E. TOTAL SUBJECT WAGES	F. PIT WAGES	G. PIT WITHHELD

H. GRAND TOTAL SUBJECT WAGES	I. GRAND TOTAL PIT WAGES	J. GRAND TOTAL PIT WITHHELD

K. *I declare that the information herein is true and correct to the best of my knowledge and belief.*

Signature _____ Title _____ Phone (____)_____Date _____
(Employer, Accountant, Preparer, etc.)

You have received this Report of Wages and Withholdings for Employers of Household Workers, DE 3BHW, in lieu of the Quarterly Wage and Withholding Report, DE 6, because you have elected to pay taxes for your Household Workers on an annual basis. This form will be mailed to you quarterly and an Annual Payroll Tax Return For Employer Of Household Workers, DE 3HW, will be mailed to you in the fourth quarter. This annual process is only available to employers who pay $20,000 or less in household wages during the calendar year. If your wage estimate is understated and you do pay more than $20,000 in wages in the calendar year, please follow the instructions on the back of this form under the "QUESTION" topic.

You must file this report even if you had no payroll by marking Item B, and indicating "0" in each of the three boxes in Item A, and in the Grand Total Boxes, Items H, I, and J.

MAIL TO: State of California / Employment Development Department / P.O. Box 826221 / MIC 28B / Sacramento, CA 94230-6221

Payroll records and procedures

Although payroll records and procedures vary greatly according to the number of employees and the extent of automation in processing payroll data, there are a few fundamental steps common to payroll work in most organizations. One of these steps taken at the end of each pay period is the preparation of a payroll showing the names and earnings of all employees. The information entered in this payroll record (sometimes called a payroll register) will include the authorized rate of pay for each employee and the number of hours worked, taken from time cards or similar documents. After separating the regular hours from overtime hours and applying appropriate pay rates for each category, the total taxable earnings are determined. Federal income tax, FICA tax, state income tax if any, and any items authorized by the employee are then deducted to arrive at the net amount payable. When the computation of the payroll record has been completed, the next step is to reflect the expense and the related liabilities in the ledger accounts. A general journal entry such as shown below may be made to bring into the accounts the information summarized in the payroll register. (This entry does not include payroll taxes on the employer.)

Journal entry to record payroll

Sales Salaries Expense	*4,800*	
Office Salaries Expense	*3,200*	
FICA Tax Payable(6% of 56,000)		*480*
Liability for Income Tar Withheld		*1,280*
Liability for Group Insurance Withheld		*150*
Accrued Payroll		*6,090*
To record the payroll for the Period Jan. 1-Jan. 15.		

The two debits to expense accounts indicate that the business has incurred salaries expense of $8,000; however, only $6.090 of this amount will be paid to the employees on payday. The payment will be recorded by a debit to Accrued Payroll and a credit to (ash. The remaining $1,910 (consisting of deductions for taxes and insurance premiums withheld) is lodged in liability accounts. Payment of these liabilities will be made at various later dates.

Payment of employees The preceding section illustrated the recording of the payroll and showed the mum of $6,090 in a current liability account entitled Accrued Payroll. The procedures for the actual payment to employees to discharge this liability will depend upon whether the company pays salaries by checks on the regular bank account, by checks drawn on a special bank account, or in cash. These payment procedures also depend on whether a voucher system is in use.

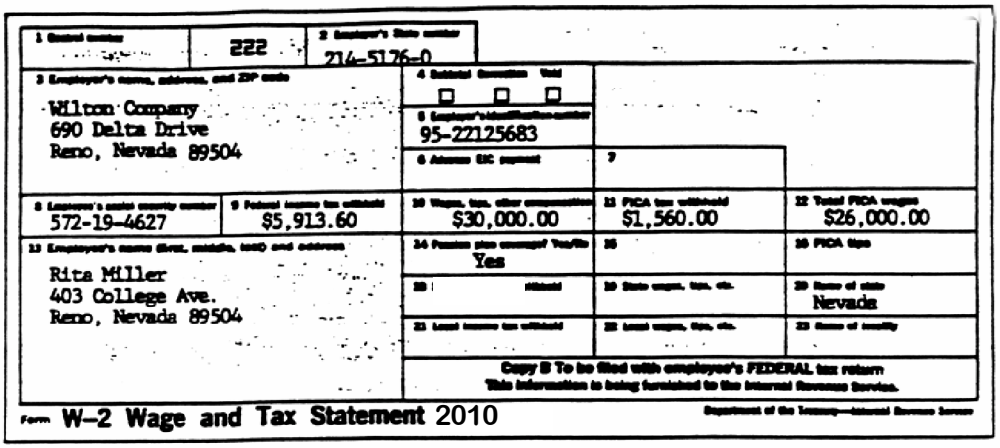
Many companies find it convenient to establish a separate payroll bank account. At the close of each pay period, a check is drawn on the general bank account for the entire amount of the payroll and deposited in the payroll bank account. Paychecks to individual employees are then drawn on the payroll bank account, which is immediately reduced to zero. If the voucher system is in use, a voucher for the payroll would be prepared and recorded in the voucher register as a debit to Payroll Bank Account and a credit to Vouchers Payable in the amount of $6,090.[1] The transfer of the funds would then be carried out by issuing a check on the general bank account and recording the disbursement in the check register by a debit to Vouchers Payable and a credit to Cash.

Payment of employees in cash Payment of salaries in cash affords less internal control than the use of checks, but is preferred by a few companies in locations where banks or other check-cashing facilities are not readily available. The recording procedures do not differ significantly from those previously described; a voucher is prepared for the amount of the payroll, and a single check drawn and cashed to obtain the cash to

[1] No vouchers need be prepared at this time for the $1.910 of liabilities resulting from deductions. Vouchers w01 be prepared prior to the time for payment of these liabilities.

fill the individual pay envelopes. As previously mentioned, a statement of earnings and deductions is usually furnished to the employee each payday. When payment is made by check, this information is printed on a stub attached to the paycheck. When wages are paid in cash, the information may be printed on the pay envelope.

Wage and tax statement By January 31 each year, employers are required to furnish every employee with a Wage and Tax Statement (Form W-2), illustrated on page 500. This form shows gross earnings for the preceding calendar year and the amounts withheld for FICA tax and income taxes. The employer sends one copy of this form to the Director of Internal Revenue and gives three copies to the employee. When the employee files a federal income tax return, he or she must attach a copy of the withholding statement. A copy also must be attached to the state income tax return. (Since our discussion does not include state income razes, none is shown on the illustrated Form W-2.)


222
214-5176-0
Wilton Company
690 Delta Drive
Reno, Nevada 89504
95-22125683
572-19-4627
$5,913.60
$30,000.00
$1,560.00
$26,000.00
Yes
Rita Miller
403 College Ave.
Reno, Nevada 89504
Nevada
Copy B To be filed with employee's FEDERAL tax return
Form W-2 Wage and Tax Statement 2010

Employer's quarterly federal tax return A business must use the calendar year in accounting for payroll fazes even though it uses a fiscal year for its financial statements and its income tax return. Four times a year, the employer is required to report to the government the amounts withheld from employees' pay for federal income fazes and FICA fazes. The FICA tar on the employer (see page 502) is also shown on the same report form. A copy of this widely user report, known as Form 941, is illustrated on page 501. It shows the total wages paid, the wages subject to FICA fazes, the amount of FICA tares, and the amount of federal income taxes withheld. The report must be filed during the month following the close of each quarter.

Payment of payroll taxes If the amounts withheld from employees plus the payroll razes on the employer are significant in amount, they must be deposited at weekly or monthly intervals. Only a very small business with less than $200 of taxes involved may wait until the end of the quarter to make payment. The key point of the schedule for deposits is that the government insists on current payment from the employer of all payroll fazes and income fazes withheld.

Individual earnings records for employees At the end of each payroll period, it is essential to have available the cumulative amount of each employee's earnings for the year to date. Otherwise, the employer would not know whether FICA tares should be withheld from the employee's earnings during the current week or month. An individual Employee Earnings Record is illustrated on page 502. The payroll data to update this individual record are taken at the end of each pay period from a line in the payroll register.

Handout 4

Payroll Plus®
Payroll Journal

COMPANY NAME	PAY NO.	PERIOD ENDING	PAY DATE		FLTR	BATCH	TRACK	CO. CODE	PAGE
[redacted]	13	06-25-06	06-29-06	06-06	R451 G	712	451	L518	1

EMPLOYEE IDENTIFICATION	HOURS REGULAR	HOURS OVERTIME	HOURS CODE	HOURS OTHER	EARNINGS REGULAR	EARNINGS OVERTIME	EARNINGS CODE	EARNINGS OTHER	GROSS	DEDUCTIONS FEDERAL / FICA	DEDUCTIONS STATE / LOCAL	DEDUCTIONS CODE / CORP / SEL ED	DEDUCTIONS CODE	DEDUCTIONS OTHER	DEDUCTIONS CODE	DEDUCTIONS OTHER	NET PAY	CHECK NUMBER / FLAG	X
NAME [redacted] FILE 441 A2 0 1 1	7200		VC	800	103824		VC	11538	117538	11391	3095	05	DR	2175	VA	308	32754	874853	
DEPARTMENT 00000000 ID 1 RATE/SALARY 14.42000023200003							DS	2175		8992			05D	1528	P1	2500		321175261	
													AS	100	G1	20000	572116	5610	
													P2	20000	DE	15000		DDPT31	
NAME OVERFLOW LINE FILE 441													SA	370	SI	14552			
DEPARTMENT ID RATE/SALARY																			
NAME [redacted] FILE 457 A1 1 1 1	6600				58806				58806	5922	708	05	05D	765	AS	100	39828	874854	
DEPARTMENT 53071000 ID 1 RATE/SALARY 8.91000041665000										4498			XN	6987	SI	8527			
NAME [redacted] FILE 217 A2 6 1 3	8000				178960		RT	768	179728	14816	3453	05	05D	2336	VA	615	145375	874855	
DEPARTMENT 00000000 ID 1 RATE/SALARY 22.37000023200003										13749					SA	370	121000358	0835904240	
															SI	12608		DDPT31	
NAME [redacted] FILE 315 A2 1 1 1	7800		SK	200	132368		SK	3394	135760	15287	2754	05	05D	1764	AS	100	105469	874856	
DEPARTMENT 80011000 ID 1 RATE/SALARY 16.97000010738100										10386			SI	19685					
													VA	462	SA	370			
NAME [redacted] JAMES W. FILE 467 A2 0 1 3	6500		SK	400	380850		SK	24040	480800	119800	42030	05	AS	100	VA	615	282089	874857	
DEPARTMENT 00000000 ID 1 RATE/SALARY 80.10000023200003			VC	300			VC	18030											
			FL	800			FL	48080		36781			SA	370					
NAME [redacted] FILE 446 A1 1 1 3	7200		SK	800	225000		SK	25000	250000	55237	16377	05	05D	1894	AS	100	157467	874858	
DEPARTMENT 00000000 ID 1 RATE/SALARY 31.25000023200003													SI	38250					
										19128			VA	308	SA	370			
NAME [redacted] FILE 152 A2 0 1 3	7200		FL	800	330696		FL	36744	371142	81745	24404	05	SA	370			208770	874859	
DEPARTMENT 00000000 ID 1 RATE/SALARY 45.93000023200003													SI	49577	DE	25528		121000358	
							DS	3702		28393			DR	3702	VA	615	0835905711		
													UW	500	AS	100		DDPT31	
NAME [redacted] R. FILE 376 A2 0 1 3	8000				295840		DS	3999	299799	52678	12580	05	SI	38938			180237	874860	
DEPARTMENT 00000000 ID 1 RATE/SALARY 36.98000023200003													VA	462	DE	27300		321175261	
										22938			AS	100	SA	370	5585278140		
															DR	3898		DDPT31	
NAME [redacted] FILE 325 A2 4 1 1	8400		SK	800	249024		SK	31128	314978	44851	12340	05	SI	41438	DE	25500	204383	874861	
DEPARTMENT 00000000 ID 1 RATE/SALARY 38.91000023200003							DS	3898					VA	462	SA	370		121000248	
			VC	800			VC	31128		24096			AS	100	DR	3898	0390857197		
																		DDPT31	
NAME [redacted] L. FILE 256 A2 0 1 3	6700		SK	1300	139025		SK	26975	207724	32733	8774	05	VA	615	SA	370	107037	874862	
DEPARTMENT 00000000 ID 1 RATE/SALARY 20.75000023200003							DS	3988					05D	2701	P1	4000		121122676	
							RT	37736					AS	100	DR	3988	8960804212		
										15891			P2	5000	DE	27500		DDPT31	
NAME OVERFLOW LINE FILE 258													SI	25554					
DEPARTMENT ID RATE/SALARY																			
NAME [redacted] BIE S. FILE 430 A2 0 1 1	7000	100	SK	1000	107940	2313	SK	15420	126393	14437	2397	05	DR	725	VA	308	54828	874863	
DEPARTMENT 00000000 ID 1 RATE/SALARY 15.42000023200003													05D	1643	P1	10000		121000248	
							DS	725		9670			AS	100	G1	27500	028021	5542	
													DE	5000	UW	100		DDPT31	
NAME OVERFLOW LINE FILE 430													SA	370	SI	17498			
DEPARTMENT ID RATE/SALARY																			
NAME [redacted] FILE 468 A2 7 1 1	8000				154880				154880	9674	7039	05	05D	2013	VA	308	124206	874864	
DEPARTMENT 30001001 ID 1 RATE/SALARY 19.36000092000000										11848			SA	370	AS	100			
NAME [redacted] FILE 438 A2 0 1 1	8000				94080				94080	11449	2718	05	05D	1223	AS	100	71393	874865	
DEPARTMENT 30021001 ID 1 RATE/SALARY 11.76000092010000										7197			SI	13642					
NAME [redacted] L. FILE 239 A2 1 1 3	6100		SK	1000	150609		SK	24690	197520	28054	6344	05	SI	28840	G1	35000	113011	874866	
DEPARTMENT 00000000 ID 1 RATE/SALARY 24.69000023200003																		121000578	
			FL	900			FL	22221		15111			VA	615	SA	370	824000862		
													SA	370				DDPT31	
NAME [redacted] FILE 455 A2 4 1 3	4000		VC	4000	128560		VC	128560	260822	29678	7592	05	SI	33581	DE	25528	173989	874867	
DEPARTMENT 00000000 ID 1 RATE/SALARY 32.14000023200003													DR	3702	VA	308		321175261	
							DS	3702		18953			UW	300	AS	100	0285647011		
																		DDPT31	
NAME [redacted] ALD B. FILE 455 A2 4 1 3			SB	185													91830	874868	
			VC	4198			VC	139625	143327	7797	780	05	DE	25528	UW	300		321175261	
			VB	154															
DEPARTMENT 00000000 ID 1 RATE/SALARY 32.28000023200003																			

Handout 5

Sample Automated Cost Survey
Labor Input Sheet

	Total	$417,034	37,135							
Rec. #	**Name**	**Gross Wages**	**Hours Worked**	**Wages/Hr**	**Position**	**% Site Time**	**% Recycler**	**% Processor**	**% Other Business**	**% Unallocated**
1	Roders	$48,000	2,080	$23.08		100	100	0	0	0
2	Di Puccio	$29,200	2,080	$14.04		100	100	0	0	0
3	Froehlich	$21,000	2,080	$10.10		100	100	0	0	0
4	Lopez	$13,680	2,080	$6.58		100	100	0	0	0
5	Skinner	$13,000	2,080	$6.25		100	100	0	0	0
6	James	$26,545	2,480	$10.70		100	100	0	0	0
7	Leal	$9,675	915	$10.57		100	100	0	0	0
8	Morrow	$14,438	1,357	$10.64		100	100	0	0	0
9	Robancho	$24,328	2,367	$10.28		100	100	0	0	0
10	Vasquez	$21,501	2,138	$10.06		100	100	0	0	0
11	Whiteside	$14,079	1,367	$10.30		100	100	0	0	0
12	Amezqua	$24,752	2,335	$10.60		100	100	0	0	0
13	Daley	$435	40	$10.88		100	100	0	0	0
14	Englend	$18,761	2,008	$9.34		100	100	0	0	0
15	Flares	$27,921	2,559	$10.91		100	100	0	0	0
16	Garcia	$23,385	2,243	$10.43		100	100	0	0	0
17	Guzman	$23,739	2,413	$9.84		100	100	0	0	0
18	Jacobson	$4,114	389	$10.58		100	100	0	0	0
19	Damaso	$2,526	193	$13.09		100	100	0	0	0
20	Gore	$25,492	1,825	$13.97		100	100	0	0	0
21	Rangel	$297	26	$11.42		100	100	0	0	0
22	Stachur	$30,166	2,080	$14.50		100	100	0	0	0

Work Assignments

1. Use the automated cost survey model to enter wages and hours of each employee
   - Recycle Efficient Corporation
2. Annualize partial year wage and hour data
   - Bimetals Recycling Company
3. Combine two fiscal years to calculate calendar year wages and hours
   - Plastix Recyclers
4. Determine wages and hours
5. Determine wages and hours from W-2s, DE-3s, and DE-6s
6. Interpret a payroll register

Work Assignment 1
Page 1 of 4

Use the Automated Cost Survey Model to Enter Wages and Hours of Each Employee

For Recycle Efficient Corporation, determine total 2010 wages and hours for the five employees and then enter on the **Labor Input Sheet.** Use the W-2 forms included to obtain Medicare wages and the payroll register to obtain employee hours. Remember to include overtime hours in the total hours paid. Calculate total wages and hours for the site.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 1		1 Wages, tips, other compensation 6,996.75	2 Federal income tax withheld 999.21
c Employer's name, address, and ZIP code		3 Social security wages 7,284.00	4 Social security tax withheld 547.02
		5 Medicare wages and tips 7,284.00	6 Medicare tax withheld 0
		7 Social security tips	8 Allocated tips
d Employee's social security number 461-75-8191		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name Brian Brown		11 Nonqualified plans	12a See instructions for box 12 Code
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b Code
		14 Other	12c Code
			12d Code
f Employee's address and ZIP code			

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
CA		6,996.75	285.27			

Form **W-2** Wage and Tax Statement
Copy D For Employer.

2010

Department of the Treasury- Internal Revenue Service
For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 2		1 Wages, tips, other compensation 16,434.49	2 Federal income tax withheld 2,570.82
c Employer's name, address, and ZIP code		3 Social security wages 16,434.49	4 Social security tax withheld 1,257.26
		5 Medicare wages and tips 16,834.49	6 Medicare tax withheld 400.00
		7 Social security tips	8 Allocated tips
d Employee's social security number 810-53-6150		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name Chris Christopher		11 Nonqualified plans	12a See instructions for box 12 Code
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b Code
		14 Other	12c Code
			12d Code
f Employee's address and ZIP code			

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
CA		16,434.49	712.68			

Form **W-2** Wage and Tax Statement **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 3		1 Wages, tips, other compensation 3,476.25	2 Federal income tax withheld
c Employer's name, address, and ZIP code		3 Social security wages 3,476.25	4 Social security tax withheld 261.07
		5 Medicare wages and tips 3,726.25	6 Medicare tax withheld 250.00
		7 Social security tips	8 Allocated tips
d Employee's social security number 282-75-0710		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name Jane Doe		11 Nonqualified plans	12a See instructions for box 12 Code
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b Code
		14 Other	12c Code
			12d Code
f Employee's address and ZIP code			

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
CA		3,476.25	25.67			

Form **W-2** Wage and Tax Statement **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Work Assignment 1
Page 3 of 4

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 4		1 Wages, tips, other compensation 1,870.00	2 Federal income tax withheld 267.00
c Employer's name, address, and ZIP code		3 Social security wages 1,870.00	4 Social security tax withheld 140.43
		5 Medicare wages and tips 1,920.00	6 Medicare tax withheld 50.00
		7 Social security tips	8 Allocated tips
d Employee's social security number 410-41-4140		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name Bob Thomas		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
CA		1,870.00	65.10			

Form **W-2** Wage and Tax Statement **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer. For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 5		1 Wages, tips, other compensation 12,594.21	2 Federal income tax withheld 1,708.71
c Employer's name, address, and ZIP code		3 Social security wages 12,594.21	4 Social security tax withheld 997.87
		5 Medicare wages and tips 13,044.27	6 Medicare tax withheld 364.12
		7 Social security tips	8 Allocated tips
d Employee's social security number 464-64-4644		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name Stacy Rollins		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
CA		12,594.21	438.45			

Form **W-2** Wage and Tax Statement **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer. For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Work Assignment 1
Page 4 of 4

Payroll Register

COMPANY NAME	PAY NO	PERIOD ENDING	PAY DATE	BATCH	CO CODE	PAGE
Recycle Efficient Corporation	12	End	12/31/10	615	T57	1

EMPLOYEE IDENTIFICATION	HOURS				EARNINGS				GROSS	DEDUCTIONS						NET PAY	CHECK NUMBER
	Regular	Overtime	Code	Other	Regular	Overtime	Code	Other		FICA	State	Code	Other	Code	Other		
B. Brown	1,214				7,284				7,284								
C. Christopher	2,080	110			15,600	1,238			16,838								
J. Doe	621				3,726				3,726								
B. Thomas	320				1,920				1,920								
S. Rollins	2,080	194			11,440	1,600			13,040								

Work Assignment 2

Annualize Partial Year Wage and Hour Data

For Bimetals employees below, determine annualized 2010 wages and hours. Assume no overtime was worked. You do not need to enter your results on the **Labor Input Sheet.**

Bimetals Recycling Company

Employee Number	Payroll through 10/31/10	Weeks Worked
1	$6,733.80	43
2	10,142.00	43
3*	11,118.00	35
4**	11,467.00	39
5**	10,313.00	39
6***	760.00	4
7***	1,400.00	4

* This employee worked from 1/1/96 to 8/31/10.
** These employees began working on 2/1/10 and worked through 12/31/10.
*** These employees began working on 10/1/10 and worked through 12/31/10.

Work Assignment 3

Combine Two Fiscal Years to Calculate Calendar Year Wages and Hours

For Plastix Recyclers' employees below, combine the partial fiscal years wage and hour data to obtain calendar year 2010 wages and hours.

Plastix Recyclers (2009-10)

Employee	Fiscal Year Ending 8/31/10		Partial Year 9/1/09-12/31/09		Partial Year 9/1/10-12/31/10	
	Wages	Hours	Wages	Hours	Wages	Hours
#1	$36,187.00	2,080	$8,995.00	690	$9,050.00	690
#2	14,215.00	1,499	3,450.00	365	3,555.00	375
#3	17,410.00	1,776	4,400.00	453	4,350.00	440
#4	8,756.00	1,225	2175.00	297	2,190.00	306
#5	12,000.00	2,080	2,950.00	690	3,000.00	690
#6	14,414.00	2,080	3,575.00	690	3,600.00	690
#7	9,050.00	1,245	2,215.00	315	2,260.00	320

Work Assignment 4

Determine Wages and Hours

For the following two sites, determine all employees' wages and hours from the information provided. Document any calculations and provide a total of wages and hours for each site.

1. Small Sized Recycling employs four workers. According to the manager, Employee 1 is a yard laborer and works an average of a 40 hour/week plus an average of 4 hours overtime per week. The manager also indicated Employee 1 is paid $8.07 per hour and time and one-half for overtime. Employee 2 is an area manager who is paid $2,500 per month for a full year without any overtime. Employee 3 is a truck driver who is paid $12.70 per hour for 10 hours per week to track CRV materials to a processor. Employee 4 is a yard laborer. Total wages paid at the site are $61,656, and total hours worked are 5,945.

2. A total of six employees work at Littleton Recycling Center. Worker 1 spends 10 hours per week at the recycling center and is paid $6 per hour. Worker 2 works 25 hours per week and is paid $10 per hour. Worker 3 spends one hour per week at the recycler and earns $15 each week. Worker 4 and Worker 5 each work 5 hours every Saturday at a rate of $10 per hour. Worker 6 is the manager who spends 1.5 hours per day, 6 days per week, at the recycler and estimated her salary at $15.00 per hour.

Work Assignment 5-1
Page 1 of 12

Determine Wages and Hours from W-2s, DE-3s, and DE-6s

1. Read W-2

   Construct a worksheet (that would eventually be inserted into the automated cost survey model for a real site) to determine Iron & Metal Corporation's wages and hours for each employee. A set of 2010 W-2 forms are provided, along with two additional tables of employee hourly rates. Determine total wages and hours for each employee.

2. Read DE-3

   Construct a worksheet (that would eventually be inserted into the automated cost survey model) to input the following two sites' wages and hours. The first site has employee wages included in a DE-3 form, and the second on a DE-6 form. Both sites include an attached list of hours. Assume these results approximate results that were consistent throughout the calendar year.

   - Ima Sample Recycler
   - Iman Employee Recycler

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 1		1 Wages, tips, other compensation 16,494.85	2 Federal income tax withheld 3,793.82
c Employer's name, address, and ZIP code		3 Social security wages 17,363.00	4 Social security tax withheld 1,041.78
		5 Medicare wages and tips 17,363.00	6 Medicare tax withheld 264.45
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name B. Cabanillas		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement
Copy D For Employer.

2010

Department of the Treasury- Internal Revenue Service
For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 2		1 Wages, tips, other compensation 32,145.15	2 Federal income tax withheld 7,393.38
c Employer's name, address, and ZIP code		3 Social security wages 33,837.00	4 Social security tax withheld 2,030.22
		5 Medicare wages and tips 33,837.00	6 Medicare tax withheld 507.56
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name J. Castillo		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 3		1 Wages, tips, other compensation 14,727.85	2 Federal income tax withheld 3,387.41
c Employer's name, address, and ZIP code		3 Social security wages 15,503.00	4 Social security tax withheld 930.18
		5 Medicare wages and tips 15,503.00	6 Medicare tax withheld 232.55
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name H. Cruz		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** **2010** Department of the Treasury- Internal Revenue Service

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For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Work Assignment 5-1
Page 3 of 12

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 4		1 Wages, tips, other compensation 17,155.10	2 Federal income tax withheld 3,945.67
c Employer's name, address, and ZIP code		3 Social security wages 18,058.00	4 Social security tax withheld 1,083.48
		5 Medicare wages and tips 18,058.00	6 Medicare tax withheld 270.87
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name J. Figueroa		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 5		1 Wages, tips, other compensation 34,968.55	2 Federal income tax withheld 8,042.77
c Employer's name, address, and ZIP code		3 Social security wages 36,809.00	4 Social security tax withheld 2,208.54
		5 Medicare wages and tips 36,809.00	6 Medicare tax withheld 552.14
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name F. Garbutt		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement **2010** Department of the Treasury- Internal Revenue Service

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For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 6		1 Wages, tips, other compensation 3,600.50	2 Federal income tax withheld 828.12
c Employer's name, address, and ZIP code		3 Social security wages 3,790.00	4 Social security tax withheld 227.40
		5 Medicare wages and tips 3,790.00	6 Medicare tax withheld 56.85
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name C. Garcia		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 7		1 Wages, tips, other compensation 27,388.50	2 Federal income tax withheld 6,299.36
c Employer's name, address, and ZIP code		3 Social security wages 28,830.00	4 Social security tax withheld 1,729.80
		5 Medicare wages and tips 28,830.00	6 Medicare tax withheld 432.45
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name M. Garcia		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** **2010** Department of the Treasury- Internal Revenue Service

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For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Work Assignment 5-1
Page 5 of 12

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 8		1 Wages, tips, other compensation 19,277.40	2 Federal income tax withheld 4,433.80
c Employer's name, address, and ZIP code		3 Social security wages 20,292.00	4 Social security tax withheld 1,217.52
		5 Medicare wages and tips 20,292.00	6 Medicare tax withheld 304.38
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name A. Gomez		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement **2010** Department of the Treasury- Internal Revenue Service

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For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 9		1 Wages, tips, other compensation 2,485.20	2 Federal income tax withheld 571.60
c Employer's name, address, and ZIP code		3 Social security wages 2,616.00	4 Social security tax withheld 156.96
		5 Medicare wages and tips 2,616.00	6 Medicare tax withheld 39.24
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name J. Grajeda		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 10		1 Wages, tips, other compensation 16,491.05	2 Federal income tax withheld 3,792.94
c Employer's name, address, and ZIP code		3 Social security wages 17,359.00	4 Social security tax withheld 1,041.54
		5 Medicare wages and tips 17,359.00	6 Medicare tax withheld 260.39
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name G. Islas		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 11		1 Wages, tips, other compensation 32,551.75	2 Federal income tax withheld 7,486.90
c Employer's name, address, and ZIP code		3 Social security wages 34,265.00	4 Social security tax withheld 2,055.90
		5 Medicare wages and tips 34,265.00	6 Medicare tax withheld 513.98
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name L. Marco Anotonio		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Work Assignment 5-1
Page 7 of 12

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 12		1 Wages, tips, other compensation 53,656.00	2 Federal income tax withheld 12,340.88
c Employer's name, address, and ZIP code		3 Social security wages 56,480.00	4 Social security tax withheld 3,388.80
		5 Medicare wages and tips 56,480.00	6 Medicare tax withheld 847.20
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name L. Policarpo		11 Nonqualified plans	12a See instructions for box 12 C o d e
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b C o d e
		14 Other	12c C o d e
			12d C o d e
f Employee's address and ZIP code			

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 13		1 Wages, tips, other compensation 25,000.20	2 Federal income tax withheld 5,750.05
c Employer's name, address, and ZIP code		3 Social security wages 26,316.00	4 Social security tax withheld 1,578.96
		5 Medicare wages and tips 26,316.00	6 Medicare tax withheld 394.74
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name E. Modesto		11 Nonqualified plans	12a See instructions for box 12 C o d e
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b C o d e
		14 Other	12c C o d e
			12d C o d e
f Employee's address and ZIP code			

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 14		1 Wages, tips, other compensation 14,876.05	2 Federal income tax withheld 3,421.49
c Employer's name, address, and ZIP code		3 Social security wages 15,659.00	4 Social security tax withheld 939.54
		5 Medicare wages and tips 15,659.00	6 Medicare tax withheld 234.89
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name J. Modesto		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 15		1 Wages, tips, other compensation 49,846.50	2 Federal income tax withheld 11,464.70
c Employer's name, address, and ZIP code		3 Social security wages 52,470.00	4 Social security tax withheld 3,148.20
		5 Medicare wages and tips 52,470.00	6 Medicare tax withheld 787.05
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name F. Moreno		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008
b Employer identification number 16	1 Wages, tips, other compensation 24,529.95	2 Federal income tax withheld 5,641.89
c Employer's name, address, and ZIP code	3 Social security wages 25,821.00	4 Social security tax withheld 1,549.26
	5 Medicare wages and tips 25,821.00	6 Medicare tax withheld 387.32
	7 Social security tips	8 Allocated tips
d Employee's social security number	9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name C. Olgvin	11 Nonqualified plans	12a See instructions for box 12
	13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
	14 Other	12c
		12d
f Employee's address and ZIP code		

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008
b Employer identification number 17	1 Wages, tips, other compensation 3,241.40	2 Federal income tax withheld 745.52
c Employer's name, address, and ZIP code	3 Social security wages 3,412.00	4 Social security tax withheld 204.72
	5 Medicare wages and tips 3,412.00	6 Medicare tax withheld 51.18
	7 Social security tips	8 Allocated tips
d Employee's social security number	9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name A. Valadez	11 Nonqualified plans	12a See instructions for box 12
	13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
	14 Other	12c
		12d
f Employee's address and ZIP code		

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 18		1 Wages, tips, other compensation 53,377.65	2 Federal income tax withheld 12,276.86
c Employer's name, address, and ZIP code		3 Social security wages 56,187.00	4 Social security tax withheld 3,371.22
		5 Medicare wages and tips 56,187.00	6 Medicare tax withheld 842.81
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name C. Sample		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

a Control number	Void ☐	OMB No. 1545-0008	
b Employer identification number 19		1 Wages, tips, other compensation 49,976.65	2 Federal income tax withheld 11,494.63
c Employer's name, address, and ZIP code		3 Social security wages 52,607.00	4 Social security tax withheld 3,156.42
		5 Medicare wages and tips 52,607.00	6 Medicare tax withheld 789.11
		7 Social security tips	8 Allocated tips
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name T. Fokutani		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement **2010** Department of the Treasury- Internal Revenue Service

Copy D For Employer.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Iron & Metals Corporation Regular Hourly Rates

Employee Number	Regular Hourly Rate (a)
1	$6.00
2	$9.55
3	$6.18
4	$7.20
5	$9.93
6	part time employee (b)
7	$8.27
8	$9.27
9	part time employee (b)
10	part time employee (b)
11	$8.81
12	$12.61
13	$9.39
14	part time employee (b)
15	$12.61
16	$6.91
17	part time employee (b)
18	owner (c)
19	owner (c)

a. Employees are paid overtime at a rate of 1.5 times their regular hourly rate.
b. For information on part time employees, see additional payroll information on page 12 of 12.
c. Rate per hour unavailable. Assume owners worked a full year without overtime (2,080 hours).

Additional Payroll Information for Iron & Metals Corporation

According to Iron & Metal's payroll clerk, the following individuals only worked for part of the year. For this reason, you could not assume regular time of 2,080 hours per year. Instead, you obtained payroll information and found the average pay and hours to be:

Employee No.	Name	Weeks at Company	Average Rate/Hr.[a]	Average Hours/Week
6	Garcia, C.	15	$5.00	48
9	Grajeda, J.	7	6.00	55
10	Islas, G.	33	9.00	53
14	Modesto, J.	36	8.24	49
17	Valadez, A.	12	6.00	46

[a] Overtime rates for these part time employees are included in the average rate/hour.

QUARTERLY REPORT OF WAGES AND WITHHOLDINGS FOR EMPLOYERS OF HOUSEHOLD WORKERS

Employment Development Department
State of California

APPROVED EXTENSION TO: _____

Instructions for completion are available on page 2.

PLEASE TYPE ALL INFORMATION

QUARTER ENDED June 30, 2010 DUE July 1, 2010 DELINQUENT IF NOT POSTMARKED OR RECEIVED BY August 31, 2010

YR	QTR
02	2

EMPLOYER ACCOUNT NUMBER: 12345678

Ima Sample
123 Main Street
Anytown, CA 12345

DO NOT ALTER THIS AREA

DEPT. USE ONLY: P1 ☐ C ☐ T ☐ S ☐ W ☐ A ☐

EFFECTIVE DATE Mo. Day Yr. ☐ WIC ☐

A. **NUMBER OF EMPLOYEES** full-time and part-time who worked during or received pay subject to UI for payroll period **which includes the 12th** of the month.

1ST MONTH	2ND MONTH	3RD MONTH
4	3	3

B. ☐ No Payroll This Quarter

C. SOCIAL SECURITY NUMBER	D. EMPLOYEE NAME (FIRST, MIDDLE INITIAL, LAST)	E. TOTAL SUBJECT WAGES	F. PIT WAGES	G. PIT WITHHELD
123-45-6789	L. Curley	3,016.02		
234-56-7891	C. Moe	3,000.00		
345-67-8912	S. Smith	3,281.26		
456-78-9123	B. Boone	12,600.00		

H. GRAND TOTAL SUBJECT WAGES	I. GRAND TOTAL PIT WAGES	J. GRAND TOTAL PIT WITHHELD
18,950.91		227.48

K. *I declare that the information herein is true and correct to the best of my knowledge and belief.*

Signature _____ Title _____ Phone (____)_____Date _____
(Employer, Accountant, Preparer, etc.)

You have received this Report of Wages and Withholdings for Employers of Household Workers, DE 3BHW, in lieu of the Quarterly Wage and Withholding Report, DE 6, because you have elected to pay taxes for your Household Workers on an annual basis. This form will be mailed to you quarterly and an Annual Payroll Tax Return For Employer Of Household Workers, DE 3HW, will be mailed to you in the fourth quarter. This annual process is only available to employers who pay $20,000 or less in household wages during the calendar year. If your wage estimate is understated and you do pay more than $20,000 in wages in the calendar year, please follow the instructions on the back of this form under the "QUESTION" topic.

You must file this report even if you had no payroll by marking Item B, and indicating "0" in each of the three boxes in Item A, and in the Grand Total Boxes, Items H, I, and J.

MAIL TO: State of California / Employment Development Department / P.O. Box 826221 / MIC 28B / Sacramento, CA 94230-6221

Employee Quarterly Hours for IMA Sample Recycler

Employee	Pay Rate	Regular Hours	Overtime Hours
L. Curley	$6.50	450	9
C. Moe	$6.52	460	0
S. Smith	$6.00	500	31
B. Boone	$22.00	520	35

Note: All employees are paid 1.5 times their pay rate for overtime hours worked.

Employment Development Department
State of California

QUARTERLY WAGE AND WITHHOLDING REPORT

PLEASE TYPE THIS FORM PER INSTRUCTIONS ON REVERSE

Page number _____ of _____

You must FILE this report even if you had no payroll. If you had no payroll, complete Items C or D and P.

00060198

YR 02 QTR 2

QUARTER ENDED June 30, 2010 DUE July 1, 2010 DELINQUENT IF NOT POSTMARKED OR RECEIVED BY August 31, 2010

EMPLOYER ACCOUNT NO. 12345678

Iman Employee
123 Market Street
Our Town, CA 12345

DO NOT ALTER THIS AREA

P1 C T S W A

EFFECTIVE DATE Mo. Day Yr. WIC

A. **EMPLOYEES** full time and part time who worked during or received pay for the payroll period **which includes the 12th** of the month.

1st Mo. 2nd Mo. 3rd Mo.

B. ☐ Check this box if you are reporting ONLY Voluntary Plan DI wages on this page. Report PIT Wages and PIT Withheld, if appropriate. (See instructions for Item B.)

C. ☐ NO PAYROLL D. ☐ OUT OF BUSINESS/FINAL REPORT

E. SOCIAL SECURITY NUMBER	F. EMPLOYEE NAME (FIRST NAME)	(M.I.)	(LAST NAME)	G. TOTAL SUBJECT WAGES	H. PIT WAGES	I. PIT WITHHELD
123-45-6789	Amy	A	Employee	500.20		
234-56-7891	Barry	B	Employee	100.50		
345-67-8912	Carly	C	Employee	411.70		
456-78-9123	Doug	D	Employee	725.00		
567-89-1234	Everett	E	Employee	500.20		
678-91-2345	Frank	F	Employee	650.00		
789-12-3456	Greg	G	Employee	395.00		

J. TOTAL SUBJECT WAGES THIS PAGE 3282.60

K. TOTAL PIT WAGES THIS PAGE 0.00

L. TOTAL PIT WITHHELD THIS PAGE 0.00

M. GRAND TOTAL SUBJECT WAGES 3282.60

N. GRAND TOTAL PIT WAGES 0.00

O. GRAND TOTAL PIT WITHHELD 0.00

P. I declare that the information herein is true and correct to the best of my knowledge and belief.

Preparer's Signature _____ Title _____ Phone ( ) _____ Date _____
(Owner, Accountant, Preparer, etc.)

Employee Quarterly Hours for Iman Employee Recycler

Employee	Pay Rate	Regular Hours	Overtime Hours
A. Employee	$5.50	91	0
B. Employee	$5.50	18	0
C. Employee	$5.75	72	0
D. Employee	$6.50	100	8
E. Employee	$5.50	91	0
F. Employee	$6.50	100	0
G. Employee	$6.00	60	4

Note: All employees are paid 1.5 times their pay rate for overtime hours worked.

Work Assignment 6

Interpret a Payroll Register

Review the following register for Recycle Efficient Corporation and complete the following questions:

1. What are employee number 5's total hours?
2. What are employee number 6's total 2010 wages?
3. How many overtime hours did employee number 3 work?
4. Did employee number 7 work the entire year?
5. What percentage of employee number 2's wages were overtime wages?
6. What was employee number 1's regular time pay rate?
7. What was employee number 4's overtime pay rate?
8. Which employee who worked overtime was not paid "time-and-a-half 'for overtime wages?
9. Which employee would you expect was the owner?
10. Which employee would you expect was the site manager?

Work Assignment 6
Page 2 of 2

Payroll Register

COMPANY NAME	PAY NO	PERIOD ENDING	PAY DATE	BATCH	CO CODE	PAGE
Recycle Efficient Corporation	12	End	12/31/10	615	T57	1

EMPLOYEE IDENTIFICATION	HOURS				EARNINGS				GROSS	DEDUCTIONS						NET PAY	CHECK NUMBER
	Regular	Overtime	Code	Other	Regular	Overtime	Code	Other		FICA	State	Code	Other	Code	Other		
Employee 1	1,000				6,500				6,500								
Employee 2	2,080	500			28,080	10,125			38,205								
Employee 3	2,080	175			19,760	2,494			22,254								
Employee 4	2,080	300			10,400	2,250			12,650								
Employee 5	1,650	175			12,375	1,969			14,344								
Employee 6	2,080	350			20,800	5,250			26,050								
Employee 7	2,080				16,640				16,640								
Employee 8	1,500	200			16,500	2,200			18,700								
Employee 9	2,080	600			19,760	8,500			28,310								
Employee 10	2,080				52,000				52,000								

Module 12
Conducting Labor Interviews

Objective:

- Learn how to conduct interviews with site management to determine the proportion of time each employee spent handling CRV and other materials

Key Topics:

- Conducting labor interviews
- Inputting site management responses into the automated cost survey model
- Handling a single recycler versus a dual site, or a single site of a multi-site recycler
- Minimizing site-management bias and ensuring that each employee's time is accurately allocated

Curriculum Materials:

Reading List/Handouts:

1. Sample **Labor Input Sheet** data form automated cost survey model
2. Labor category definitions
3. Sample 1 of a recycling site labor interview
4. Sample 2 of a recycling site labor interview

Work Assignments:

1. Conduct labor interview role-playing
2. Answer labor interview questions
3. Perform labor allocation exercises
4. Visit local recycling center

Key Topics

Conducting Labor Interviews

The survey team should interview site management to determine the percentage of time each employee spends handling selected materials at the site. **It is important that interviews not be conducted with employees below first supervisor level.** Also, different supervisors/ managers may need to be interviewed to allocate various portions of employees' activities (e.g., yard, office, management, etc.). In some cases, only the site manager may need to be interviewed. It is important to emphasize in the interview that responses should pertain to site operations in the relevant calendar year for surveys, which may not necessarily represent current operations.

You will find that it is difficult to enter a site manager's responses directly into the **Labor Input Sheet** of the cost model while conducting the interview. In these cases, a hardcopy form must be used to write responses during the interview. This hardcopy form is provided as **Exhibit 12-1,** at the end of this key topics section, and can be used to enter responses for two employees (or four employees, if form is printed on both sides). The survey team then would later enter responses from the hardcopy form into the **Labor Input Sheet** of the cost survey model.

Inputting Site Management Responses Into the Automated Cost Survey Model

The survey team should input results of the interview with site management into the automated cost survey model. A "data form" included in the **Labor Input Sheet** of the cost survey model should be used to input results recorded on the labor input hardcopy form. The data form is used to enter information for <u>one employee</u>. Each box in the data form corresponds to a question which should be asked of site management about the employee. A copy of the data form is included as a handout to this module.

To launch the data form, click on the button labeled "Enter Employee Data" that is located on the **Labor Input Form.** To complete the data form, the survey team should follow the steps below. Interviewees should refer to **Exhibit 12-2,** following Exhibit 12-1 at the end of this key topics section, which includes letters referenced in the steps below.

Step 1

Input the employee's name, position, gross wages (regular and overtime wages), total hours paid (regular and overtime hours), and the # employees this entry represents. For example, enter a "1" if a single employee, or enter total head count if this represents more than one employee. When possible, this information should be based on the payroll records obtained for the site.

Step 2

Percent of time that this employee spends at the site. For sites with only one recycler, or dual sites (both a recycler and processor), the percent of time allocated to this site should be 100 percent **(box A** in Exhibit 12-1). The model assumes 100% unless you type in something different.

Where a site includes multiple recyclers, this percentage depends upon the source of wage and hour information. Where the source of wages and hours is consolidated for all sites, this percentage should equal the percent of time the employee is physically located at the site selected for the survey. Where the source of wages and hours is only for the site selected, this percentage should equal 100 percent.

Step 3

Ask what percent of time the employee spent working at the recycler, the processor (if a dual site), and for any other business **(boxes B** in the exhibit). If the interviewee does not know, determine whether there is another person at the site who could answer the question. If no one at the site knows, then classify the employee as unallocated **(box C** in the exhibit) and move on to the next employee (to classify an employee as 100% unallocated, leave the recycler, processor, and other business boxes blank or zero).

While using the hard copy labor interview form, you must add the percentages you write down in the "%PR" and "% Other Business" boxes, and write the total in the "Total % Other Business " box on the hard copy form. When you later key enter the information into the cost model (i.e., on the **Labor Input Sheet),** key enter the sum written in "Total % Other Business", but leave the "% Processor" field at 0.

The sum of percent of time allocated to recycler, processor, other business, and unallocated should equal 100 percent for each employee. If not, the data form will display and error message: "Combined values cannot exceed 100%". Closing the error message will zero out the percentages entered.

Step 4

If the interviewee indicates in the previous step that the employee worked at the recycler, ask what percent of time was spent as direct yard labor (DYL) versus all other labor (AOL). Input the percentage DYL into **box D** in the exhibit. The model automatically populates the AOL percentage as 100% minus the DYL percentage.

DYL activities include those which an individual generally performs <u>in the yard</u>, such as material handling-related activities. These include: receiving, sorting, inspecting, weighing, counting, making payments, emptying bins, baling, crushing, blowing, shredding, storing, loading for transport, and associated routine maintenance and clean-up.

At dual sites, <u>recycle</u> DYL activities encompass receiving, sorting, inspecting, weighing, counting, making payments, emptying bins, and associated routine maintenance and clean-up. Alternatively, at dual sites, <u>processor</u> DYL activities encompass crushing, blowing, shredding, baling, storing, loading for transport, and associated routine maintenance and clean-up.

AOL activities include all non-material handling functions and activities, such as: general yard maintenance, directing traffic, supervising yard operations, material transportation-related activities, general clerical and administrative functions, office supervising, general site management, and general business management.

If the person being interviewed does not know the split of DYL and AOL, he/she should report all of the employee's time as AOL by inputting "0" in DYL **box D.** The model then automatically computes the percent allocated to AOL by subtracting the DYL percent (in this case, 0) from 100 percent.

Step 5

If the interviewee indicates in Step 4 that the employee worked at least some time as DYL, then ask what percent of this time was spent working on non-CRV material (e.g., paper) **(box E).** The % CRV Material **(box F)** is auto-filled by the model (equal to: 100% - % Other Non CRV). The survey team should make every attempt to determine this split among non-CRV and CRV material. If the interviewee does not know what percent of time is applicable to CRV material versus non-CRV material, **do not** input any percentages; 100% of that employee's time is automatically unallocated under DYL.

Step 6

If the interviewee indicates in step 5 that the employee worked with CRV-type material, ask what percent of this time spent on CRV-type material was aluminum/bi-metal and what percent was glass **(boxes G** in the exhibit). There is no need to enter a percentage for CRV plastic because the balance of CRV time is automatically calculated by the model as CRV plastic.

The sum of CRV aluminum/bi-metal, CRV glass, and CRV plastic should always equal 100 percent. If the survey team inadvertently entered percentages for aluminum/bi-metal and glass that total more than 100 percent, the model will zero out the percentages in CRV aluminum/bi-metal and CRV glass (but not display an error message).

Step 7

If the interviewee indicates in step 6 that the employee spent time on CRV plastic, ask what percent of this time spent on CRV plastics was for PET (plastic #1), and what percent of plastic time was spent on HDPE (plastic #2). **IF** the site handled plastics #3 to #7, ask if the employee spent any measureable time on plastics #3 to #7. The total of all plastics should not exceed 100%. Note that less than 20 percent of all recycling centers actually reported any quantity of plastics #3 to #7 in 2010, and the volume of plastics #3 to #7 has generally made up less than one percent of total statewide CRV plastic volume. Thus, it is likely that employee time spent on plastics #3 to #7 will be non-measurable by the interviewee. Compare the interviewee's response for % PET and % HDPE with the relative material weight of those two plastics (see Step 9).

Step 8

Repeat steps 5 through 7 for recycler AOL. When all information for the employee is entered, click on the button "OK (Save Changes)", which will enter a row on the **Labor Input Sheet** for the employee (or update the row, if this form is used to view an employee's labor record already entered in the model).

Step 9

Complete steps 1 through 8 for all employees.

Step 10

Compare interview results with the CRV material weight reported for the relevant calendar year. Ask the site manager to explain any apparent inconsistencies between the interview results and the mix of CRV weight.

The survey team should interview site managers regarding those employees with a large percentage of unallocated time to see if site management can better allocate these employees' time or ask again if there is another supervisor at a lower level that might be able to help you.

Results from information entered into the data form are automatically accumulated in a database which is visible as the **Labor Input Sheet.** The survey team can view the **Labor Input Sheet** at any time by exiting from the data form.

The survey team also can provide notes or comments for each employee, indicating significant activities he/she spent time on (e.g., trucking, sorting, administration, or accounting). Notes are especially critical to describe how employees split time between DYL and AOL. To enter a note, the survey team can put the cursor in the cell containing the employee's name and, using the Excel command for Insert: Comment, add a note. Notes are identified by a small red dot in the top or bottom right corner of the cell referenced.

Handling a Single Recycler Versus a Dual Site, or a Single Site of Multi-Site Recycler

For both a single site recycler and a dual site (i.e., recycler and processor combined), all labor activity information for each employee is input into one data form. However, if more than one site of a multi-site recycler is included in the processing fee survey, and if an employee works at these different sites, the survey team must consider the time spent on the other site as "other business" and must complete a separate data form in a separate cost model for each selected site at which the employee worked. Remember that data forms are created only for the sites being surveyed; the forms for one employee that works at more than one of the sites being surveyed should not be included in the same Excel file.

Minimizing Site-Management Bias and Ensuring that Each Employee's Time is Accurately Allocated

It is important for the survey team to obtain accurate information from site management related to labor activity allocation. Results of these interviews are directly applied by the model to labor hours and form the basis for allocating all indirect costs of the site. If a site manager appears to be unable to provide accurate or reasonable responses, the survey team should either attempt to find another individual who is more familiar with the operations, or document in the *Site Memorandum* the manager's inability to accurately allocate employees' time.

If it is easier for a site manager to simply allocate all employees time using the same percentages for each (e.g., using percentages equal to the estimated mix of materials provided for the site activity description form), the survey team should try harder to obtain reasonable allocations for each individual employee. Concentrate on the differences between each of the employees that do the same job. This effort to focus on each individual separately may minimize potential bias from a site manager attempting to represent a site's costs in a particular way.

Schedule

Estimated module time:	**8.75 Hours**	
Outline of Module	**Technique**	**Training Time** ***(including self study) (min.)***
1. Introduce module	Lecture	20
2. Read key topics and handouts	Reading	20
3. Do work assignment #1 – Conduct labor interview role playing	Work Assignment	75
4. Do work assignment #2 – Answer labor interview questions	Work Assignment	10
5. Do work assignment #3 – Perform labor allocation exercises	Work Assignment	135
6. Review results with participants	Self Review	25
7. Do work assignment #4 – Visit local recycling center	On-site visit	240
	Totals	**525**

Exhibit 12-1

Labor Input Form

Name _____

Position _____

Gross Wages _____

Hours _____

# of Employees _____

Overall Activity

% RC

% PR

+

% Other Business

Total % Other Business =

% Unallocated

	% Direct Yard Labor	% All Other Labor
Recycler		

	Direct Yard Labor	All Other Labor
% Non-CRV Type Material		
% CRV Type Material		
% AL & B-M		
% Glass		
% Plastic		
% PET		
% HDPE		
% #3 to #7 Plastics		

Name _____

Position _____

Gross Wages _____

Hours _____

# of Employees _____

Overall Activity

% RC

% PR

+

% Other Business

Total % Other Business =

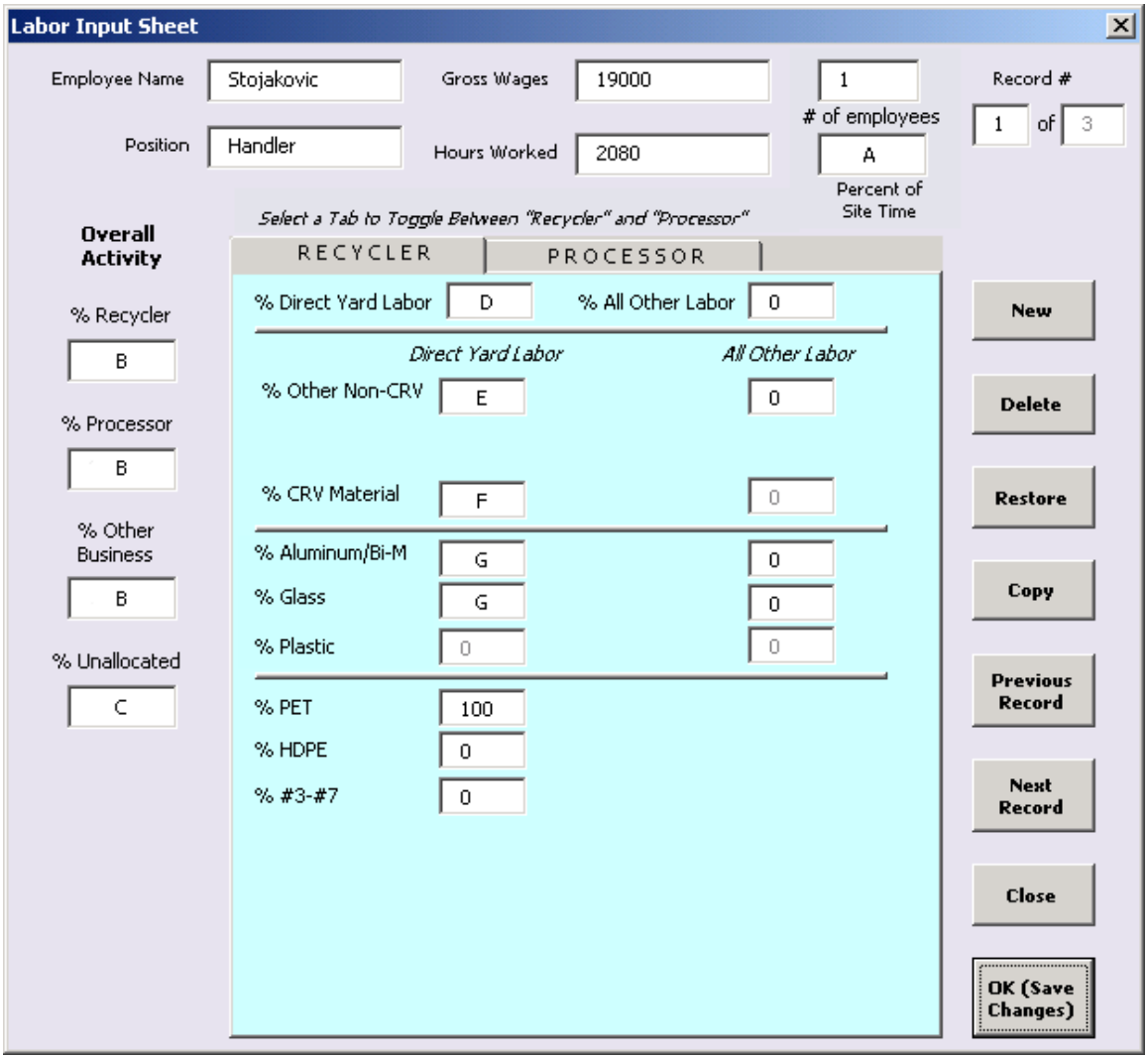
% Unallocated

	% Direct Yard Labor	% All Other Labor
Recycler		

	Direct Yard Labor	All Other Labor
% Non-CRV Type Material		
% CRV Type Material		
% AL & B-M		
% Glass		
% Plastic		
% PET		
% HDPE		
% #3 to #7 Plastics		

Exhibit 12-2

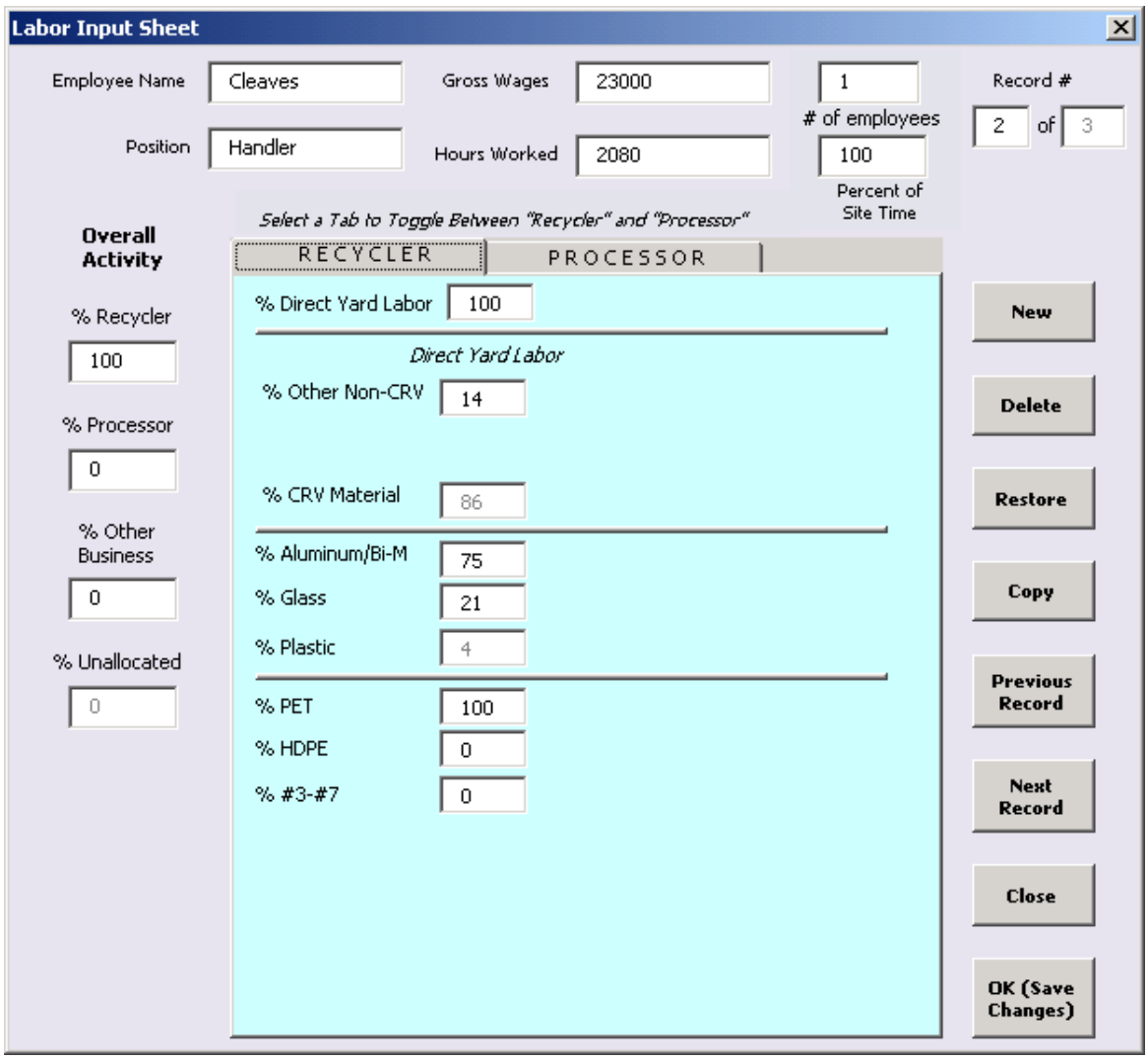
Labor Input Sheet
A Microsoft Excel "Data Form"



Readings and Handouts

1. Sample **Labor Input Sheet** data forms from the automated cost survey model
2. Labor category definitions
3. Sample 1 of a recycling site labor interview
4. Sample 2 of a recycling site labor interview

Sample Labor Input Sheet Data Form
Automated Cost Survey Model



Sample Labor Input Sheet Data Form
Automated Cost Survey Model

Labor Input Sheet

Employee Name: Funderburke
Gross Wages: 21581
# of employees: 1
Record #: 3 of 3
Position: Cashier
Hours Worked: 2080
Percent of Site Time: 80

Select a Tab to Toggle Between "Recycler" and "Processor"

RECYCLER | PROCESSOR

Overall Activity

% Recycler: 76
% Processor: 0
% Other Business: 18
% Unallocated: 6

% Direct Yard Labor: 85
% All Other Labor: 15

	Direct Yard Labor	*All Other Labor*
% Other Non-CRV	20	100
% CRV Material	80	0
% Aluminum/Bi-M	75	0
% Glass	20	0
% Plastic	5	0
% PET	100	
% HDPE	0	
% #3-#7	0	

New
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OK (Save Changes)

Labor Category Definitions

Direct Yard Labor (DYL)

Primary Yard Labor	**Individual** generally working in the yard performing material handling related activities (e.g. receiving, sorting, inspecting, weighting, counting, making payment, emptying bins, baling, crushing, blowing, shredding, storing, loading for transport, and associated routine maintenance and clean-up)
	Single certified sites, all of the above activities are included
	Dual certified sites (Recycler) all customer transactions, receiving, sorting, inspecting, weight, counting, making payment, emptying bins and associated routing maintenance and clean-up)
	Dual certified sites (Processor) crushing, blowing, shredding, baling, storing, loading for transport, and associated routine maintenance and clean-up

All Other Labor (AOL)

Other Yard Labor	**Individual** generally working in the yard performing non-supervisory support and/or on-material handling functions and activities (e.g. general yard maintenance, directing traffic, etc)
Yard Labor Supervisor	**Individual** generally responsible for assigning work performed by direct and, possibly, indirect yard labor employees, and generally supervising yard operations at the site (e.g. yard lead work and supervisor)
Transportation	**Individual** generally performing material transportation related functions and activities (e.g. dispatching, driving, etc). This is a business payroll-related employee function/activity that is not performed by contract labor.
Clerical/Administrative	**Individual** generally working in the office performing reception, general clerical, order entry, purchasing, secretarial, accounting, personnel, data processing, or other similar types of functions and activities (e.g. receptionist, secretary, bookkeeper).
Office Supervisor	**Individual** generally working in the office responsible for assigning work performed by office clerical and/or administrative employees, and generally supervising office operations at the site (e.g. office supervisor, accounting supervisor, etc).
Site Management	**Individual** generally performing overall general site management functions and activities (e.g. site manager).
General Management	**Individual** generally performing general business management functions and activities (e.g. lobbyist, president, etc).
Other	**Individual** generally performing functions and activities not encompassed within the above definitions.

All Other Materials/Business Definitions

Single RC	Handle Non-CRV type materials, report as All Other Material under Recycler
Single PR	Handle Non-CRV type materials, report as All Other Material under Processor
Dual RC & PR	Handle Non-CRV type materials, report as 50% All Other Materials under Processor. However, if actual percentages are available for split between recycler and processor use these actual percentages.
Other Business	Any activity that does not involve handling CRV or Non-CRV type material, i.e. towing service, used car sales, truck rental, and sorting activities for the MRF.

Curbside (CS) Sorting

If curbside labor is on financials, then report curbside labor time to other business.

Sample 1 of a Recycling Site Labor Interview

Contents:

A. Labor Information: Asking Questions
B. Explanation of Terms of the Labor Interview Form
C. Examples of Interview Dialogues
D. Sample Questions to Ask

A. Labor Information: Asking Questions

Purpose: In order to obtain all of the allowable costs of recycling CRV material, it is necessary to know not just the financial statement costs, but also the labor costs. To obtain all the allowable labor costs of recycling, we need to know how much labor is devoted to recycling of each of the following CRV materials: aluminum, glass, and plastic beverage containers as defined in the Public Resources Code. If each recycling employee worked 100% of their time recycling CRV material, with equal time devoted to aluminum, glass, and plastic, there would be no need for the labor interview. In addition, employees may deal with Non-CRV material (newspaper, cardboard, non-ferrous metals, etc.).

Our cost survey procedures are designed to capture the cost per ton to recycle each of the CRV beverage containers: aluminum, glass, and plastic. Bi-metal containers are included with aluminum, because their recycled volume is too low to identify separately.

We seek information from the owner or manager, or other relevant supervisor of the recycling operation who knows the time each employee spent on the various materials during the year of the study. In an interview, they tell us how much time each employee spent on CRV and Non-CRV material. We enter that and other information on a form used to record employee labor percentages, and later we enter the same data into the computer model.

This portion of your training seeks to show you examples of the process of conducting the labor interview.

B. Explanation of Terms Used on the Labor Input Sheet Data Form

Employee Name: This is the name of the employee that you are asking about. If you have more than several employees who do entirely the same job, you may create a "Super Employee". You do this by adding up the year's pay, hours, and headcount for each of the employees who make up the "Super Employee".

Position: Title or responsibility of employee at the site (e.g., forklift operator; cashier; yard attendant; clean-up; yard supervisor)

Gross Wages: What was the total dollar amount paid to this employee by this employer in 2008?

Hours Worked: How many hours did this employee work? This figure includes overtime hours, if any.

# of employees: The headcount represented by this employee. If the record is a named employee or a single position, enter a "1". If the record is for a group of employees that all will be allocated the same way, enter the number of actual people that the hours and wages represent. If the record is for contract services, ask site management to estimate the number of contract employees that were paid under the contract dollars. If management cannot provide the estimate, follow estimating procedure provided by the DOC.

Site Time: This is 100%.

% Recycler/% Processor/% Other Business/% Unallocated: Of the hours that this particular employee was paid for, what percentage of the time did the employee work for the Recycler? What percentage of time, if any, did the employee work for any other business, including the processor at a dual site? The "Other Business" category includes that time, if any, that this employee was working in something other than Non-CRV / CRV, that is, something that is not recycling. For example, the time that this employee works for the Curbside, such as on the Curbside sorting line, would be considered "Other Business."

"Other Business" also includes time that this employee worked in a completely different line of work for the same employer, such as a real property rental of the employer, or a vehicle rental where, for instance, the employer rents out trucks or equipment. "Other Business" could mean an ice cream shop, a towing service, used car sales, run by the employer, but "Other Business" does not mean, for example, a part time job that this employee has with an employer who is not the Recycling employer.

Every attempt should be made to ensure that the category "Unallocated" is zero percent. If the model shows that this category has more than zero, you should go back and ask further questions or for clarification, because the percentages of Recycler, Processor, Other Business, and Unallocated should add up to 100 percent. Instances of unallocated time should be avoided. Again, curbside activities, such as: collection, sorting, and transporting of curbside material, are always "Other Business."

% Direct Yard Labor/Recycler: This category is the percentage of time that the employee, working for the Recycler, was utilized in a yard position handling recycling material. Examples of yard positions are:

- Employee works in the yard, and handles material, including receiving the recycling material (cans and bottles, cardboard, paper); sorting the recycling material, inspecting it, weighing it, counting it; making payment for the recycling material; emptying bins; baling; crushing; blowing; shredding; storing; and loading for transport; associated routine maintenance and clean-up.
- If the site is **dual certified** (both a Recycler and a Processor), then **Recycler** functions are those which encompass all customer transactions, such as receiving, sorting, inspecting, weighing, counting, making payment, emptying bins, and associated routine maintenance and clean-up.
- Also, at **dual certified** sites, the **Processor** functions encompass the baling, crushing, blowing, shredding, storing, loading for transport, and routine maintenance and clean-up associated with those functions.

% All Other Labor (AOL): This category is the percentage of time that the employee, working for the Recycler, was utilized in a yard position not handling recycling material or performing other non-material handling activities. Examples of AOL positions are:

- **Other Yard Labor:** Yard worker who performs non-supervisory support and/or non-material handling functions such as general yard maintenance, directing traffic, etc.
- **Yard Labor Supervisor:** Someone who assigns work to be performed by the direct yard laborers, and/or the other yard laborers; one who generally supervises yard operations, such as: yard lead worker; supervisor; etc.
- **Transportation:** If an employee, one who does transportation related activities such as: dispatching; driving; etc. This is a business payroll-related employee function/activity that is not performed by contract labor.

- **Clerical/Administrative:** One who works in the office performing reception, general clerical, order entry, purchasing, secretarial, accounting, bookkeeping, personnel, data processing, or other similar types of functions and activities (e.g., secretary, bookkeeper).
- **Office Supervisor:** One responsible for assigning work done by office clerical and/or administrative employees; one who generally supervises office operations at the site office (e.g., office supervisor; accounting supervisor; personnel supervisor; etc.)
- **Site Management:** One performing overall site management functions and activities (e.g., site manager).
- **General Management:** One performing general business management and functions (e.g., lobbyist, president, treasurer, vice-president, etc.)

C. Examples of Interview Dialogues

The survey team member conducting the interview would have the data form from the **Labor Input Sheet** open (or, at a minimum, enough hardcopies of the data form to record information for each employee.

Whom to Interview: We will be interviewing employers, or their overall manager or foreman. We may interview whomever the owner determines to be knowledgeable. We do want a management or supervisory person that knows how the overall employee labor was allocated among the material categories during the year under study. For surveys conducted during 2011, our survey will be asking about labor allocations of each employee during calendar year 2010.

The data we gather will be used to determine the processing fee and payment effective January 1, 2012, and the handling fee effective July 1, 2012. The processing fee payment is defined in PRC Section 14518.5. In general, the processing fee is a payment that certified recyclers receive from processors in order to provide economic recovery (recycling) of a particular CRV material, when the scrap value of that CRV material is too low to otherwise make recycling economically feasible.

The handling fee is defined in PRC Section 14513.4. In general, a handling fee is an amount paid to an operator of a supermarket site, a rural region recycler, or a nonprofit convenience zone recycler that is located in a convenience zone, for every beverage container redeemed by the operator.

During the walk-through of the recycling site, use the *Site Memorandum*. Fill in the blanks as you walk around the site, asking questions as necessary, of the manager or manager's appointed representative. One of the main purposes of the walk-through for labor interview purposes is to observe how the site handles the recycling materials. It is essential to the labor interview that you understand what duties each employee performs. As you ask the labor questions you can refer to what you observed. Also, ask if what you observed would have been observed in the year under study, 2010. Ask what changes have occurred.

Example of Dialogue during a Labor Interview:

Surveyor: What materials do you recycle at the recycling, or buy-back, center?

Recycling Manager: We take back cardboard, newspaper, white paper, mixed paper, and the CRV aluminum, CRV bi-metal, CRV glass, and PET. Now, of course, we take plastics #2 through #7 as well.

Surveyor: We'll be asking about recycling activities in 2010. We have the list you provided us showing the employees who worked at the recycling center during 2010. Let's take the first name, here, which is the cashier. Could you describe Cashier's job in 2010?

Recycling Manager: Cashier was the recycling cashier. He works in that booth over there. As the attendant weighs the material a ticket is automatically printed. The customer takes the ticket, which is a receipt, to the cashier stand. Cashier checks the receipt and pays the customer.

Surveyor: Did the Cashier do anything else in 2010? (looking at the **Labor Input Sheet** data form boxes marked %Recycler, %Processor, %Other, %Unallocated). For instance, did the Cashier do work on the processor side, or in some other part of the yard, such as working with the paper recycling?

Recycling Manager: No. We do get a lot of paper, but he works strictly in this area of the buyback as a cashier.

Surveyor: Was this the case in 2010?

Recycling Manager: Yes.

Surveyor: What percent of Cashier's time was spent with Non-CRV versus CRV material?

Recycling Manager: He spent about two-thirds of his time with paper and other Non-CRV.

Surveyor: Of his CRV time, what percentage was spent with aluminum and bi-metal?

Recycling Manager: That's easy. I'd say that over two-thirds of our customers are carrying aluminum. So, say, 70% of Cashier's time was spent with CRV aluminum. Very few customers bring in bi-metal, so I can't even guess what that might be.

Surveyor: Okay, I will assume that the 70% represents aluminum and some insignificant amount of bi-metal time. Of that 100% CRV time, of which 70% was spent with aluminum customers, how much was spent dealing with glass weight tickets?

Recycling Manager: Glass is about 20% of his time.

Surveyor: So, of Cashier's CRV time at the buyback, 70% was with aluminum, 20% for glass, and only 10% for all of the CRV plastic resins.

Recycling Manager: Right. Very few plastic customers.

Surveyor: OK, good. Let's take the next on the list. You have a person who works as an accountant for you.

Recycling Manager: Yes. The accountant works full time for us, doing only accounting.

Surveyor: Was that also the case in 2010?

Recycling Manager: Yes.

Surveyor: So the accountant works in the recycling office.

Recycling Manager: 100% of the time.

Surveyor: What percent of his time is with CRV versus Non-CRV?

Recycling Manager: Let's see. I'd say about half an hour a day. OK, 6% of his time is CRV.

Surveyor: Of that 6% of his time, how much is devoted to CRV aluminum and bimetal?

Recycling Manager: Probably only 20%. Aluminum is easy, and bi-metal doesn't really add any time. I've watched him.

Surveyor: OK. What percent of his time does it take to deal with CRV glass?

Recycling Manager: Glass has more to it. So, 60% of his CRV time is handling CRV glass accounting.

Surveyor: And, so for all the CRV plastic, he's spending 20% as well.

Recycling Manager: That sounds right, 20% of his time.

Surveyor: The next one I want to ask about is the weigh master.

Recycling Manager: We have two weigh masters. They each do the same job.

Surveyor: OK. Do they only do the weighing? Or, have they other duties?

Recycling Manager: Strictly weighing.

Surveyor: I see. Do they work with Non-CRV? Or, what percent of their time is CRV versus Non-CRV?

Recycling Manager: These workers spend about 90% of their time on Non-CRV, and I'll tell you why. Mostly they're weighing the commercial size paper, cardboard, and the like. About 10% of the time they'll get a customer in a pickup with CRV aluminum, glass, or plastic.

Surveyor: Of that CRV material, what percent of the time is the weigh master dealing with aluminum and bi-metal, what percent glass, what percent all plastics?

Recycling Manager: Their jobs are mostly aluminum, about 70% aluminum, 10% glass, very few big loads of glass, and 20% plastic. As I've said, bi-metal doesn't really add to the aluminum total.

Surveyor: Thank you. We're done with the accountant.

D. Sample Questions to Ask

1. If Percentages in Interview Do Not Match Observation

1. Today, we've observed more Non-CRV material activity than the interview would suggest. Has this changed since last year?
2. I see a lot of aluminum can activity today. Was glass recycling busier last year?

Answers which you might expect include:

a. This year the cardboard and newspaper recycling has picked up.
b. Last year we had more bars recycling with us.

2. If Number of Full-Time Staff Does Not Match Observation

1. Are all of your full-time staff here today?
2. Is this a slow, medium, or fast day?
3. How many shifts do you have?
4. Is anyone missing, today?
5. There were quite a few names on the staff list, and few workers, today.

Answers which you might expect include:

a. We have some people out sick, today.
b. The staff list includes part time workers.
c. We get a lot of turnover on this side of the yard.
d. This shift is not fully manned.
e. We had more workers last year.

3. If Need to Keep Executive Salaries Confidential

1. Explain that you understand their desire to keep certain salaries confidential.
2. Ask them to cover or mark out the names, but describe their function, on the copy of the salaries which you are to receive.

   Answers which you might expect include:

   a. We still don't want to give out the salaries.

   Sample Response: If you will read off the amounts, I will designate the executive by a number in the Employee Name box. All I need is the function, wages, and hours worked.

Sample 2 of a Recycling Site Labor Interview

Recycling Site of a Dual Site (a certified processor also located at this site)

Surveyor: What materials do you recycle at the recycling, or buy-back, center?

Recycling Manager: We take back cardboard, newspaper, white paper, and some scrap aluminum, in addition to the CRV aluminum, CRV glass, and CRV plastic. Last year, 2010, we took PET plastic and HDPE. We also take a small amount of bi-metal.

Surveyor: We'll be asking simply about your recycling activities in 2010. We have the list you provided us showing the employees who worked at the recycling center during 2010. Let's take the first name, here, (after several employees, the surveyor comes upon Manuel). Could you describe Manuel's job in 2010?

Recycling Manager: Manuel was an attendant. He worked only with CRV. He helped out with aluminum, glass, bi-metal when there was any, and plastic. He would inspect the customer's aluminum, glass, bi-metal, and plastic, separating the CRV from the Non-CRV. We separate our materials, except for glass. We pay commingled on glass. Then, Manuel would dump the aluminum onto the conveyor. Its weight is automatically read, a ticket is issued at the cashier stand, and the customer moves on. For glass, Manuel would sometimes help the customer sort by color. Once the material is sorted by color, he inspects it. If it's commingled, he signals the cashier. Then, Manuel weighs the glass and dumps it into a 3-yard tilt hopper. When those are full, Jesus forklifts them into the bunkers. If there was any bi-metal, Manuel would toss it in the bin over in the corner. Manuel sorts out plastics and put them in the bins behind me.

Surveyor: Did Manuel do anything else in 2010?

Recycling Manager: Hmm. Well, he was learning to use the front loader bucket to crush glass. When Jesus needed a break, and it was slow at the buyback, Manuel would head across the street, the processor side, get the front loader, drive back and crush the glass stored in the bunkers.

Surveyor (looking at the Labor Input Sheet data form boxes marked %Recycler, %Processor, %Other Business, %Unallocated): Did Manuel do other work on the processor side, or in some other part of the yard, such as curbside, or other business?

Recycling Manager: No. He works strictly in this area of the buyback, except when he crushes the glass.

Surveyor: What percent of Manuel's time was spent crushing the glass?

Recycling Manager: He spent about 10% of his time doing that.

Surveyor: Of the time that Manuel spent at the buyback, what percentage of it was in the yard?

Recycling Manager: Manuel spent 100% of his time in the yard.

Surveyor: What percent of the time was Manuel dealing with Non-CRV versus CRV material?

Recycling Manager: There is no Non-CRV, unless you count the commingled glass loads?

Surveyor: No. That's not counted as Non-CRV time. So, of his time in the yard, what percent is with aluminum and bi-metal?

Recycling Manager: I'd say a good 60% of Manuel's time was spent handling CRV aluminum, maybe add to that 3% of his time for bi-metal.

Surveyor: How much of his buyback time was handling glass?

Recycling Manager: Probably, about 20% for glass.

Surveyor: So, of Manuel's CRV time here at the buyback, 63% was with aluminum and bimetal, 20% for glass, and 17% for plastic – both PET and HDPE.

Recycling Manager: Right.

Surveyor: OK, good. Let's take the next name on the list… (after going through a number of employees, the surveyor finds the mechanic/forklift person, Jesus). Could you describe Jesus' job in 2008?

Recycling Manager: Jesus is our mechanic and forklift driver.

Surveyor: Did Jesus perform any duties at the recycling center, or buyback?

Recycling Manager: He picks up the bins and dumps them. For instance, the glass tilt-hoppers, when they fill up, Jesus takes them to the bunkers here and dumps the load.

Surveyor: What other things did Jesus do?

Recycling Manager: He moves the cardboard bales around; he forklifts the scrap aluminum and plastics bins for transport; he works on the machinery, all this across the street.

Surveyor: Across the street on the processor side.

Recycling Manager: Yes.

Surveyor: How much of Jesus' time is spent on the forklift and in the yard, as opposed to in the office, or performing mechanic's work on the equipment?

Recycling Manager: His time on the forklift, in the yard, I'd say half his time.

Surveyor: OK. When Jesus is in the yard, driving the forklift, how much of his time is spent dealing with CRV material versus Non-CRV material?

Recycling Manager: He does a lot of moving of cardboard, newspapers and the scrap metal. Moving the CRV stuff is efficient. I'd say Jesus spends about 70% of his yard time handling Non-CRV.

Surveyor: Of the CRV material, what percentage of Jesus' time is spent with aluminum and bi-metal? Assume Jesus' time spent with CRV material is a hundred percent.

Recycling Manager: I'd say he spends three times the time on aluminum as he does on plastic or glass. So, 60% of his CRV time is handling CRV aluminum cans. We don't get much bi-metal to move around, so I'd stick with 60%.

Surveyor: And, glass? How much of his CRV time is spent on glass?

Recycling Manager: About, let's see, about 20% of his time.

Surveyor: So, of CRV time, Jesus spends about 60 percent on aluminum, 20 percent on glass, and 20 percent on PET and HDPE plastic.

Recycling Manager: Right.

Surveyor: Of the time that Jesus spends in the office, or in the shop doing mechanical repair and maintenance, what percent of that time is Non-CRV versus CRV?

Recycling Manager: It's got to be the same. He spends most of his time on the forklift, and that thing is the same split. It's 70% for Non-CRV, and 30% for CRV. Same with the little paperwork that he has.

Surveyor: I see. So, of the 30% CRV, what portion, assuming CRV to be 100%, what portion is spent on aluminum/bi-metal, glass, and plastic.

Recycling Manager: Again, the same. His job is 60% aluminum (including bi-metal), 20% glass, and 20% PET and HDPE plastic.

Surveyor: Thank you. We're done with Jesus.

Work Assignments

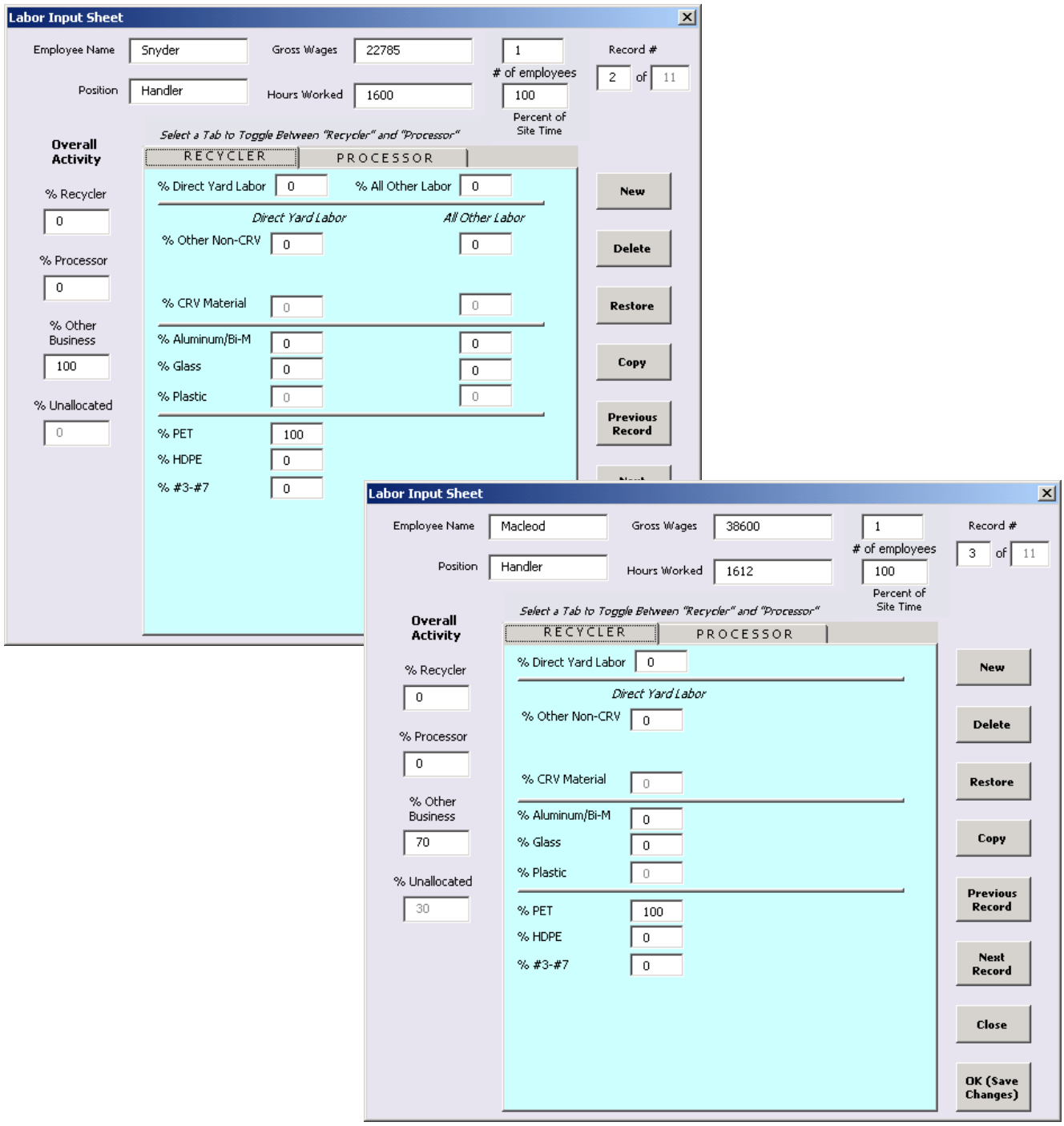
1. Conduct labor interview role-playing
2. Answer labor interview questions
3. Perform labor allocation exercises
4. Visit local recycling center

Conduct Labor Interview Role-Playing

For this role-playing exercise, each trainee should conduct a labor interview of a site manager. One interviewer will interview the site manager from Raider Recycling. For this interview the site manager from Raider Recycling should use employee information shown in pages 3 through 7. The roles then should be reversed, and the other trainee will interview the site manager from 49er Recycling who will use the employee data on pages 9 through 14.

For each recycler, enter all labor hour interview responses into the cost model. At the end of this exercise, two separate cost models should have been populated with labor data, one for Raider Recycling and one for 49er Recycling.

Raider Recycler
Site Manager Information



Raider Recycler
Site Manager Information

Labor Input Sheet

Employee Name: Ascerio | Gross Wages: 30296 | # of employees: 1 | Record #: 4 of 11
Position: Handler | Hours Worked: 2159 | Percent of Site Time: 100

Select a Tab to Toggle Between "Recycler" and "Processor"

RECYCLER | PROCESSOR

Overall Activity

% Recycler	100
% Processor	0
% Other Business	0
% Unallocated	0

	% Direct Yard Labor	*Direct Yard Labor*	% All Other Labor	*All Other Labor*
	70		30	
% Other Non-CRV	10			70
% CRV Material	90			30
% Aluminum/Bi-M	55			30
% Glass	25			30
% Plastic	20			40
% PET	80			
% HDPE	20			
% #3-#7	0			

New | Delete | Restore | Copy | Previous Record

Labor Input Sheet

Employee Name: Galindo | Gross Wages: 23298 | # of employees: 1 | Record #: 5 of 11
Position: Handler | Hours Worked: 2080 | Percent of Site Time: 100

Select a Tab to Toggle Between "Recycler" and "Processor"

RECYCLER | PROCESSOR

Overall Activity

% Recycler	100
% Processor	0
% Other Business	0
% Unallocated	0

	% Direct Yard Labor	*Direct Yard Labor*
	100	
% Other Non-CRV	50	
% CRV Material	50	
% Aluminum/Bi-M	70	
% Glass	15	
% Plastic	15	
% PET	75	
% HDPE	25	
% #3-#7	0	

New | Delete | Restore | Copy | Previous Record | Next Record | Close | OK (Save Changes)

Raider Recycler
Site Manager Information

Labor Input Sheet

Employee Name: Becerra | Gross Wages: 39044 | # of employees: 1 | Record # 6 of 11
Position: Handler | Hours Worked: 2363 | Percent of Site Time: 100

Select a Tab to Toggle Between "Recycler" and "Processor"

Overall Activity

% Recycler	100
% Processor	0
% Other Business	0
% Unallocated	0

RECYCLER | PROCESSOR

% Direct Yard Labor: 70 | % All Other Labor: 30

	Direct Yard Labor	*All Other Labor*
% Other Non-CRV	5	100
% CRV Material	95	0
% Aluminum/Bi-M	75	0
% Glass	20	0
% Plastic	5	0
% PET	50	
% HDPE	50	
% #3-#7	0	

New | Delete | Restore | Copy | Previous Record | Next

Labor Input Sheet

Employee Name: Martinez | Gross Wages: 19002 | # of employees: 1 | Record # 7 of 11
Position: Handler | Hours Worked: 1964 | Percent of Site Time: 100

Select a Tab to Toggle Between "Recycler" and "Processor"

Overall Activity

% Recycler	100
% Processor	0
% Other Business	0
% Unallocated	0

RECYCLER | PROCESSOR

% Direct Yard Labor: 75 | % All Other Labor: 25

	Direct Yard Labor	*All Other Labor*
% Other Non-CRV	25	40
% CRV Material	75	60
% Aluminum/Bi-M	33	50
% Glass	34	40
% Plastic	33	10
% PET	80	
% HDPE	20	
% #3-#7	0	

New | Delete | Restore | Copy | Previous Record | Next Record | Close | OK (Save Changes)

Raider Recycler
Site Manager Information

Labor Input Sheet

Employee Name: Franco | Gross Wages: 12000 | # of employees: 1 | Record # 8 of 11
Position: Handler | Hours Worked: 1440 | Percent of Site Time: 100

Select a Tab to Toggle Between "Recycler" and "Processor"

RECYCLER | PROCESSOR

Overall Activity

% Recycler	100
% Processor	0
% Other Business	0
% Unallocated	0

	Direct Yard Labor	*All Other Labor*
% Direct Yard Labor	50	50
% Other Non-CRV	10	20
% CRV Material	90	80
% Aluminum/Bi-M	50	30
% Glass	30	40
% Plastic	20	30
% PET	60	
% HDPE	40	
% #3-#7	0	

New | Delete | Restore | Copy | Previous Record | Next

Labor Input Sheet

Employee Name: Mendoza | Gross Wages: 23053 | # of employees: 1 | Record # 9 of 11
Position: Handler | Hours Worked: 1930 | Percent of Site Time: 100

Select a Tab to Toggle Between "Recycler" and "Processor"

RECYCLER | PROCESSOR

Overall Activity

% Recycler	100
% Processor	0
% Other Business	0
% Unallocated	0

	Direct Yard Labor
% Direct Yard Labor	100
% Other Non-CRV	5
% CRV Material	95
% Aluminum/Bi-M	60
% Glass	25
% Plastic	15
% PET	90
% HDPE	10
% #3-#7	0

New | Delete | Restore | Copy | Previous Record | Next Record | Close | OK (Save Changes)

Raider Recycler
Site Manager Information

Labor Input Sheet

Employee Name: Pasqualone | Gross Wages: 640 | # of employees: 1 | Record # 10 of 11
Position: Handler | Hours Worked: 128 | Percent of Site Time: 100

Select a Tab to Toggle Between "Recycler" and "Processor"

RECYCLER | PROCESSOR

Overall Activity

% Recycler	0
% Processor	0
% Other Business	100
% Unallocated	0

	Direct Yard Labor	*All Other Labor*
% Direct Yard Labor	0	% All Other Labor 0
% Other Non-CRV	0	0
% CRV Material	0	0
% Aluminum/Bi-M	0	0
% Glass	0	0
% Plastic	0	0
% PET	100	
% HDPE	0	
% #3-#7	0	

New | Delete | Restore | Copy | Previous Record | Next

Labor Input Sheet

Employee Name: Puente | Gross Wages: 16500 | # of employees: 1 | Record # 11 of 11
Position: Handler | Hours Worked: 1920 | Percent of Site Time: 100

Select a Tab to Toggle Between "Recycler" and "Processor"

RECYCLER | PROCESSOR

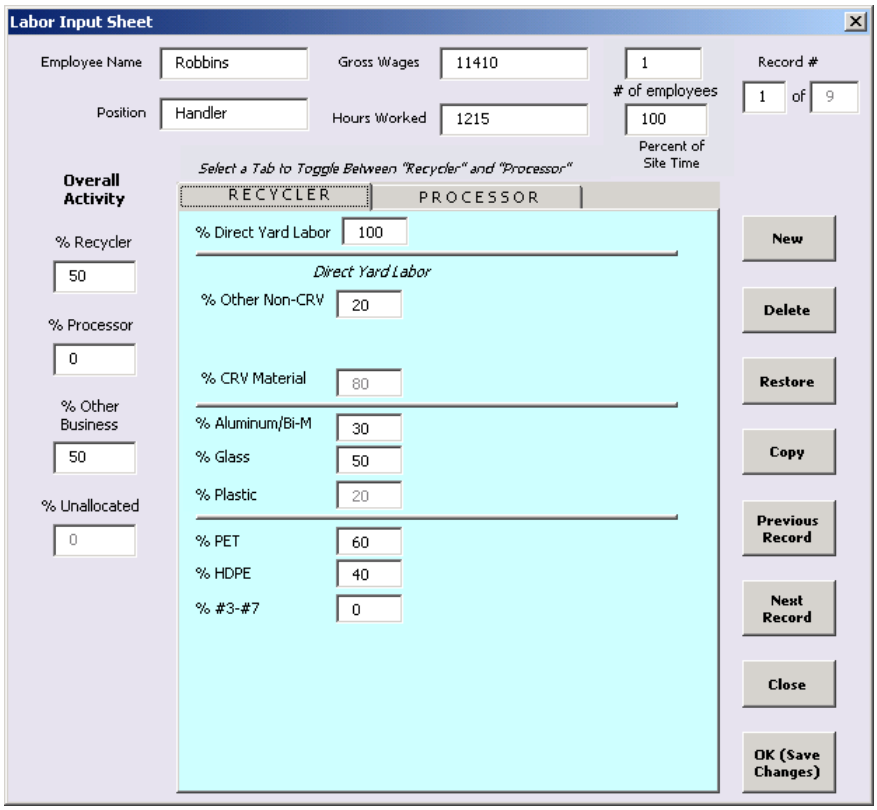
Overall Activity

% Recycler	100
% Processor	0
% Other Business	0
% Unallocated	0

	Direct Yard Labor
% Direct Yard Labor	100
% Other Non-CRV	10
% CRV Material	90
% Aluminum/Bi-M	75
% Glass	20
% Plastic	5
% PET	90
% HDPE	10
% #3-#7	0

New | Delete | Restore | Copy | Previous Record | Next Record | Close | OK (Save Changes)

49er Recycler
Site Manager Information



49er Recycler
Site Manager Information

Labor Input Sheet

Employee Name: Juarez | Gross Wages: 33432 | 1 # of employees | Record # 2 of 9
Position: Handler | Hours Worked: 2080 | 100 Percent of Site Time

Select a Tab to Toggle Between "Recycler" and "Processor"

RECYCLER | PROCESSOR

Overall Activity

% Recycler	6
% Processor	0
% Other Business	94
% Unallocated	0

% All Other Labor	100
All Other Labor	
% Other Non-CRV	60
% CRV Material	40
% Aluminum/Bi-M	10
% Glass	20
% Plastic	70
% PET	80
% HDPE	19
% #3-#7	1

New | Delete | Restore | Copy | Previous Record | Next Record

Labor Input Sheet

Employee Name: Gachman | Gross Wages: 22395 | 1 # of employees | Record # 3 of 9
Position: Handler | Hours Worked: 1552 | 100 Percent of Site Time

Select a Tab to Toggle Between "Recycler" and "Processor"

RECYCLER | PROCESSOR

Overall Activity

% Recycler	0
% Processor	0
% Other Business	100
% Unallocated	0

% Direct Yard Labor	0	% All Other Labor 0
	Direct Yard Labor	*All Other Labor*
% Other Non-CRV	0	0
% CRV Material	0	0
% Aluminum/Bi-M	0	0
% Glass	0	0
% Plastic	0	0
% PET	100	100
% HDPE	0	0
% #3-#7	0	0

New | Delete | Restore | Copy | Previous Record | Next Record | Close | OK (Save Changes)

49er Recycler
Site Manager Information

Labor Input Sheet

Employee Name: Tobias | Gross Wages: 30432 | # of employees: 1 | Record #: 4 of 9
Position: Handler | Hours Worked: 2080 | Percent of Site Time: 100

Select a Tab to Toggle Between "Recycler" and "Processor"

RECYCLER | PROCESSOR

Overall Activity
% Recycler: 30
% Processor: 0
% Other Business: 70
% Unallocated: 0

% Direct Yard Labor: 100
Direct Yard Labor
% Other Non-CRV: 67
% CRV Material: 33
% Aluminum/Bi-M: 60
% Glass: 25
% Plastic: 15
% PET: 90
% HDPE: 10
% #3-#7: 0

Labor Input Sheet

Employee Name: Creighton | Gross Wages: 26323 | # of employees: 1 | Record #: 5 of 9
Position: Handler | Hours Worked: 2330 | Percent of Site Time: 100

Select a Tab to Toggle Between "Recycler" and "Processor"

RECYCLER | PROCESSOR

Overall Activity
% Recycler: 30
% Processor: 0
% Other Business: 70
% Unallocated: 0

% Direct Yard Labor: 100
Direct Yard Labor
% Other Non-CRV: 18
% CRV Material: 82
% Aluminum/Bi-M: 55
% Glass: 20
% Plastic: 25
% PET: 100
% HDPE: 0
% #3-#7: 0

New | Delete | Restore | Copy | Previous Record | Next Record | Close | OK (Save Changes)

Labor Input Sheet

Employee Name: Diaz | Gross Wages: 15945 | # of employees: 1 | Record #: 6 of 9
Position: Handler | Hours Worked: 1861 | Percent of Site Time: 100

Select a Tab to Toggle Between "Recycler" and "Processor"

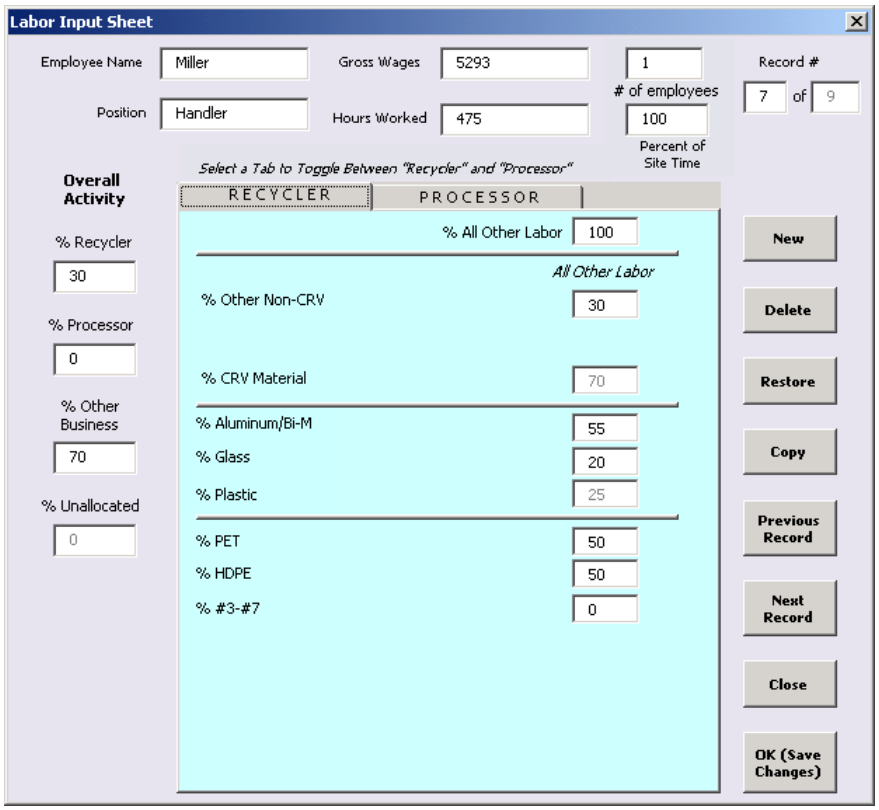
RECYCLER | PROCESSOR

Overall Activity
% Recycler: 0
% Processor: 0
% Other Business: 0
% Unallocated: 100

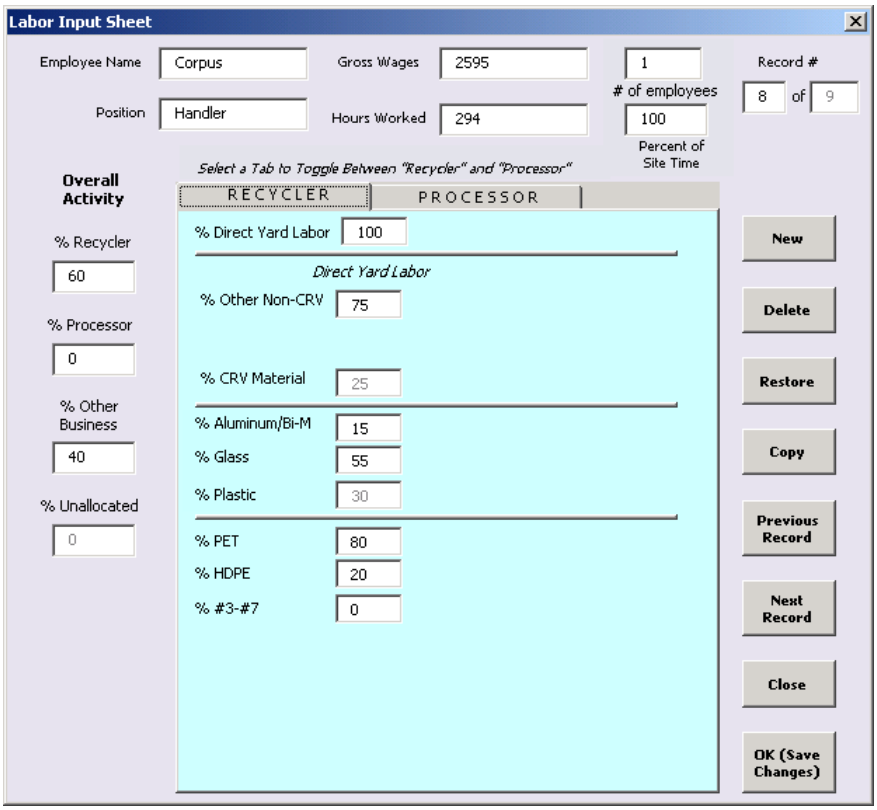
	Direct Yard Labor	*All Other Labor*
% Direct Yard Labor	0	% All Other Labor: 0
% Other Non-CRV	0	0
% CRV Material	0	0
% Aluminum/Bi-M	0	0
% Glass	0	0
% Plastic	0	0
% PET	100	100
% HDPE	0	0
% #3-#7	0	0

New | Delete | Restore | Copy | Previous Record | Next Record | Close | OK (Save Changes)

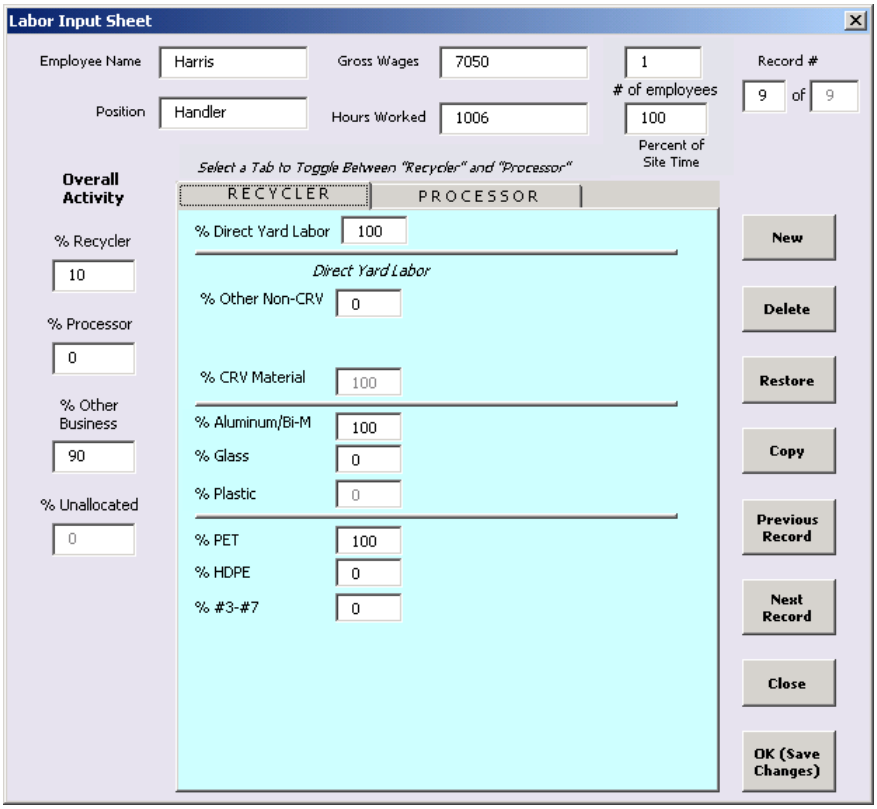
49er Recycler
Site Manager Information



49er Recycler
Site Manager Information



49er Recycler
Site Manager Information



Work Assignment 2

Answer Labor Interview Questions

Select the best answer:

1. Labor interviews should be:
   a) Conducted with each employee
   b) Conducted with site management, and, where necessary, with different supervisors and manager
   c) Conducted with below first supervisory level personnel
   d) Conducted only for employees who worked on direct yard labor for the site
   e) Reflective of current calendar year operations.

2. "Percent of Site Time" refers to:
   a) Percentage of time an employee spent at the recycler
   b) Percentage of time an employee spent at the processor
   c) Percentage of time an employee spent on other business
   d) Percentage of time an employee worked at multiple recyclers
   e) Percentage of time an employee worked at the site surveyed.

3. If the % Recycler and % Processor on the data form do not add up to 100%, then:
   a) % Other plus % Unallocated will equal 100%
   b) % Other will equal 100%
   c) % Other plus % Recycler will equal 100%
   d) % Unallocated plus % Recycler plus % Processor will equal 100%
   e) % Unallocated plus % Other plus % Processor plus % Recycler will equal 100%.

4. Direct yard labor time is not:
   a) Split between non-CRV and CRV materials
   b) Related to time spent on activities including handling and sorting materials brought in by consumers
   c) Necessarily allocated the same way for recycler and processor activities at a dual site
   d) For CRV materials, split between aluminum, glass, and plastic
   e) Allocated for both recycler and processor activities.

5. Which is always true when conducting labor interviews?
   a) The sum of CRV aluminum/bi-metal, CRV glass, and CRV plastic always equals 100 percent
   b) Net wages and only regular hours should be obtained
   c) An error will be identified in the input check area of the data form immediately when the hours paid exceed 2,080
   d) The sum of time in the % Recycler, % Processor, and % Other Business boxes should equal 100%
   e) Emphasize to the interviewee what the relevant calendar year timeframe is for determining the appropriate responses.

Work Assignment 2

6. Which is false concerning labor interviews?
   a) They are conducted in order to determine how much time each employee spends on activities at the site
   b) The allocation percentages identified for all employees are used to calculate BCI and AMI percentages
   c) The survey team must use the automated model simultaneously while simultaneously conducting the interview
   d) It may be necessary to write notes for some employees, indicating activities he/she spent time on
   e) Results of the inputs made on the data form are automatically accumulated into the **Labor Input Sheet**

7. Which is not a question that should be posed to site management?
   a) What portion of the employee's all other labor CRV processor time was unallocated?
   b) What percent of time did the employee spend working at the recycler, processor, and/or another business?
   c) If the employee worked at the recycler, what percent of time was spent on direct yard labor versus all other labor?
   d) What percent of time did the employee spend at the site?
   e) What percent of time spent on CRV material was aluminum, glass, and plastic?

8. Results of the labor allocation interviews are:
   a) Multiplied by wages and summed for each employee to obtain wages allocated to each CRV material
   b) Multiplied by wages and summed for each employee to obtain totals used in determining BCI and AMI percentages
   c) Used primarily to determine which employees performed the same activities
   d) Used primarily to determine the wage per hour for each employee
   e) Used primarily to identify employees who did not work at the site.

9. When a site manager does not know how to allocate an employee's time, the survey team should:
   a) Ask which other employees the worker hangs around with on-site
   b) Ask if you can allocate the employees time based on the mix of redemption weights
   c) Try to find a supervisor who knows exactly how to allocate the employees time
   d) Estimate allocation percentages for the site manager
   e) Inform the site manager that the employee will be automatically allocated by the model.

10. Interviewer should not try to:
    a) Probe a site manager by asking questions concerning each allocation percentage
    b) Derive any allocation percentages using their own best judgment
    c) Allocate employee's time to each activity
    d) Group like employees
    e) Separate direct yard labor and all other labor activities.

Perform Labor Allocation Exercises

For each problem below, use the information provided to complete a data form(s) for each employee. COMBINE all of your answers to this assignment into a single **Labor Input Sheet.** Use the data form to enter all employees. For each employee you enter, assume the following: (1) annual wages are $10,000, (2) annual hours worked are 1,000, and (3) percent of site time is 100. There are 22 total employees you will enter in the labor input form, one for each of the 22 questions. Also, open the **Site ID and Volumes** tab and enter "RC1111" and "PR2222" as the Recycler Cert # and Processor Cert #.

Problem 1:

The site is one RC. The employee spent time receiving and weighing CRV material. The reported amount of time spent on each CRV material type was as follows: 75% aluminum/bi-metal, 20% glass, and 5% plastic. 100% of the employee's time spent handling plastic was PET.

Problem 2:

It is dual site, with both the RC and PR included in the processing fees survey. The employee spent 75% of the time at the PR and 25% of the time at the RC. While at the RC, the employee weighed and received material, with 25% of the time spent receiving newspaper. Of the remaining 75% of time, the employee spent time receiving and weighing CRV materials as follows: 65% aluminum/bi-metal, 25% glass, and 10% plastic. 90% of the plastic time was PET, and the remaining was HDPE. While at the PR, the employee crushed and sorted glass.

Problem 3:

It is a site with 2 RCs and one PR, and only RC 1 is included in the survey sample. The employee worked 25% of the time at RC1, 25% of the time at the other RC, and 50% of the time at the PR. While at RC I, the employee supervised yard labor. The interviewee did not know the percent of time by material category. While at the PR, the employee sorted and stacked copper wire and aluminum scrap metal.

Problem 4:

The site is one RC. The employee worked as a cashier for CRV materials. The interviewee indicated that the cashiers' time was spent as follows: 50% aluminum/bi-metal, 45% glass, and 5% plastic. 100% of the plastic time was PET.

Problem 5:

It is a dual site, and both the RC and PR are included in the survey. The interviewee did not know where the person worked.

Problem 6:

It is a site with 2 RCs, and only RC 1 is included in the survey sample. The employee spent time working in the yard at both sites, but the interviewee did not know what percent of time was spent at each site.

Problem 7:

The site is one RC, and the employee spent time receiving and weighing material. The employee spent 99% of the time receiving newspaper. When working with CRV material, approximately 65% of the time was spent on aluminum, 25% on glass, and 10% on plastic. 90% of the plastic time was handling PET, while the remaining time was HDPE.

Problem 8:

The site is one RC, and the employee spent time receiving and sorting glass. The interviewee said that 100% of the employee's time was spent on CRV glass. The commingled rate for the RC was 73%.

Problem 9:

The site is one RC, and the employee spent 45% of the time as cashier and 55% of the time completing shipping reports and logs. While working as a cashier, the employee spent 30% of the time on non-CRV material. The remaining time was spent on CRV material as follows: 65% aluminum, 30% glass, and 5% plastic. 80% of the plastic time was spent handling PET, 15% handling HDPE, and 5% handling plastics 3-7. The interviewee did not know the breakout by material category of time spent completing shipping reports and logs.

Problem 10:

You are surveying just one site. The company that owns this site owns 4 RCs and 2 PRs. Only RC1 is included in the processing fee survey. The employee was a forklift operator who worked at RC 1 16% of the time, RC2 20% of the time, RC3 12% of the time, RC4 8% of the time, PR1 20% of the time, PR2 4% of the time, and 20% of the time was spent at another affiliated business. The financial statement did not include wages from the affiliated business. While at RC I, 25% of the time was spent on non-CRV material, and, of the remaining 75% of time, 45% was spent on aluminum, 50% was spent on glass, and 5% was spent on plastic. All of the plastic time was spent handling PET containers. While at both PRs, the employee drives the forklift that moves and loads scrap iron.

Problem 11:

At a dual site, an employee worked 75% at the RC and 25% at the PR. While at the RC, the employee spent 90% of the time receiving and weighing material (DYL), and 10% of the time supervising other employees (AOL). Approximately 30% of the time was spent receiving and weighing non-CRV material. The other 70% of time receiving and weighing materials was spent on CRV materials as follows: 25% on aluminum, 60% on glass, and 15% on plastic. Half of the employee's plastic time was spent handling PET, and the remaining was spent handling HDPE containers. The interviewee did not know the breakout of time spent supervising other employees by material category. At the PR, this employee only worked in the yard crushing glass. The commingled rate for this site in calendar year 2006 was 50%, so 50% of the time was reported as CRV glass and 50% reported as non-CRV glass.

Problem 12:

The site has two RCs, only one of which is included in the processing fees survey. The employee spent equal time at each RC. While at the RC included in the survey, 75% of the time was spent on cashiering activities, and 25% of the time was spent cleaning up the yard. The cashiering activities only encompassed CRV materials, and the estimated breakout of time was 10% on aluminum, 50% on glass, and 40% on plastic. All of the employee's time spent handling plastic was on PET containers. These percentages approximated the mix of CRV materials reported at the site for calendar year being surveyed. While performing maintenance functions, the interviewee was not sure the percent of time spent on each material category.

Problem 13:

You are visiting just one site, RC1. The owner of this site owns two RCs and one PR. The employee spent 60% of the time at RC 1, 20% at RC2, and 20% at the PR. While at RC I, the employee spent 90% of the time supervising yard workers (AOL), and 10% of the time as a yard worker (DYL). While working in the yard, 25% of the time was devoted to non-CRV materials. While working with CRV materials in the yard, 50% of time was spent on aluminum/bi-metal, 40% on glass, and 10% on plastic. While supervising other employees in the yard, 40% of the time was spent on newspaper. The remaining 60% of time was spent on CRV materials as follows: 50% aluminum/bi-metal, 40% glass, and 10% plastic. Half of the employee's plastic time was spent handling PET, and the remaining was spent handling HDPE containers. While at the PR, the employee maintained the newspaper baler.

Problem 14:

The site is run by Goodwill Industries, which mainly handles donated clothing, furniture, and other goods. The employee spent 99% of the time receiving things other than CRV materials. The other 1 % of time was spent receiving and weighing CRV material as follows: 40% aluminum, 35% glass, and 25% plastic. All of the plastic time was spent handling PET containers. These percentages correspond to the reported CRV mix of materials in calendar year 2010.

Problem 15:

The site consists of multiple RCs, only one of which is included in the processing fees survey. This employee is the president of the company, and the interviewee did not know the breakout of the president's time.

Problem 16:

The site consists of multiple RCs, only one of which is included in the processing fees survey. The employee was a bookkeeper that only worked at the RC included in the processing fee survey. The interviewee did not know the breakout of time by material category for the bookkeeper.

Problem 17:

This is a dual site, and the RC is included in the processing fees survey. The employee spent 50% of the time at the RC and 50% of the time at the PR. While at the RC, the interviewee did not know how the employee spent time during calendar year 2010. While at the PR, the employee operated the two aluminum can balers.

Problem 18:

This site consists of four RCs and one PR; two RCs are included in the processing fee survey. The employee is an accounting supervisor that oversees the accounting operations at all sites. The interviewee estimates that the employee spent time equally at all sites (i.e., 20% at each site). The interviewee did not know the percent of time spent in each material category.

Problem 19:

The site is one RC, and the employee is the site manager.

Problem 20:

The site is one RC, and the employee spent 50% of the time performing cashiering duties and 50% of the time directing traffic. That was all the interviewee knew about this employee.

Problem 21:

The site is one RC, and the employee is a truck driver for glass containers handled by the RC. The interviewee did not know the breakout between non-CRV glass and CRV glass, but the commingled rate for the RC was 71%. Thus, 71% was reported as CRV glass and 29% reported as non-CRV glass.

Problem 22:

The site consists of two RCs, one of which is included in the processing fee survey. This employee worked at the RC that was not included in the survey.

Module 13
Reconciling Labor Costs to Financial Statements

Objectives:

- Explain why employee wages must be reconciled with the site's financial statements
- Describe the labor reconciliation procedure

Key Topics:

- Understanding labor reconciliation procedures
- Using labor reconciliations
- Reconciling material differences

Curriculum Materials:

Reading List/Handouts:

1. Sample labor reconciliation sheet
2. Sample labor reconciliations

Work Assignments:

1. Perform labor reconciliation exercises

Key Topics

Understanding Labor Reconciliation Procedures

The survey team must confirm that the source of wages (e.g., payroll register) and source of financial information (e.g., financial statements) are for the same period. To do this, survey teams should reconcile labor costs obtained from the source of wages to labor costs obtained from the source of financial information.

The calculation of this reconciliation is provided in a schedule located in the **Cost Summary** tab of the automated cost survey model (a sample labor reconciliation schedule is included as a handout in this module). In this schedule, total labor wages from the **Labor Input Sheet** of the model are compared to total labor costs entered on the **Cost Input Sheet** from the site's financial statements. The difference between the two figures is the *unlocated difference,* calculated as follows:

	Calculation	Source (cost survey model worksheet name)
	Labor costs from financial statements	**Cost Input Sheet**
-	Labor wages	**Labor Input Sheet**
-	Category 1B labor (non-direct wage labor) from financial statements	**Cost Input Sheet,** cost categories 1B
=	Unlocated difference (ULD).	

The percent ULD is calculated as follows:

$$\frac{\text{ULD}}{\text{Labor costs from financial statements}} = \text{ULD\%}$$

Using Labor Reconciliations

Survey teams should always reconcile labor costs in order to determine that the source documents used for each employee's wages is for the same time period as the financial statements used for the site's costs. Potential reasons why these two sources may not reconcile include:

- Sources are for different periods
- One source is fiscal year and one is calendar year
- One source reflects partial year data (e.g., payroll information for eight months of the year)
- Part-time, or temporary, employees are paid cash and were not included in one source
- Miscellaneous other labor costs (e.g., benefits, insurance) are not identified on the financial statements
- Errors were made by company (e.g., employees reclassified during year may be incorrectly summarized at end of year, EDD forms completed by company may have errors)
- Labor costs are not correctly imputed (e.g., wages actually paid and shown on financial statements are different from wages determined by the survey team for a month that was missing from the payroll register).

Reconciling Material Differences

Should the unlocated difference be greater than five percent or less than negative five percent of total labor costs from the financial statements, it is considered a *material* difference. Where the difference is material, the survey team should determine why and, where possible, adjust either source to reduce the material difference. For example, the survey team may have neglected to annualize eight months of wage data to approximate calendar year results. Likewise, a laborer wage which was included in the source of financial information, but not in the source of wages, may need to be identified.

When unable to adjust either source, an explanation of the difference should be noted in the *Site Memorandum* under "Problems Encountered." A number of sample labor reconciliations are included as a handout to this module.

Schedule

Estimated module time:	**1 Hours**	
Outline of Module	**Technique**	**Training Time *(including self study) (min.)***
l. Introduce module	Lecture	15
2. Read key topics, handouts	Reading	15
3. Do work assignment #1 – Perform labor reconciliation exercises	Work assignment	20
4. Review results and check answers	Self Review	10
	Totals	**60**

Readings and Handouts

1. Sample labor reconciliation sheet
2. Sample labor reconciliations

Handout 1

Sample Labor Reconciliation Automated Cost Survey Model

Labor Reconciliation

	Source of Labor Costs	Cost
1	Labor Per Financial Information	$18,111
2	Labor Per Labor Input Sheet	13,154
3	Labor Financial Statement Category 1B	3,777
4	**Unlocated Difference** (line 1 – line 2 – line 3)	$1,180

Unlocated Difference as a % of Labor per Financial Information

6.52% % ULD of Labor

Source: **Cost Summary** sheet in automated cost survey model

Sample Labor Reconciliations

Example 1

Labor per Financial Statement (financial statements are for fiscal year ending Oct. 31, 2010)	$2,957,307
Less:	
Labor per Labor Input Sheet	< 2,797,648 >
Labor Financial Statement Category 1B	< 310,448 >
Unlocated Difference (ULD)	< $150,789 >*

* The difference is the result of using calendar year wage expenses from W-2 forms instead of fiscal year information. The recycler stated that wages decreased in the latter part of 2010 due to cutbacks in overtime. This result is not considered material.

Example 2

Labor per Financial Statement		$45,790
Less:		
Labor per Labor Input Sheet		< 34,380 >
Labor Financial Statement Category 1B:		
Other Labor	9,849	
Worker's Comp	4,535	
Total		< 14,384 >
Unlocated Difference (ULD)		< $2,974 >*

* Per conversation with Gary Payton, Acct., it was noted that wages from the financial statements are a net figure and not a gross figure. The difference is the withholdings from the employee's pay. To verify this, I vouched a test week and found the total withholdings to be $57 per week. This figure annualized is $57 per week multiplied by 52, or $2,964. We added $2,964 to the Cost Input Sheet as a Category 1 B cost. The new reconciliation is as follows:

Labor per Financial Statement (added $2,964)		$48,754
Less:		
Labor Per Labor Input Sheet		< 34,380 >
Labor Financial Statement Category 1B:		
Other Labor	< 9,849 >	
Worker's Comp	< 4,535 >	
Total		< 14,384 >
Unlocated Difference (ULD)		< $10 >*

This new ULD is not considered material.

Example 3

Labor per Financial Statement		$831,600
Less:		
Labor per Labor Input Sheet		< 615,508 >
Labor Financial Statement Category 1B:		
Payroll taxes	43,869	
Employee health care insurance	83,396	
Commissions	2,433	
Bonuses	56,013	
Total		< 185,711 >
Unlocated Difference (ULD)		$30,381*

* The business used 800 hours of contract labor for yard work, paying $25 per hour for this labor, for a total of $30,000. This contract labor cost is included in the financials, but is not included on the payroll register. We interviewed the site manager to determine the allocation of this contract labor hours, and added the 800 hours and $30,000 of contract labor to the Labor Input Sheet. The new reconciliation is as follows:

Labor per Financial Statement		$831,600
Less:		
Labor per Labor Input Sheet (includes $30 K contract labor)		< 645,508 >
Labor Financial Category 1B:		
Payroll taxes	< 43,869 >	
Employee health care insurance	< 83,396 >	
Commissions	< 2,433 >	
Bonuses	< 56,013 >	
Total		< 185,711 >
Unlocated Difference (ULD)		$381*

Example 4

Labor per Financial Statement	$197,820
Less:	
Labor per Labor Input Sheet	< 180,220 >
Labor Financial Statement Category 1B:	
Other Labor	< 17,595 >
Unlocated Difference (ULD)	$5

Work Assignments

1. Perform labor reconciliation exercises

Labor Reconciliation Exercises

Problem 1

Use the information below to perform a labor reconciliation for 123 Recycle Company.

123 Recycle Co. Employees		2010 Gross Wages/Salary	2010 Hours Paid
No	Name		
1	Isabel Legras	$16,640	2,080
2	Leca George	27,600	2,080
3	Frank Sosa Jr.	27,600	2,080
4	Frank Sosa Sr.	7,200	2,080
5	Simon Vigueroa	12,480	2,080
6	Pedro Alonzo	12,480	2,080
7	George Flores	16,640	2,496
8	Gwen Loyd	8,580	1,560
9	Theresa Sufelt	4,290	780
10	Rodolfo Mendez	7,800	1,560
11	Various Labor	38,915	7,783
	Total	$180,225	26,659

123 Recycle Co. Internally Prepared Schedule of Costs

Description	Amount
Compensation of officers	$74,342
Salaries and wages	105,883
Repairs	3,468
Bad debts	0
Rents	13,244
Payroll taxes	17,595
Personal property tax	79
Income tax - state	600
Depreciation	789
Auto & truck	6,171
Bank charges	3,691
Business promotion	425
Dues and subscriptions	73
Employee relations	183
Entertainment	1,800
Equipment rental	2,060
Hauling fees	5,545
Insurance	24,435

For problems 2 and 3, use the information provided to calculate the unlocated difference. It is recommended that you create and enter appropriate entries into the **Labor Input Sheet** and **Cost Input Sheet** of a cost model and let the model calculate the ULD.

2.	Wages from the payroll register	$1,963,963	
	Employee medical insurance	83,486	
	Miscellaneous other labor	24,000	
	Payroll taxes	171,984	
	Worker's compensation	296,545	
	Outside labor	67,121	
	Temporary yard labor (actually paid, so imputed)	576,778	
	Temporary labor - accountant (actually paid, so imputed)	46,922	
	Wages shown on financial statements	2,016,121	ULD:_____

3.	Wages from the payroll register	$369,306	
	Worker's compensation	47,301	
	Wages shown on financial statements	370,000	
	Payroll taxes	30,300	ULD:_____

4. Labor reconciliation is used to:
   a) Confirm that the source of labor wages and source of labor hours are consistent
   b) Confirm that the source of wages and source of financial information are from the same ledger
   c) Confirm that the source of financial information is for the relevant calendar year
   d) Confirm that the source of wages and financial information are for the same relevant period
   e) Flag problems with a site's labor allocation percentages.

5. The unlocated difference is:
   a) The difference between labor wages and labor hours
   b) The difference between labor wages and category 1B labor from the financial statements
   c) Used to flag an imputed labor cost
   d) The difference between the source of wages and source of financial information
   e) Material only when greater than five percent.

6. For the labor reconciliation for XYZ Recycler shown on page 3, calculate the unlocated difference as a percent of total labor cost from the financial statements. Recalculate the unlocated difference assuming you were able to identify an owner's draw from the balance sheet equal to $49,547.

7. For the labor reconciliation for QRS Recycler shown on page 3, calculate the unlocated difference as a percent of the total labor cost from the financial statements. Recalculate the unlocated difference assuming you were able to identify an outside labor cost from a temporary agency of $34,637. Note that this outside labor cost was not identified on the financial statements nor in the original records obtained for labor wages and hours.

8. For the labor reconciliation for 007 Recycler shown of page 3, calculate the unlocated difference as a percent of total labor cost from the financial statements. What conclusion can you make regarding the unlocated difference, assuming that the $1,244,936 was the result of annualizing six months of financial information, whereas the source of wages was obtained for the full relevant calendar year?

Labor Reconciliation for XYZ Recycler

Labor Reconciliation

Labor Reconciliation	Cost
Labor per Financial Statement	$96,962
Less:	
Labor per Labor Input Sheet	< 130,263 >
Labor Financial Statement Category 1B	< 12,597 >
Unlocated Difference	(45,898)

Labor Reconciliation for QRS Recycler

Labor Reconciliation

Labor Reconciliation	Cost
Labor per Financial Statement	$772,882
Less:	
Labor per Labor Input Sheet	< 517,666 >
Labor Financial Statement Category 1B	< 257,310 >
Unlocated Difference	($2,094)

Labor Reconciliation for 007 Recycler

Labor Reconciliation

Labor Reconciliation	Cost
Labor per Financial Statement	$1,244,936
Less:	
Labor per Labor Input Sheet	< 845,598 >
Labor Financial Statement Category 1B	< 73,036 >
Unlocated Difference	$326,302

Module 14
Allocating Indirect Costs to Beverage Containers

Objective:

- Provide an overview of the allowable cost allocation method and approach

Key Topics:

- Understanding the basis for allocating labor wages and indirect costs using labor hours
- Allocating direct and indirect costs
- Reviewing how the automated cost survey model works

Curriculum Materials:

Reading List/Handouts:

1. None

Work Assignments:

1. Use labor hours to allocate indirect costs
2. Understand allocation of direct and indirect costs

Key Topics

Understanding the Basis for Allocating Labor Wages and Indirect Costs Using Labor Hours

Employee hours and the labor allocation percentages input into the data form (on the **Labor Input Sheet** of the cost model) are not necessarily the percentages used to allocate indirect costs. The percentages directly input by the interviewer are only components of the actual percentages used to allocate hours. For example, the model determines the product of the following six percentages to calculate the recycler's specific percentages for direct yard labor related to a CRV material: (1) Site Time, (2) Recycler, (3) Direct Yard Labor, (4) CRV, (5) CRV material type, and (6) site-specific commingled rate for that material type.

For example, in response to questions asked of site management regarding a specific employee's activities, responses were given for what proportion of time the employee spent on specific activities. **Table 1,** below, shows the responses and resulting allocation of time to CRV aluminum. Assuming the employee worked 1,000 hours during the year, 600 hours would be allocated to the direct yard labor component (1,000 hours x 60 percent), 135 hours (1,000 x 13.5 percent) to all other labor, and a total of 735 hours (1,000 hours x 73.5 percent) would be allocated to CRV aluminum for this employee.

Table 1
Calculation of an Employee's CRV Aluminum Allocation Percentage

Description	DYL (%)	AOL (%)	Total
Site Time	100%	100%	
Recycler	100	100	
DYL vs. AOL	80	20	
CRV	100	90	
Aluminum	75	75	
Commingled Rate	100	100	
Percentage[(a)]	**60%**	**+ 13.5%**	**= 73.5%**

(a) The product of the six percentages in the table.

Note that the same process is used for both direct yard labor (DYL) and all other labor (AOL) components for each recycler employee. The sum of DYL and AOL percentages equals the total percentage of hours allocated to that material for the employee.

Labor hours are totaled for all employees into four groups: CRV aluminum, CRV glass, CRV plastic (all seven resin types), and other materials/ business. For example, the employee's 735 hours above, which were allocated to CRV aluminum, would be added to hours allocated to CRV aluminum for all of the other employees.

Total site hours for CRV aluminum, CRV glass, and CRV plastic then are used to calculate Beverage Container Indirect (BCI) percentages. Totals for CRV aluminum, CRV glass, CRV plastic, and other materials/ business are used to calculate All Materials Indirect (AMI) percentages.

Note that site specific commingled rates are applied to allocation percentages before they are used to allocate indirect costs.

Each employee's wages are directly allocated to each CRV material based on that employee's allocation percentages. For example, at the site above, an employee with gross wages of $20,000 would have $14,700 ($20,000 x 73.5 percent) of his gross wage directly allocated to CRV aluminum.

Allocating Direct and Indirect Costs

Direct and indirect costs allocated to each CRV material are summed to determine a site's total costs for each material. Direct costs (as discussed in Module 9) are identified during the cost interview with site management, while indirect costs, identified in the same interview with site management, are allocated to CRV materials using labor hours (either BCI or AMI percentages).

During cost interviews with site management, survey teams separately identify total costs from each of the allowable cost categories into one of the following:

- CRV type aluminum cans
- CRV type glass containers
- CRV type plastic containers
- BCI – beverage container indirect
- Other materials/business
- Recycler AMI – all materials indirect.

Costs identified by the team as direct CRV aluminum, CRV glass, CRV plastic, and other materials/business costs are totaled into their respective groups. The team should also identify costs as either BCI or recycler AMI costs, which, along with the remaining all locations AMI costs, are indirect, and allocated by the cost model using labor hours. A schematic of this methodology is provided in **Exhibit 14-1.**

Reviewing How the Automated Cost Survey Model Works

To allocate indirect costs of a site, the cost survey model calculates BCI percentages and AMI percentages for the recycler. To determine the BCI percentages the model first sums, for each CRV material, the labor hours allocated to that material. For each CRV material the model divides labor hours allocated to that material by total labor hours allocated to all three CRV materials. For example the aluminum BCI percentage would equal:

$$\text{Aluminum BCI (\%)} = \frac{\text{Total labor hours allocated to CRV aluminum}}{\text{Sum of labor hours allocated to CRV aluminum, CRV glass, and CRV plastic.}}$$

The model also sums the labor hours allocated to each CRV material and to other material/business. To determine AMI percentages for each material, the model divides labor hours allocated to that CRV material by total labor hours allocated to CRV materials and other materials/ business. For example the aluminum AMI percentage would equal:

$$\text{Aluminum AMI (\%)} = \frac{\text{Total labor hours allocated to CRV aluminum}}{\text{Sum of labor hours allocated to CRV aluminum, CRV glass, CRV plastic, and other materials/business.}}$$

Additionally, for all locations AMI costs, the model splits these costs into AMI costs for each site also using labor hours. The cost is then treated as an AMI cost for that site. For example, assume a site's hours are split 60 percent recycler and 40 percent processor labor hours. An all locations AMI cost of $1,000 would be split into an AMI cost of $600 ($1,000 x 60 percent) for the recycler, and an AMI cost of $400 ($1,000 x 40 percent) for the processor. The $600 recycler cost then treated as an AMI cost, as described above.

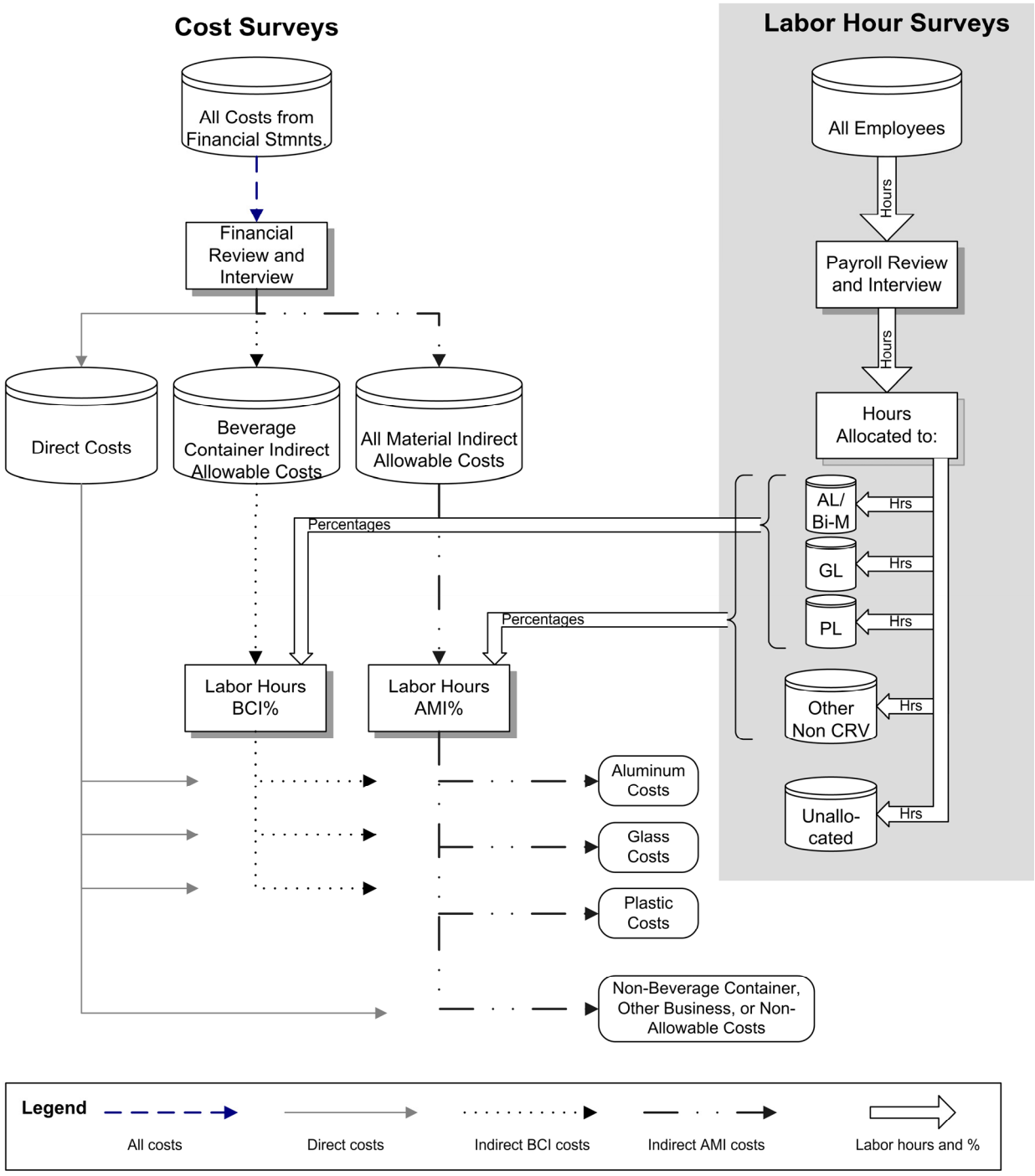
Schedule

Estimated module time:	**1.2 Hours**	
Outline of Module	**Technique**	**Training Time *(including self study) (min.)***
1. Introduce module	Lecture	10
2. Read key topics	Reading	10
3. Do work assignment #1 – Use labor hours to allocate indirect costs	Work Assignment	30
4. Do work assignment #2 – Understand allocation of direct and indirect costs	Work Assignment	10
5. Review results with participants	Self Review	10
	Totals	**70**

Exhibit 14-1

Method of Allocating Costs to CRV Materials

Cost and Labor Hour Allocation Surveys



Module 14, Exhibit 14-1

Work Assignments

1. Use labor hours to allocate indirect costs
2. Understand allocation of direct and indirect costs

Work Assignment 1

Use Labor Hours to Allocate Indirect Costs

You may team up with one or two other training participants to work together on this problem.

Using the three recycler hour allocation summaries attached on pages 2 and 3 of this work assignment (RC 1000, RC 100, and RC 10), calculate the AMI and BCI percentages for CRV aluminum, CRV glass, CRV plastic, and, where applicable non-CRV business. Note that the number of employees is 14 (RC 1000), 13 (RC 100), and 18 (RC 10) for the three sites, respectively. Assume that the site-specific commingled rate for all CRV materials is 100 percent (100%). Hint: Examine the hours shown in the columns under the label "Total Recycler Hours".

Work Assignment 1
Page 2 of 4

RC1000

RC1000 Total Recycler Hour Allocation

Direct Yard Labor Hours						All Other Labor Hours						Total Recycler Hours					
Aluminum/Bi-Metal	Glass	All Plastic	Non CRV	Unall.	Total	Aluminum/Bi-Metal	Glass	All Plastic	Non CRV	Unall.	Total	Aluminum/Bi-Metal	Glass	All Plastic	Non CRV	Unall.	Total
9	2	1	2	0	14	0	0	0	0	0	0	9	2	1	2	0	14
4	1	1	119	0	125	0	0	0	0	0	0	4	1	1	119	0	125
3	5	1	20	0	29	3	5	1	20	0	29	6	10	2	40	0	58
188	124	77	90	0	479	0	0	0	0	0	0	188	124	77	90	0	479
1	0	0	18	0	19	0	0	0	0	0	0	1	0	0	18	0	19
0	0	0	0	0	0	20	13	17	33	0	83	20	13	17	33	0	83
41	71	13	434	0	559	0	0	0	0	0	0	41	71	13	434	0	559
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	5	3	4	8	0	20	5	3	4	8	0	20
2	0	0	59	0	61	0	0	0	0	0	0	2	0	0	59	0	61
0	0	0	9	0	9	0	0	0	0	0	0	0	0	0	9	0	9
31	53	10	218	0	312	31	53	10	218	0	312	62	106	20	436	0	624
3	1	0	81	0	85	0	0	0	0	0	0	3	1	0	81	0	85
6	1	1	159	0	167	0	0	0	0	0	0	6	1	1	159	0	167

RC100

RC100 Total Recycler Hour Allocation

Direct Yard Labor Hours						All Other Labor Hours						Total Recycler Hours					
Aluminum/ Bi-Metal	Glass	All Plastic	Non CRV	Unall.	Total	Aluminum/ Bi-Metal	Glass	All Plastic	Non CRV	Unall.	Total	Aluminum/ Bi-Metal	Glass	All Plastic	Non CRV	Unall.	Total
345	53	132	29	0	559	0	0	0	0	0	0	345	53	132	29	0	559
117	39	39	11	0	206	0	0	0	0	0	0	117	39	39	11	0	206
0	0	0	0	0	0	110	146	109	1	0	366	110	146	109	1	0	366
1,013	608	403	109	0	2,133	0	0	0	0	0	0	1,013	608	403	109	0	2,133
23	30	23	4	0	80	0	0	0	0	0	0	23	30	23	4	0	80
0	0	0	0	0	0	71	94	70	0	0	235	71	94	70	0	0	235
485	646	482	88	0	1,701	0	0	0	0	0	0	485	646	482	88	0	1,701
113	63	75	14	0	265	0	0	0	0	0	0	113	63	75	14	0	265
9	11	9	2	0	31	0	0	0	0	0	0	9	11	9	2	0	31
252	189	188	34	0	663	0	0	0	0	0	0	252	189	188	34	0	663
85	188	68	18	0	359	0	0	0	0	0	0	85	188	68	18	0	359
456	1,369	454	123	0	2,402	0	0	0	0	0	0	456	1,369	454	123	0	2,402
3	4	3	1	0	11	0	0	0	0	0	0	3	4	3	1	0	11

RC10

RC10 Total Recycler Hour Allocation

Direct Yard Labor Hours						All Other Labor Hours						Total Recycler Hours					
Aluminum/Bi-Metal	Glass	All Plastic	Non CRV	Unall.	Total	Aluminum/Bi-Metal	Glass	All Plastic	Non CRV	Unall.	Total	Aluminum/Bi-Metal	Glass	All Plastic	Non CRV	Unall.	Total
6	3	1	1	0	11	0	0	0	0	0	0	6	3	1	1	0	11
27	13	4	3	0	47	0	0	0	0	0	0	27	13	4	3	0	47
0	0	0	8	0	8	0	0	0	0	0	0	0	0	0	8	0	8
7	6	1	132	0	146	0	0	0	0	0	0	7	6	1	132	0	146
14	14	3	281	0	312	0	0	0	0	0	0	14	14	3	281	0	312
1,266	618	186	150	0	2,220	0	0	0	0	0	0	1,266	618	186	150	0	2,220
909	444	134	108	0	1,595	0	0	0	0	0	0	909	444	134	108	0	1,595
0	0	0	9	0	9	0	0	0	0	0	0	0	0	0	9	0	9
63	61	12	1.258	0	1,394	0	0	0	0	0	0	63	61	12	1,258	0	1,394
0	0	0	9	0	9	0	0	0	0	0	0	0	0	0	9	0	9
31	15	5	4	0	55	0	0	0	0	0	0	31	15	5	4	0	55
6	3	1	1	0	11	0	0	0	0	0	0	6	3	1	1	0	11
12	12	2	237	0	263	0	0	0	0	0	0	12	12	2	237	0	263
6	6	1	128	0	141	0	0	0	0	0	0	6	6	1	128	0	141
11	10	2	213	0	236	0	0	0	0	0	0	11	10	2	213	0	236
35	**10**	4	13	0	62	664	185	84	253	0	1,186	699	195	88	266	0	1,248
50	14	6	19	0	89	941	263	119	358	0	1,681	991	277	125	377	0	1,770
0	0	0	0	0	0	35	34	30	5	0	104	35	34	30	5	0	104

Work Assignment 2

Understand Allocation of Direct and Indirect Costs

True or False

1. ____ All indirect costs are allocated according to AMI percentages.

2. ____ AMI for other materials/business is equal to the total labor hours allocated to other materials/business divided by the sum of labor hours allocated to all CRV materials, and other materials/business.

3. ____ BCI for aluminum is equal to total labor hours allocated to CRV aluminum divided by the sum of labor hours allocated to all CRV materials and other materials/business.

4. ____ Direct costs are allocated to each CRV material using an allocation basis of labor hours.

5. ____ Labor wages are allocated by BCI and AMI percentages.

For problems 6-10, refer to this schedule:

Total Labor Hours

	CRV Aluminum	CRV Glass	CRV Plastic	Other Materials/Business
Employee 1	300	300	200	100
Employee 2	500	500	0	0
Employee 3	250	350	400	0

6. ____ The BCI glass percentage equals 38.3 percent.

7. ____ If Employee 1 was not included, the BCI and AMI percentages would equal each other.

8. ____ The AMI other materials/business percentage equals 3.3 percent.

9. ____ Assuming Employee 2 was paid $10 per hour, the wages directly allocated to CRV glass from Employee 2 would be $500.

10. ___ A total of $2,000 of a $10,000 AMI rent cost for the above site would be allocated to CRV plastic.

Module 15
On-Site File Review

Objective:

- Detail how to perform an on-site desk review

Key Topics:

- Completing the allowable cost survey site file:
  - Site visit procedures
  - Site memorandum
  - Financial cost data
  - Labor data
- Reviewing workpapers to confirm they are all-inclusive
- Performing a reasonableness check of survey results:
  - Labor hours allocation percentages (BCI and AMI)
  - Automated cost survey model **Review Sheet** summary statistics

Curriculum Materials:

Reading List/Handouts:

1. On-site review checklist
2. **Review Sheet** sample

Work Assignments:

1. Perform desk review of actual site files

Key Topics

Completing the Allowable Cost Survey Site File

To ensure that information obtained during site visits is complete and correctly assembled into a site file, the survey team should review the site file using specific on-site quality control measures. Before leaving a site, the survey team should assure that all site visit procedures have been completed, that information needed to complete the *Site Memorandum* is obtained, and that financial cost data and labor data are complete and documented.

The *Cost Survey Site Procedures* form (described in module 2) provides a checklist of on-site and off-site survey procedures. Prior to leaving the site, the survey team should ensure each on-site procedure is properly indexed to a workpaper reference and signed off by the survey team with an initial and date.

The survey team also should ensure that the *Site Memorandum* includes information documented in each of the following areas:

- A general description of operations
- Description of CRV materials handled
- Source of payroll information
- Source of financial information
- Description of why items are direct costed and the approaches used
- Problems encountered and how these problems were solved
- Contact name, titles, telephone numbers, and fax numbers.

Where no information is provided in any one area, interviewers should indicate "none" and include an explanation.

The survey team should review financial cost data to ensure that the source of the financial information and any supporting schedules are included in the workpapers. The survey team also should ensure that cost totals from the **Cost Input Sheet** equal cost totals shown on the source of financial information (e.g., financial statements, federal tax returns). The survey team should confirm that allowable costs have been properly identified, and that adequate descriptions are provided for any unclear or imputed costs. Finally, the survey team should confirm that direct costs are properly identified and footnoted.

The survey team should confirm wage totals on the **Labor Input Sheet** (of the cost model) equal totals on the site's source of wage information (e.g., payroll register, W-2 forms), and that hour totals equal totals on the site's source of hour information (e.g., payroll register). Further, the survey team should confirm that labor activities have been adequately identified on the **Labor Input Sheet.**

Reviewing Workpapers to Confirm They are All-Inclusive

The survey team should review the site file to determine that all workpapers are included, and that initials and dates are provided at the bottom right corner of each workpaper. The survey team should review workpapers to ensure that ordering, indexing, cross referencing, and tick-marking are complete and correct for all workpapers.

Performing a Reasonableness Check of Survey Results

The survey team should review all results of the automated survey model. The survey team should compare labor hour allocation percentages (i.e., Beverage Container Indirect and All Materials Indirect percentages) to the estimated activity split and estimated CRV breakdown information on the *Site Memorandum* as a check. Any major differences should be noted and explained.

The survey team should use the following guidelines to evaluate results shown on the **Review Sheet** (a tab in the automated cost survey model):

- Unallocated hours should not exceed three percent (3%) of total site hours
- Unallocated wages should not exceed three percent (3%) of total site wages
- Unlocated differences (% ULD) should not exceed five percent (5%) of the labor costs identified in the financial information
- Direct Yard Labor wages per hour should not exceed $20 per hour.
- All Other Labor wages per hour should not exceed $60 per hour.
- Total wages per hour should not exceed $32 per hour.

Where possible, the survey team should research and correct any errors that might be found, or provide an explanation for any unreasonable results.

The survey team also should verify that cost per ton results for each CRV material and the cost per container are reasonable compared to the estimated deviations determined from the prior allowable cost surveys. The survey team should review the percentage mix of containers and hours for aluminum, glass, and PETE plastic on the review sheet to confirm that costs and hours are included only for materials recycled at that recycler.

To assist in reviewing the reasonableness of results produced by the cost model, the survey team and other reviewers should reference *Cost Survey Quality Control Ranges Reference Chart.* This chart provides a number of guidelines to assist in identifying potential areas that may require additional review and confirmation, and where the site team may need to provide explanation of results in the *Site Memorandum.*

Schedule

Estimated module time:	**1.3 Hours**	
Outline of Module	**Technique**	**Training Time** ***(including self study) (min.)***
1. Introduce module	Lecture	10
2. Read key topics, handouts	Reading	10
3. Do work assignment #1 – Perform desk review of actual site files	Work Assignment	30 – 60
4. Review site files with participants	Self Review	30
	Totals	**80 – 110**

Readings and Handouts

1. On-site review checklist
2. **Review Sheet** sample

Handout 1

On-site Review Checklist

RC number, PR number, and site name: _____

- On-site visit procedures performed (use the *Cost Survey Site Procedures* form as a checklist)
- *Site Memorandum* prepared
- Labor hours and wages acquired and footnoted
- Total labor costs on financial statements compared with total labor wages from payroll documentation
- When possible, labor wages and hours entered into automated model
- Financial cost data acquired, including source financial statements obtained
- Allowable costs determined, and documented, and, where possible on-site, entered into the model and compared with total costs on financial documentation
- Direct costs identified and, where possible on-site, entered into the model
- When possible, automated cost survey model complete
- Labor costs reconciled (i.e., -5% < ULD < 5%)
- Reasonableness check of automated model review sheet (summary statistics) performed

Comments: _____

_____

_____

_____

_____

_____

_____

_____

_____

Handout 2

Review Sheet Sample

RCXXXX
No PR

Company Name:	Recycler XXXX	**Labor Rec. (%ULD)**	10.0% (c)
Unall. Hours % of Total	4.0% (a)	**Overall Wage Per Hour**	$31.52 (d)
Unall. Wages % of Total	5.0% (b)	**Total RC Costs**	$0

Wages Per Hour

	DYL	AOL	Total
RCXXXX	$25.00 (d)	$41.00	$33.00 (d)
No PR	No Hours	No Hours	No Hours

Cost Per Ton

	Aluminum	Bi-Metal	Aluminum/Bi-Metal	Glass	Plastic
RCXXXX	$250.00	$256.00	$250.05	$2.00 (e)	$5,500.00 (f)
No PR			No PR Aluminum	No PR Glass	No PR Plastics

	PET #1	HDPE #2	PVC #3	LDPE #4	PP #5	PS #6	Other #7
RCXXXX	$5,500.00	No HDPE	No PVC	No LDPE	No PP	No PS	No Other

Recycler Percentage of Total Aluminum/Bi-Metal, Glass, and Plastic

	Aluminum/Bi-Metal	Glass	Plastic
Number of Containers	90.6%	9.6%	0.0% (g)
Hours	61.2%	33.0%	0.0%
Difference	29.4%	-23.4%	0.0%

Processor Percentage of Total Aluminum/Bi-Metal, Glass, and Plastic

	Aluminum/Bi-Metal	Glass	Plastic
Number of Containers	No Weight	No Weight	No Weight
Hours	No Hours	No Hours	No Hours

FOOTNOTES TO THIS REVIEW SHEET:

(a) Percentage of unallocated hours greater than three percent
(b) Percentage of unallocated wages greater than three percent
(c) Percentage unlocated difference (% ULD) greater than five percent
(d) Wages per hour greater than QC guidance ($20 and $28/hr)
(e) Cost per ton amount appears unreasonably low
(f) Cost per ton amount appears unreasonably high
(g) Zero percent plastic mix inconsistent with costs being shown for plastic

Total Costs

	Aluminum	Bi-Metal	Aluminum/Bi-Metal	Glass	Plastic
RCXXXX	$48,100.00	$800.00	$48,900.00	$27,100.00	$35,881.00
No PR			No PR Aluminum	No PR Glass	No PR Plastics

	PET #1	HDPE #2	PVC #3	LDPE #4	PP #5	PS #6	Other #7
RCXXXX	$35,881.00	No HDPE	No PVC	No LDPE	No PP	No PS	No Other

Work Assignment

1. Review an actual site file from a prior processing fee survey. Identify issues identified and techniques used to develop this site's cost per ton.

Module 16
Office Quality Control

Objective:

- Describe how to perform a home office review of a site file

Key Topics:

- Reviewing workpapers to see that they are all-inclusive
- Determining that survey procedures were followed and the site activity description form and site memorandum are complete
- Determining that problems encountered were treated properly
- Verifying automated cost survey model completeness
- Reviewing reasonableness of salaries and relationship of wages to hours
- Determining that costs are verified to a documented source and consistent with financial information
- Reviewing labor reconciliation
- Reviewing overall survey results
- Clearing any review notes

Curriculum Materials:

Reading List/Handouts:

1. Office review checklist
2. *Cost Survey Site File Peer Review Procedures*

Work Assignments:

1. Review actual site file and present review to all training participants

Key Topics

Reviewing Workpapers to See that they are All-Inclusive

Senior staff should ensure that all workpapers are included, and that initials and dates are provided at the bottom right corner of each workpaper. Workpapers should be reviewed to determine that ordering, indexing, and cross referencing is complete and correct for all workpapers.

Determining that Survey Procedures were Followed and the Site Activity Description Form and Site Memorandum Are Complete

Senior staff should ensure that each procedure was completed, properly indexed to a workpaper reference, and signed off with an initial and date by members of the survey team. Senior staff also should assure that the *Site Memorandum* is complete (indexed as **B** in the site file) and the **Site ID and Volumes** sheet of the automated model is complete.

Senior staff should verify that the *Site Memorandum* includes information documented in each of the following seven areas: (1) description of operations, (2) description of CRV materials handled, (3) source of financial information, (4) specific sources of payroll information, (5) problems encountered and how these problems were solved, (6) final review and comments, and (7) a contact person's name, title, and telephone and fax numbers.

Determining that Problems Encountered were Treated Properly

Senior staff should analyze problems documented at the site and evaluate how each problem was solved. The reviewer should confirm that problem solutions are reasonable, well-documented, and correctly calculated (where applicable). Further, senior staff should evaluate any assumptions used in arriving at any solutions.

Verifying Automated Cost Survey Model Completeness

Senior staff should confirm that all pages of the output of the automated cost survey model are included in the supporting computer documentation pocket. These pages, listed below with the Microsoft Excel tab names in **bold,** should be ordered as follows (note that the footnote sheets are not separately paged):

- **Site ID and Volumes** sheet (page C-1)
- **Review Sheet** (page C-2)
- **Labor Input Sheet** and associated labor footnote sheets (pages C-3.A.1, C-3.B.1, and C-3.C.1)
- **Cost Input Sheet** (pages C-4.1)
- **Cost Summary** (page C-5)
- **Recycler Direct Costs** sheet and direct cost footnote sheets (page C-6)

Where pages are missing from the cost survey model printout, senior staff should indicate this on the review note page. A copy of the automated model, the *Site Memorandum,* and the *Site Equipment List* for the site must be saved to the secure site established for the cost survey.

Reviewing Reasonableness of Salaries and Relationship of Wages to Hours

Senior staff should check the wage per hour calculation for each employee located on the **Labor Input Sheet** for reasonableness. Footnotes in the **Labor Input Sheet** should be checked to better explain employee activities. Finally, an assessment should be made as to whether the sites wage and hour information located on the **Review Sheet** of the automated model appear reasonable.

Determining that Costs are Verified to a Documented Source and Consistent with Financial Information

Senior staff should review financial cost data to ensure that the source of the financial information and any supporting schedules are included in the workpapers. A check should be made to ensure that cost totals from the **Cost Input Sheet** equal cost totals shown on the source of financial information (e.g., financial statements, federal tax returns).

Senior staff should review financial information to determine if the appropriate calendar year data were used. Allowable costs should be reasonable and correctly categorized. Any site costs not included in the financial information source should be properly identified and categorized as imputed costs.

Senior staff should review all direct cost allocations for reasonableness and accuracy. Direct costs should be properly identified and footnoted.

Reviewing Labor Reconciliation

Senior staff should confirm that: (1) labor costs from financial statements, (2) labor costs on the **Labor Input Sheet,** and (3) labor costs shown as category 1B are presented on the labor reconciliation sheet and are accurate and reasonable. Any site labor costs not included in the site's financial information source should be categorized as imputed costs. Further, senior staff should assess the unlocated difference to determine if it is material (i.e., greater than five percent, or less than negative five percent). When the unlocated difference is material, senior staff should determine that an explanation is reasonable and properly documented.

Reviewing Overall Survey Results

Senior staff should evaluate results presented on the **Review Sheet** of the model. Labor hour allocation percentages (i.e., Beverage Container Indirect and All Materials Indirect percentages) should be generally consistent with the estimated activity split and estimated CRV breakdown information on the *Site Memorandum*.

Senior staff also should verify that cost per ton results for each CRV material are reasonable compared to historical statewide averages, and, where available, consistent with costs per ton from a prior survey of the site. The percentage mix of weight, costs, and hours for aluminum, glass, and plastic on the review sheet should be evaluated to confirm that costs and hours are included only for materials recycled at that recycler or processor. An example of a **Review Sheet** with values indicating possible errors is included as a handout to module 15.

Clearing Any Review Notes

Problems or issues found in the review should be documented on a separate review note sheet, which then is attached in front of the site index sheet in the site file. These review notes should sufficiently describe the problem or issue and any action to be taken. Senior staff should return the site file to the survey team to review, make revisions, and respond to each review note. The survey team will then clear all review notes by resolving each problem or issue, by correcting errors, or providing additional information.

Schedule

Estimated module time:	**1.3 Hours**	
Outline of Module	**Technique**	**Training Time *(including self study) (min.)***
1. Introduce module	Lecture	10
2. Read key topics and handouts	Reading	10
3. Do work assignment #1 – Perform an office review of site files	Work Assignment	30 – 60
4. Review site files with other participants	Self Review	30
	Totals	**80 – 110**

Readings and Handouts

1. Office review checklist
2. *Cost Survey Site File Peer Review Procedures*

Handout 1

Office Review Checklist

RC number, PR number, and site name: _____

Workpapers complete

- Workpapers completed, dated, and initialed
- Site visit procedures performed and initialed by survey team
- *Site Memorandum* and *Site Equipment List* prepared
- Problems encountered and solved
- Automated model output complete and in sequence
- Labor data acquired and footnoted
- Financial cost data acquired
- Total costs entered into automated model compared with total costs on source of financial information
- Allowable costs determined, noted, entered into cost model, and documented
- Direct costs identified, footnoted, and entered
- Automated cost survey model inputs complete
- Labor costs reconciled (i.e., -5% < ULD < 5%)
- Reasonableness check of automated model review sheet (summary statistics) performed
- Review notes page attached in front of site index

Comments: _____

_____

_____

_____

_____

_____

_____

_____

Cost Survey Site File Peer Review Procedures

Quality Control (QC) Procedures for the 2011 Survey Year Cost Survey

QC Process and Responsibilities

I) The first quality control review is performed by survey team leads according to posted assignments. No team lead or member of the survey team is to lead the QC efforts on their own file. First QC is the responsibility of a LEAD staff member, but may be delegated

II) The first QC is returned to the lead assigned the file with the QC comments.

III) The lead assigned the file addresses all the comments and returns the file to the 1st QC'er for concurrence.

IV) If there is not concurrence, the lead assigned the file and the person performing the first QC must work together towards concurrence on how to address comments.

V) If two staff can not concur on the proper treatment to clear comments, staff must work with a Audit Manager or Project Director to address the comments.

VI) After all comments are addressed and concurred, the file goes to final QC.

VII) The staff assigned the file and the lead staff responsible for the quality control review of the file are jointly responsible to ensure the file is in a completed and correct form to have the final QC approved.

Individual File QC Process

A. File Activity Sheet

1. Is the certification number and participant name, address, phone, and contact information provided?
2. Is a survey date listed?
3. Is a survey history provided on the *File Activity Sheet?*
4. Does the survey history indicate dates for initial and survey visits, and is the *Site Memorandum* date consistent with the on-site survey visit date?

B. Confidential Cost Survey Affidavit

1. Is the *Confidential Cost Survey Affidavit* completed and signed by the site owner or site contact?
2. Is the affidavit initialed and dated by a member of the on-site survey team?

C. Left Side of Center Divider

1. Are business card(s) or business card information provided in the proper disk envelope?
2. Is a softcopy of the cost model, *Site Memorandum* and *Site Equipment List* stored on the secure server established for the cost survey? Is the automated cost model file named using the proper file name standards: 12RC [certification number] "-" [recycler name]? Does the secure server include all files documenting the survey:
   a. Cost model
   b. *File Activity Sheet*
   c. *Site Memorandum*
   d. *Site Equipment List.*

D. File Site Indices (Left and Right Side)

1. Are the indices consistent with the file (e.g. certification number)?
2. Are there any blank sheets or unnecessary documents in the file?

E. Cost Survey File Index Left Side

1. Does the *Cost Survey File Index* list the number of pages for each form and are the numbers of pages correct?
2. Is the certification number and the participant's name correct and consistent on spreadsheets and forms?
3. Is the *Cost Survey Site Procedures* form complete, initialled, and dated? (File Section A)
4. *Site Memorandum* (File Section B)
   a. Header: Certification number, participant's name, and date
   b. General Description of Site's Location and Operations (Section A)
      1. Explanation in subsection 4 addressed
      2. Narrative in subsection 7 addressed
   c. Description of CRV Materials Handled (Section B) – Are all the following questions answered in the *Site Memorandum*?
      1. How long has the site been in existence?
      2. What types of materials were purchased in the record year?
      3. What changes have occurred since the record year?
      4. Do they operate their own equipment or does someone else ship/freight their material?
      5. How frequently do they ship material? (By material type)
      6. Do they pay transportation charges?
      7. Does the buyer of their material pay for the transportation?
      8. Is there a Scrap Value Deduction (SVD), or are they paid less per pound?
      9. To whom do they sell material? (By material type)
      10. From whom do they purchase material – consumers vs. other recyclers – not specific names but how many?
      11. What material types do they purchase from consumers and/or other recyclers?
      12. Is their equipment/vehicle fleet owned or leased? If leased, is the lease from a third party or a related parent or subsidiary company?
      13. What equipment is involved in processing CRV material and Non-CRV material?
   d. Specific Sources of Payroll and Financial Information (Sections C & D)
   e. Description of Direct Costing and Special Cost Considerations (Section E)
   f. Problems Encountered and Solutions (Section F)
   g. Contact Person(s) (Section G)

E. Cost Survey File Index Left Side (continued)

5. Review processing fee model (File Section C) and compare printed copy and electronic file (page numbers refer to printed copy).

   a. Are the **Site ID and Volumes** and **Volume Data** sheets complete and correct?
      1. Is the company certification #(s) and name complete and consistent with other forms such as *Site Memorandum*?
      2. Is the **Volume Data** spreadsheet consistent with source data for recycler and processor volume?
      3. Did the PR report any processor-to-processor volume in the record year? Is it included in the **Volume Data** spreadsheet? Data source?

   b. Is the **Labor Input Sheet** complete and correct?
      1. Are total gross wages and hours worked that are displayed on the **Labor Input Sheet** (p. C-3.A.1) consistent with labor information? Where?
      2. Are all labor allocation entries consistent with file documentation and labor interview forms? Verify accuracy for each line item with labor wages and hours information and labor interview allocation notes.
      3. Are total gross wages on the **Labor Input Sheet** (p. C-3.A.1) consistent with **Cost Summary** Category 1a? Is this the same as (a)?
      4. Is the model's labor reconciliation (Module 13 and the **Cost Summary** sheet in the model) consistent with labor information and financial statements? Is the reconciliation present?
      5. Are there any imputed (unsupported) labor costs for labor costs actually incurred? If so, are they necessary and are comments provided? Is the documentation present?
      6. Is there any unlocated labor? If so, are comments provided in the comments section of the **Site ID and Volume** worksheet?
      7. Check "Error Field" on **Labor Input Sheet** (column AO) for errors, any result other than "OK" should be commented.
      8. Any questions not answered by reviewing notes and explanations?

   c. **Cost Input Sheet**
      1. Are all **Cost Input Sheet** entries consistent with financial statements? *Verify accuracy of each line item*.
      2. Are total costs on financial statements consistent with total amounts entered result on the **Cost Input Sheet?**
      3. Are all entries posted to a cost category correct?
      4. Are there any negative cost entries? If so, are comments provided?
      5. Is the primary source of financial information consistent with the *Site Memorandum* and file documentation?
      6. Are there any imputed costs? If so, were these costs that the company actually incurred and are comments provided?

E. Cost Survey File Index Left Side (continued)

d. **Recycler Cost Summary** Worksheets

1. Do results in the **Recycler Cost Summary** spreadsheet require comments?
2. Determine the percentage of total costs represented by each cost category and compare with the "Expected Ranges" provided in the *Cost Survey Quality Control Ranges Reference Chart* (a separate attachment to these procedures). For any cost category out of expected ranges, are comments provided?

e. **Recycler Direct Costs** Worksheet

1. Are there direct costs indicated by the financial statements, specifically the depreciation schedule, and the *Site Memorandum*, that are not entered?
2. Are direct costs posted for the site? If so, are they documented and reasonable?

f. **Review Sheet**

1. Do results on the **Review Sheet** require comments?
2. Determine the absolute difference between the number of containers percentage (must calculate this as the CRV material containers divided by total CRV containers) and the hours percentage (CRV material hours divided by total CRV hours), and compare to the "difference between number of containers and hours" quality control range. Any items not within the quality control ranges posted must be commented.

g. Supporting Worksheets

1. Are all model supporting spreadsheets properly inserted into the model file? Are all supporting spreadsheets inserted into the model to the left of the model spreadsheet referencing the data? For example, a supporting Recycler Direct Cost–Allocate spreadsheet (indicated by a "tab" in MS Excel) must be to the left of the **Recycler Direct Costs** spreadsheet.
2. Are all supporting spreadsheets titled starting with the title of the model spreadsheet referencing the data?
3. Are supporting spreadsheets linked to model spreadsheets they support?

h. Does the model or the model printouts indicate errors?

1. Are there any spreadsheet formula errors (#Name?) (#Value!) (#Div/0!)?
2. Are there any error messages?
3. Are there any worksheets not printed but necessary to QC file?
4. Does the printed **Review Sheet** match the **Review Sheet** in the file in all cells?
5. Do all printed pages have the same time and date stamp (only on final QC)
6. Is a *Site Equipment List* attached (File Section D)

After review of the Cost Survey File index Right Side, initial and date Reviewed By box.

F. Review Cost Survey File Index Right Side

1. Review labor/payroll information (File Section 1)
   a. Is documentation provided to staff usable (W-2's, DE-3's, etc.)?
   b. Is a labor summary worksheet provided showing what adjustments were necessary and how they were applied?
   c. Are total gross wages and hours worked on the **Labor Input Sheet** equal to total labor (wages) on financial statements? If not, look for a labor reconciliation sheet (which is on the cost model's **Cost Summary** worksheet).
   d. Is original source documentation provided, including labor interview allocation notes for each staff listed?
   e. If a labor summary spreadsheet is provided, is it correctly referenced to original source documentation?
   f. Is the labor information correctly entered into the **Labor Input Sheet?**
   g. Is a labor/cost reconciliation provided, and are any labor/costs adjustments made? If so, are they clearly documented and reasonable?
   h. Is curbside sorting labor indicated? If so, is the labor posted as "other business"?
   i. Any questions not answered by reviewing notes and explanations?

2. Financial Statements (File Section 2)
   a. Are financial statements given to staff usable (check hierarchy of financial statements)? If not, are comments provided explaining what records were inspected?
   b. Is a worksheet provided showing any necessary adjustments made and how they were applied to determine calendar year financial figures?
   c. Are deviations from calendar year costs' explained?
   d. Is a depreciation schedule provided, and does it indicate any potential costs that may be directly allocated?
   e. Are there any negative costs? If so, are comments provided?
   f. Are total costs on financial statements consistent with total costs in the model **Cost Input Sheet?**
   g. Any questions not answered by reviewing notes and explanations?

3. Depreciation Schedule (File Section 3)
   a. Is the depreciation schedule total consistent with the financial statement?
   b. Does the depreciation schedule indicate any property or equipment not related to recycling? If so, are they directly allocated to non CRV materials?
   c. Does the depreciation schedule indicate any equipment that should be allocated as a direct cost?

After review of the Cost Survey File index Right Side, initial and date Reviewed By box.

Handout 2
Page 6 of 6

Name _____

ID _____

Survey Team Lead _____

QC Review Notes

✓ & Initial	Work Paper Page	Description

Check box and initial when correction(s) has been made.	QC'd By:	Date:

Page ____ of ____

Work Assignments

1. Review actual site files and present review to all training participants

Work Assignment 1

Review Actual Site Files and Present Review to All Training Participants

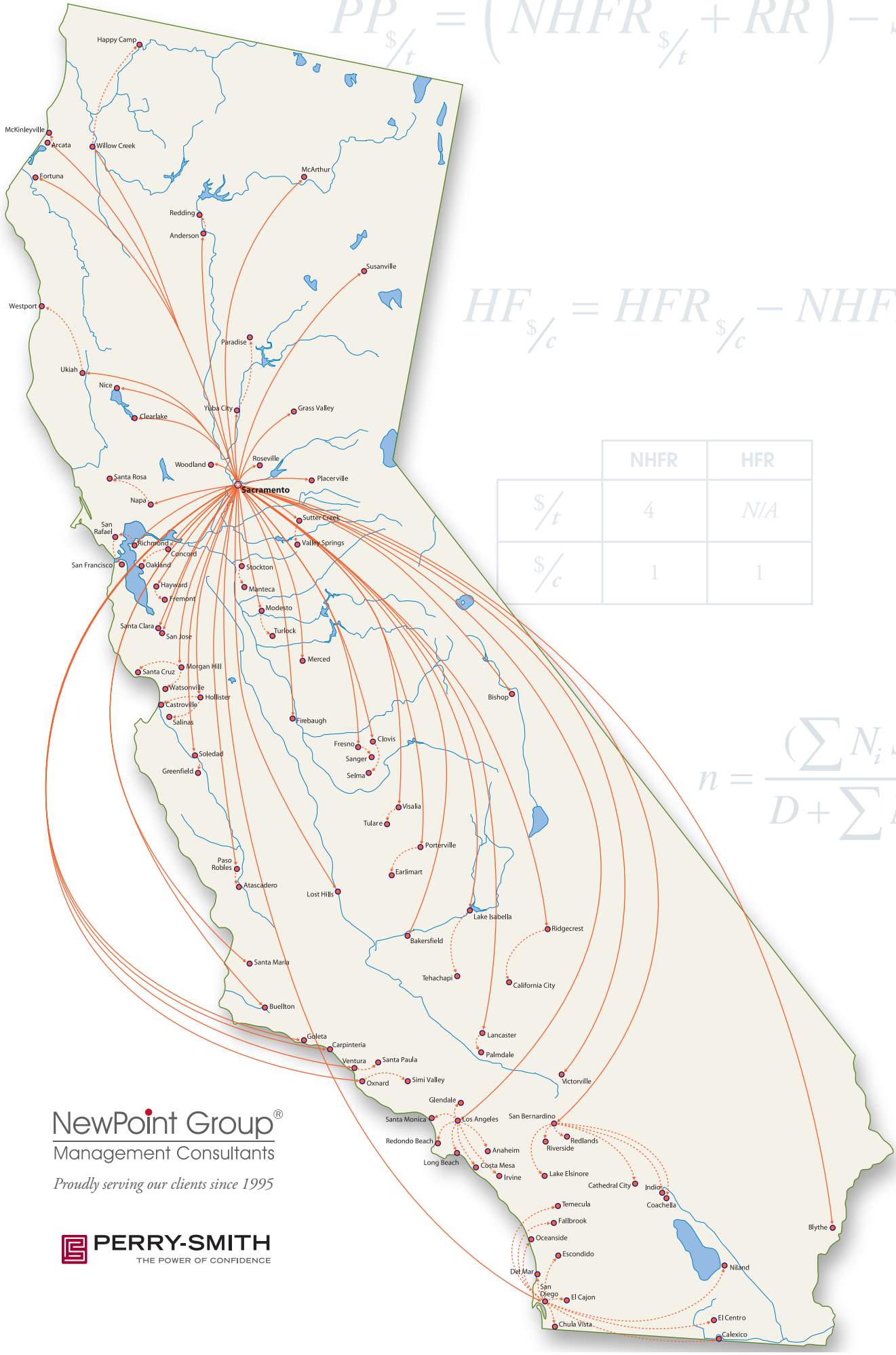
You will be given a completed site files from a prior processing fee allowable cost survey, and asked to review and present the site to all of the other training participants. You will have about five minutes to present each site review. Provide the name and a brief description of the site, and then present any characteristics about the site that you find relevant to issues arising during a cost survey. This may include problems and solutions presented in the *Site Memorandum*, unusual characteristics of the site that may have made the on-site survey a bit difficult, and other issues you believe the other participants should know about.

$$PP_{\$/t} = \left(NHFR_{\$/t} + RR\right) - SV_{\$/t}$$

$$HF_{\$/c} = HFR_{\$/c} - NHFR_{\$/c}$$

	NHFR	HFR
$\$/t$	4	N/A
$\$/c$	1	1

$$n = \frac{\left(\sum N_i S_i\right)^2}{D + \sum N_i S_i^2}$$



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