Chapter 2
Job Order Costing

ANSWERS TO QUESTIONS

1. The difference between job order costing and process costing relates to the type of product or service the company provides, and whether that product or service is homogeneous or unique. Job order costing is used by companies that offer customized or unique products or services, where each unit or service tends to be very different than the next. Process costing is used in companies that offer standardized or homogeneous products or services, where each unit or service is very similar to the next.

2. Job order costing is used in companies that offer customized products or services. Examples include any product that is specially built for a specific customer (e.g. custom home, custom built boat, custom made furniture), unique services provided to customers (e.g. an auto repair shop, a catering business), or industries that serve clients with unique needs (e.g. accounting firm, law firm, architecture firm).

3. Process costing is used in companies that offer standardized or homogeneous products or services. Examples include canned and bottled goods, petroleum products, perfume, toilet paper, dishwashing detergent, and many other common household products.

4. Examples of service companies that offer homogenized services include Jiffy Lube oil and filter change, a children's haircut salon, a nail salon, a tax return service (e.g. H&R Block), an attorney who provides standardized legal services (such as will preparation or traffic cases). In these examples, the basic service the company is performing tends to be fairly similar from one customer to the next. As a result, the company could use process costing to account for the cost of providing the standardized service. As described in the next question, they could then use elements of job order costing to keep track of any "additional" services that are added to the basic service.

5. Examples of itemized bills could include any bill or receipt received from a merchant, restaurant, etc.

6. Many companies use a modified (or hybrid) costing system that has elements of both job order and process costing. An example is a computer company that uses process costing to determine the "base cost" of building a computer, plus job order costing to keep track of all of the upgrades that are used to customize it for a particular customer. Auto manufacturers use process costing to account for standardized manufacturing processes (e.g. installing the engine, painting the car, installing tires), then use job order costing to account for the unique components and features that are added to a particular model.

7. The three categories of manufacturing costs are direct material, direct labor, and manufacturing overhead. Direct materials are the major material inputs that can be directly and conveniently traced to specific jobs. For an auto repair shop, this would include the major parts that are needed for the repair. Direct labor is the "hands-on" labor, such as the mechanic who does the actual work in an auto repair shop. Manufacturing overhead would include all of the other costs of making a product (or providing a service such as an auto repair) other than direct material and direct labor. For an auto repair shop, this would include the cost of rent and utilities for the repair shop, supervision, depreciation on machines and tools, and incidental supplies such as lubricants, grease, rags, etc.

8. The job order cost sheet is used to keep track of all of the costs incurred on a specific job. It should list all of the direct material, direct labor, and manufacturing overhead costs that have been incurred on the job, along with cross-references to the materials requisition form and direct labor time tickets that relate to the specific job.

9. In job order costing, any entry to the Work in Process Inventory account should have a corresponding entry to update the individual job cost record, called the job cost sheet. The job cost sheet serves as a subsidiary ledger to the Work in Process Inventory account. If you add up the job cost sheets for all jobs that are currently in process, the total should equal the overall balance in the Work in Process Inventory account.

10. A materials requisition form is the source document that must be completed when materials are withdrawn from the warehouse (inventory) to be used in production. The materials requisition form should show the quantity and cost of materials that are withdrawn from inventory, along with an indication of which job(s) the materials will be used for. This allows the accountant to assign the direct materials cost to the appropriate job cost sheet.

11. Direct materials are those that can be traced to specific jobs. These costs are added to Work in Process Inventory, with a corresponding entry on the individual job cost sheet. Indirect materials, by definition, are those that cannot be traced to a specific job, or it is simply not worth the effort to do so. Indirect costs are recorded in the Manufacturing Overhead account. These costs get "applied" to Work in Process using a predetermined overhead rate and some secondary allocation measure such as direct labor hours.

12. Direct labor time tickets are used to trace the cost of direct labor to specific jobs. The direct labor time ticket should include the number of hours that the employee worked on specific jobs during the week, along with the hourly wage rate paid to that employee. This information is used to assign the direct labor cost to specific jobs by updating the job cost sheets.

13. Although the overhead rate might be more accurate if it were based on actual rather than estimated values, companies usually won't know the actual values until it is too late to be used for managerial decision making. Using a predetermined overhead rate based on estimated values allows us to set the overhead rate in advance, so that we can use it to apply the indirect cost to jobs throughout the accounting period. We then "settle up" at the end of the accounting period by adjusting for any difference between actual and applied manufacturing overhead.

14. Direct material and direct labor costs can be traced directly to jobs and therefore are assigned directly to the Work in Process Inventory account and the individual job cost sheet. Manufacturing overhead costs cannot be directly traced to jobs. These indirect costs are accumulated in a temporary holding account and applied to Work in Process using a predetermined overhead rate based on some observable allocation base such as direct labor hours.

15. Depreciation on office equipment is a nonmanufacturing cost, which must be expensed during the period incurred (period expense). Depreciation on manufacturing equipment is a manufacturing related cost, which according to GAAP must be treated as a cost of the product being made (product cost). Manufacturing costs are counted as inventory (raw materials, work in process, or finished goods) until the product is sold. Because depreciation on manufacturing equipment is an indirect cost (not directly traceable to a specific job), it is counted as part of manufacturing overhead and included as part of the cost of the product.

16. A predetermined overhead rate is calculated by estimating the year's total manufacturing overhead cost and dividing it by the estimated value of the allocation base (cost driver). Ideally, the company should select an allocation base that has a cause and effect relationship with the incurrence of cost. Common allocation bases are direct labor hours, direct labor dollars, and machine hours.

17. To determine the amount of overhead to apply to Work in Process, you multiply the predetermined overhead rate by the actual value of the allocation base. Applied manufacturing overhead is a function of both actual and estimated data. The predetermined overhead rate is based on estimated values, but this rate is multiplied by the actual value of the allocation base.

18. The manufacturing overhead cost that is applied to Work in Process will not necessarily be equal to the actual manufacturing overhead cost incurred. The applied amount is based on a predetermined overhead rate that must be estimated in advance. This rate is then multiplied by the actual value of a secondary allocation base, which may not perfectly capture the actual incurrence of cost.

19. Manufacturing overhead is overapplied when the actual manufacturing overhead cost is LESS than the amount that was applied to Work in Process using the predetermined overhead rate. If manufacturing overhead is overapplied, the Manufacturing Overhead account will show a credit balance because the amount applied (credit) is more than the actual overhead costs incurred (debit).

20. Manufacturing overhead is underapplied when the actual manufacturing overhead cost is GREATER than the amount that was applied to Work in Process using the predetermined overhead rate. If manufacturing overhead is underapplied, the Manufacturing Overhead account will show a debit balance, because actual overhead costs (debit) were more than the amount applied (credit).

21. The most common method for eliminating the balance in the manufacturing overhead account at year end is to transfer the account balance directly to Cost of Goods Sold. If manufacturing overhead is underapplied (debit balance), we will need to increase Cost of Goods Sold (with a debit) and credit Manufacturing Overhead. If manufacturing overhead is overapplied (credit balance), we will need to decrease (credit) Cost of Goods Sold and debit Manufacturing Overhead.

Author's Recommended Solution Time
(Time in minutes)

Mini-exercises		*Exercises*		*Problems*		*Cases and Projects**	
	Time		*Time*		*Time*	*No.*	*Time*
1	2	1	5	PA-1	12	1	20
2	3	2	6	PA-2	12	2	30
3	3	3	5	PA-3	12	3	60
4	2	4	5	PA-4	12		
5	4	5	6	PA-5	12		
6	3	6	5	PA-6	12		
7	2	7	6	PA-7	15		
8	4	8	5	PA-8	15		
9	3	9	5	PB-1	12		
10	3	10	6	PB-2	12		
11	2	11	6	PB-3	12		
12	3	12	5	PB-4	12		
13	4	13	6	PB-5	12		
14	3	14	6	PB-6	12		
15	4	15	6	PB-7	15		
16	3	16	5	PB-8	15		
17	3	17	6				
18	3	18	6				
19	3	19	5				
		20	5				
		21	6				
		22	6				
		23	6				

* Due to the nature of cases, it is very difficult to estimate the amount of time students will need to complete them. As with any open-ended project, it is possible for students to devote a large amount of time to these assignments. While students often benefit from the extra effort, we find that some become frustrated by the perceived difficulty of the task. You can reduce student frustration and anxiety by making your expectations clear, and by offering suggestions (about how to research topics or what companies to select).

ANSWERS TO MINI-EXERCISES

M2–1

P 1. Golf ball manufacturer.
J 2. Landscaping business.
P 3. Tile manufacturer.
J 4. Auto repair shop.
P 5. Pet food manufacturer.
P 6. Light bulb manufacturer.
P 7 . Water bottling company.
J 8. Appliance repair business.
P 9. DVD manufacturer.
J 10. Music video production company.

M2-2

DLTT 1. Employee name.
MRF 2. Quantity of direct material used.
MRF,JCS 3. Total dollar value of direct materials.
JCS 4. Applied manufacturing overhead.
DLTT 5. Hours worked by an employee.
DLTT 6. Hours a specific employee worked on a particular job.
JCS 7. Job start date.
DLTT 8. Time an employee clocked in or out.
DLTT 9. Different jobs that a specific employee worked on.

M2–3

a. Conversion cost = Total manufacturing cost – Direct materials
Conversion cost = $900 – $300 = $600

b. Direct labor = Conversion cost - Manufacturing overhead
Direct labor = $600 – 200% Direct labor
300% Direct labor = $600
Direct labor = $600 / 3 = $200

c. Manufacturing overhead = 200% of Direct labor
Manufacturing overhead = 200% of $200
Manufacturing overhead = $400

d. Prime cost = Direct Material + Direct Labor
Prime cost = $300 + $200 = $500

M2–4

Req. 1
Predetermined overhead rate = $900,000 / $600,000 = 150% of Direct labor cost

Req. 2
This rate means that manufacturing overhead will be applied at a rate equal to 150% of direct labor cost. For every $1.00 of direct labor cost, we will apply $1.50 in manufacturing overhead.

Req. 3
The predetermined overhead rate is based on estimated values because it is set in advance of the accounting period. Often managers won't know the actual manufacturing overhead cost until after the month, quarter, or year has ended. They cannot wait that long to be able to estimate their total manufacturing costs, so they use a predetermined overhead rate that is based on estimates made in advance of the accounting period.

M2–5

Req. 1
Predetermined Overhead Rate = $900,000 / $600,000 = 150% of Direct Labor Cost
Applied Manufacturing Overhead = Actual Direct Labor Cost X 150%
Applied Manufacturing Overhead = $550,000 X 150% = $825,000

Req. 2
Applied manufacturing overhead is based on **both** estimated and actual data. The predetermined overhead rate is based strictly on estimated values. However, to apply manufacturing overhead to specific jobs, we multiply the predetermined (estimated) overhead rate by actual direct labor cost.

M2–6

Req. 1
Predetermined Overhead Rate = $900,000 / $600,000 = 150% of Direct Labor Cost
Applied Manufacturing Overhead = Actual Direct Labor Cost X 150%
Applied Manufacturing Overhead = $550,000 X 150% = $825,000

Manufacturing Overhead	
Actual 850,000	825,000 Applied
Balance 25,000 Underapplied	

Req. 2
At the end of the accounting period, an adjusting entry is made to transfer the balance in the Manufacturing Overhead account to the Cost of Goods Sold account. In this case, since manufacturing overhead is underapplied, we would need to increase (debit) Cost of Goods Sold by $25,000, while eliminating the $25,000 balance in the manufacturing overhead account with a credit, as shown in the following T-accounts:

Manufacturing Overhead	
Actual 850,000	825,000 Applied
Balance 25,000 Underapplied	25,000 Adjust

→

Cost of Goods Sold	
Adjust 25,000	

M2-7

Case	Actual Mfg Overhead	Applied Mfg Overhead	Over/Under-applied	Amount
A	$100,000	$105,000	Overapplied	$5,000
B	79,000	78,000	Underapplied	1,000
C	275,300	261,300	Underapplied	14,000
D	141,000	135,000	Underapplied	6,000

M2-8

Req. 1
Direct materials added to Work in Process = $25,000 + $35,000 = $60,000

Req. 2
Indirect materials added to Manufacturing Overhead = $30,000

Req. 3

Raw Materials Inventory		
Beg. Balance	20,000	90,000 Issued to Production
Purchases	90,000	
End. Balance	20,000	

M2–9

Req. 1

Raw Materials Inventory ……	90,000	
Accounts Payable or Cash…….....		90,000

Req. 2

Work in Process Inventory ($25,000 + $35,000)…….....	60,000	
Manufacturing Overhead…….	30,000	
Raw Materials Inventory……		90,000

M2–10

Req. 1

Direct Labor Added to Work in Process Inventory = $22,500

Indirect Labor Added to Manufacturing Overhead = $4,000 + $8,000 + $2,500 = $14,500

Selling and Administrative Expenses = $9,000

Req. 2

Only **direct** labor costs are recorded directly in the Work in Process Inventory account, because these costs can be traced to specific jobs in process. Any entry to Work in Process Inventory must have a corresponding update to the specific job cost sheet. Other **indirect** manufacturing related labor costs must be treated as manufacturing overhead. Although these costs are not directly traceable to a specific job, they must be counted as part of the cost of the product, which occurs when manufacturing overhead costs are applied to work in process. Selling and administrative expenses are never counted as part of the cost of the product, but rather are expensed immediately as period costs.

M2-11

Req. 1

Work in Process Inventory…..…….....	22,500	
Manufacturing Overhead ($4,000 + $8,000 + $2,500).....	14,500	
General and Administrative Salary Expense……	9,000	
Salary and Wages Payable……..		46,000

Req. 2

Applied manufacturing overhead = Predetermined overhead rate x Actual value of allocation base
Applied manufacturing overhead = $50 x 750 Direct labor hours = $37,500

Work in Process Inventory…….. 37,500
Manufacturing Overhead…….. 37,500

M2–12

Req. 1

Manufacturing Overhead

Actual	Applied
Indirect materials 15,000	750 DL hours
Factory supervision 4,000	x $50 Predetermined OH rate
Production engineer 6,000	37,500
Factory janitorial work 2,500	
Other factory overhead 7,500	
35,000	
	2,500 Balance (Overapplied)

Req. 2

$37,500 – $35,000 = $2,500 overapplied

M2-13

Req. 1
Manufacturing Overhead…… 2,500
Cost of Goods Sold…….. 2,500

Req. 2
This entry will decrease Cost of Goods Sold, which makes sense since manufacturing overhead was OVERAPPLIED. In other words, we applied too much cost to Work in Process Inventory, Finished Goods Inventory, and eventually to Cost of Goods Sold.

M2–14

Total current manufacturing costs + Beginning work in process inventory – Ending work in process inventory = Cost of goods manufactured
Total current manufacturing costs + $30,000 – $25,000 = $180,000
Total current manufacturing costs = $180,000 – $30,000 + $25,000
Total current manufacturing costs = $175,000

M2–15

Cost of goods manufactured	$320,000
+ Beginning finished goods inventory	45,000
– Ending finished goods inventory	- 35,000
Cost of goods sold	$330,000

M2–16

Direct material used + Direct labor + Applied manufacturing overhead = Total current manufacturing costs
Direct material used + $60,000 + ($60,000 x 200%) = $300,000
Direct material used = $300,000 - $60,000 - $120,000
Direct material used = $120,000

M2–17

Miscellaneous (overhead) costs for an auto-repair shop would include rent on the garage, supervision, miscellaneous parts and supplies, depreciation on tools and machinery, utilities, etc.

M2-18

	Total Current Manufacturing Costs	Beginning Work in Process Inv	Ending Work in Process Inv	Cost of Goods Manufactured
A	$7,200	$2,100	$1,650	$7,650
B	3,960	3,015	2,385	4,590
C	8,650	1,350	3,000	7,000
D	4,740	750	1,365	4,125

M2-19

	Cost of Goods Manufactured	Beginning Finished Goods Inv	Ending Finished Goods Inv	Cost of Goods Sold
A	$5,270	$760	$850	$5,180
B	6,750	475	325	6,900
C	4,520	750	895	4,375
D	1,900	250	400	1,750

ANSWERS TO EXERCISES

E2–1

Req. 1

	(Job #33)	(Job #34)	(Job #35)	Total
Balance on 3/1	$7,500	$6,000	$0	$13,500
Direct Materials	3,500	6,000	4,200	13,700
Direct Labor	6,500	7,800	3,250	17,550
Applied Manufacturing Overhead (150% of Direct labor)	9,750	11,700	4,875	26,325
Total Manufacturing Cost	$27,250	$31,500	$12,325	$71,075

Req. 2

Work in Process (Job #35)	$12,325
Finished Goods Inventory (Job #34)	$31,500
Cost of Goods Sold (Job #33)	$27,250

E2-2

Work in Process Inventory……..	13,700	
Manufacturing Overhead…….	1,300	
Raw Materials Inventory……...		15,000
Work in Process Inventory……..	17,550	
Manufacturing Overhead…….	2,140	
Wages Payable……..		19,690

Work in Process Inventory ($17,550 X 150%)……..	26,325	
Manufacturing Overhead……..		26,325

E2–3

Req. 1

Job 271 = (8 hrs + 8 hrs) X $30 per hour =	$ 480
Job 272 = (8 hrs + 4 hrs) X $30 per hour =	360
Job 273 = 8 hrs X $30 per hour =	240
Total Direct Labor Assigned to Jobs	$1,080

Req. 2

The time that Joyce spends doing maintenance (4 hours X $30 = $120) cannot be traced to specific jobs and will be treated as indirect labor, which is recorded in the Manufacturing Overhead account rather than Work in Process Inventory.

E2-4

Work in Process Inventory……...	1,080	
Manufacturing Overhead…….	120	
Wages Payable……..		1,200

E2-5

Req. 1

Must first determine expected number of DL hours.
Estimated DL Cost / DL rate = Estimate DL hours
$300,000 / $15.00 = 20,000 DL hours expected

Predetermined Overhead Rate = Estimated Mfg. Overhead / Estimated DL hours

Estimated Total Manufacturing Overhead:

Factory machinery depreciation	$55,000
Factory supervisor salaries	140,000
Factory supplies	7,500
Factory property tax	37,500
Total Estimated MOH	$240,000

Predetermined Overhead Rate = $240,000 / 20,000 DL Hours
= $12.00 per DL Hour

Note that $15 is the direct labor rate, while $12 is the predetermined overhead rate.

Req. 2
Applied Overhead = Overhead Rate x Actual DL Hours
= $12.00 x 18,500 DL Hours
= $222,000

E2–6

	Case 1	Case 2	Case 3
Direct material used	$12,000	$15,000	$15,000
Direct labor	25,000	12,000	8,000
Manufacturing overhead applied	37,500	18,000	12,000
Total current manufacturing costs	74,500	45,000	35,000
Beginning work in process inventory	10,000	8,000	9,000
Ending work in process inventory	12,000	7,000	12,000
Cost of goods manufactured	72,500	46,000	32,000
Beginning finished goods inventory	15,000	10,000	8,000
Ending finished goods inventory	12,000	8,000	6,000
Cost of goods sold	75,500	48,000	34,000

Detailed calculations provided below:

a. Manufacturing overhead applied = 150% of Direct labor
Manufacturing overhead applied = 150% X $25,000
Manufacturing overhead applied = $37,500

b. Direct materials + Direct labor + Manufacturing overhead applied = Total current manufacturing costs
$12,000 + $25,000 + $37,500 = $74,500

c. Total current manufacturing costs + Beginning work in process inventory – Ending work in process inventory = Cost of goods manufactured
$74,500 + $10,000 – $12,000 = $72,500

d. Cost of goods manufactured + Beginning finished goods inventory – Ending finished goods inventory = Cost of goods sold
$72,500 + $15,000 – $12,000 = $75,500

e. Manufacturing overhead applied = 150% x Direct labor
$18,000 = 150% x Direct labor
Direct labor = $12,000

f. Direct materials + Direct labor + Manufacturing overhead applied = Total current manufacturing costs
Direct materials + $12,000 + $18,000 = $45,000
Direct materials = $15,000

g. Total current manufacturing costs + Beginning work in process inventory – Ending work in process inventory = Cost of goods manufactured
$45,000 + Beginning work in process inventory – $7,000 = $46,000
Beginning work in process inventory = $8,000

h. Cost of goods manufactured + Beginning finished goods inventory – Ending finished goods inventory = Cost of goods sold
$46,000 + $10,000 – Ending finished goods inventory = $48,000
Ending finished goods inventory = $8,000

i. Conversion cost = Total current manufacturing costs – Direct materials
Conversion cost = $35,000 – $15,000
Conversion cost = $20,000

Conversion cost = Direct labor + Manufacturing overhead applied
Conversion cost = Direct labor + (1.5 x Direct labor)
$20,000 = (1 x Direct labor) + (1.5 x Direct labor)
$20,000 = (2.5 x Direct labor)
Direct labor = $8,000

j. Manufacturing overhead applied = 1.5 x Direct labor
Manufacturing overhead applied = 1.5 x $8,000
Manufacturing overhead applied = $12,000

k. Total current manufacturing costs + Beginning work in process inventory – Ending work in process inventory = Cost of goods manufactured
$35,000 + $9,000 – Ending work in process inventory = $32,000
Ending work in process inventory = $12,000

l. Cost of goods manufactured + Beginning finished goods inventory – Ending finished goods inventory = Cost of goods sold
$32,000 + Beginning finished goods inventory – $6,000 = $34,000
Beginning finished goods inventory = $8,000

E2–7

Req. 1
Predetermined overhead rate = $325,000 / 25,000 = $13 per machine hour

Req. 2
Applied manufacturing overhead = Predetermined overhead rate X Actual value of allocation base
Applied manufacturing overhead = $13 x 26,000 actual machine hours = $338,000

Req.3

Manufacturing Overhead	
Actual 372,000	338,000 Applied
Balance 34,000 (Underapplied)	

E2-8

Req. 1

Manufacturing Overhead ……..	372,000	
Cash, Payables, etc…….		372,000
Work in Process Inventory……	338,000	
Manufacturing Overhead…….		338,000

Req. 2

Cost of Goods Sold……...	34,000	
Manufacturing Overhead……...		34,000

E2-9

	Cost of Jobs in Process, 4/1/2013	Direct Materials Used	Direct Labor Cost	Overhead Applied	Total
Job A	$ 12,000	2,000	10,000	**$7,500**	**$ 31,500**
Job B	$ 1,000	8,000	8,000	**$6,000**	**$ 23,000**
Job C	$ -	9,000	3,000	**$2,250**	**$ 14,250**

Predetermined Overhead Rate	**$15**	**per Direct Labor Hour**
Direct Labor Rate	**$20**	**per hour**

Determine the balance in each of following at the end of April

Work in Process	**$ 14,250**	Job C
Finished Goods	**$ 23,000**	Job B
Cost of Goods Sold	**$ 31,500**	Job A

E2-10

	Judy	Tom	Elizabeth
Food and nutritional supplements	$ 500	$ 1,000	$ 300
Nutritional counseling ($15 per hour)	150	300	180
Personal fitness training ($20 per hour)	400	600	800
Operating costs	**825**	**1350**	**1470**
Total Cost to Serve	**$ 1,875**	**$ 3,250**	**$ 2,750**

	Estimated	Actual
Operating Costs	$ 300,000	$ 290,000
Consultants Costs	$ 200,000	$ 215,000

Nutritional counseling cost per hour	$	15
Personal fitness cost per hour	$	20

Upfront fee	$	400
Supplements markup		30%
Nutritional counseling rate	$	40
Personal Fitness training rate	$	40

Req 1. Predetermined Overhead Rate **150%** of consultants cost (nutrition and fitness)

	Judy	Tom	Elizabeth
Req. 2 Total Cost of serving each client	**$ 1,875**	**$ 3,250**	**$ 2,750**

Req. 3 Profitability of each client	Judy	Tom	Elizabeth
Revenue: Upfront fee	$ 400	$ 400	$ 400
Revenue: Nutritional supplements	650	1,300	390
Revenue: Nutritional counseling	400	800	480
Revenue: Personal fitness training	800	1,200	1,600
Total Revenue	$ 2,250	$ 3,700	$ 2,870
Less Total Costs	1,875	3,250	2,750
Operating Profit	**$ 375**	**$ 450**	**$ 120**

E2-11

Req. 1
Predetermined Overhead Rate = Estimated Overhead / Estimated Direct Labor
= $90,000 / $120,000
= $0.75 per DL Dollar

Req. 2

Work in Process	
Beginning Balance 41,000	58,000
Direct Materials 75,000	65,000
Direct Labor 120,000	74,500
Overhead 90,000	67,500
Ending Balance 61,000	

Req. 3

Job 248 (As of August 31):

Direct Material	?
Direct Labor	24,000
Applied Manufacturing Overhead (75% x 24,000)	?
Total Manufacturing Cost	61,000

Applied Manufacturing Overhead = $24,000 x 75% = $18,000
Direct Materials = $61,000 – $24,000 - $18,000 = $19,000

E2-12

Req. 1

Predetermined Overhead Rate: $346,500 / ($150,000 + 81,000) = 150% of Salary Cost

Req. 2

	Debbie	Tara
Annual Salary	$150,000	$81,000
Overhead (150% of Salary)	225,000	121,500
Total Cost	$375,000	202,500
Billable Hours	2,000	1,800
Hourly Cost	$187.50	$112.50
Mark-up (20%)	37.50	22.50
Billing Rate	$225.00	$135.00

E2–13

Req. 1
Applied manufacturing overhead = Predetermined overhead rate X Actual value of allocation base
Applied manufacturing overhead = $15 X 158 Direct labor hours = $2,370

Req. 2

Direct materials	$ 7,500
Direct labor	3,200
Applied manufacturing overhead	2,370
Total manufacturing cost	$13,070

Req. 3
Revenue = 130% of total manufacturing cost
Revenue = 1.30 x $13,070 = $16,991

Req. 4
Gross profit = Sales revenue – Cost of goods sold
Gross profit = $16,991 – $13,070 = $3,921

E2-14

Cost of Goods Sold…….	13,070	
Finished Goods Inventory……..		13,070
Cash……...	16,991	
Sales Revenue……		16,991

E2–15

Description	Transaction
Applied Manufacturing Overhead	(e)
Recorded Direct Labor	(d)
Recorded the Cost of Jobs Completed	(f)
Purchased Raw Materials	(a)
Recorded Actual Manufacturing Overhead	(c)
Recorded the Cost of a Jobs Sold	(g)
Issued Raw Materials to Production	(b)

E2–16

Req. 1
Predetermined overhead rate = $300,000 / 20,000 = $15 per DL hour

Req. 2
Applied manufacturing overhead = Predetermined overhead rate x Actual value of allocation base
Applied manufacturing overhead = $15 x 1,500 actual direct labor hours = $22,500

Req. 3

Indirect Labor	$ 4,500
Indirect Material	2,500
Factory Rent	4,200
Factory Supervision	4,700
Factory Depreciation	5,600
Factory Janitorial Work	1,200
Factory Insurance	2,600
Actual Manufacturing Overhead Costs	$25,300

Req. 4

Manufacturing Overhead	
Actual 25,300	22,500 Applied
Balance 2,800 (Underapplied)	

E2-17

Req. 1
Applied manufacturing overhead = Predetermined overhead rate x Actual value of allocation base
Applied manufacturing overhead = $15 x 1,500 actual direct labor hours = $22,500

Work in Process Inventory……..	22,500	
Manufacturing Overhead……..		22,500

Req. 2

Manufacturing Overhead……..	25,300	
Cash, Payables, etc…….		25,300

Req. 3

Cost of Goods Sold ……...	2,800	
Manufacturing Overhead……..		2,800

This entry will increase Cost of Goods Sold. This is appropriate since manufacturing overhead costs were underapplied (i.e., we did not apply enough cost to Work in Process, Finished Goods, and ultimately Cost of Goods Sold).

E2–18

Req. 1

Raw Materials Inventory	
1/1 32,000	b. 36,200
a. 20,000	
Bal. 15,800	

Work in Process Inventory	
1/1 15,500	f. 32,150
b. 33,000	
c. 12,900	
d. 15,000	
Bal. 44,250	

Finished Goods	
1/1 20,000	g. 20,000
f. 32,150	
Bal. 32,150	

Cost of Goods Sold	
g. 20,000	
Bal. 20,000	

Manufacturing Overhead	
b. 3,200	d. 15,000
c. 5,000	
e. 8,600	
Bal. 1,800	

Sales Revenue	
	g. 31,000
	Bal. 31,000

Miscellaneous Accounts (Cash, Payables, etc.)	
g. 31,000	a. 20,000
	c. 17,900
	e. 8,600

Supporting Calculations:

b. $12,000 + $21,000 = $33,000
c. $2,150 + $10,750 = $12,900
d. 600 hours x $25 = $15,000

Req. 3
Raw Materials Inventory = $15,800
Work in Process Inventory = $44,250
Finished Goods Inventory = $32,150
Cost of Goods Sold = $20,000 (unadjusted)
Manufacturing Overhead = $1,800 (underapplied)

Req. 4

Job Number	Beginning Balance	Direct Materials	Direct Labor	OH Applied @ $25 per DL Hour	Total Cost of Job
201	15,500	12,000	2,150	2,500	32,150
202	0	21,000	10,750	12,500	44,250

Job 200 is in Cost of Goods Sold. Job 201 is in Finished Goods Inventory. Job 202 is in Work in Process Inventory. The balance in each of these accounts matches the individual job cost sheets.

E2-19

	Case 1	Case 2	Case 3	Case 4
Beginning raw materials	$7,000	$9,000	$16,000	$55,000
Raw material purchases	63,000	24,500	33,312	140,000
Indirect materials issued	1,400	2,000	1,200	1,000
Ending raw materials	2,800	4,500	21,136	46,750
Direct materials used	65,800	27,000	26,976	147,250
Direct labor	40,600	43,500	22,480	61,625
Manufacturing overhead	72,800	80,700	24,864	270,865
Total current manufacturing costs	179,200	151,200	74,320	479,740
Beginning work in process	57,400	65,200	30,060	51,260
Ending work in process	42,000	56,800	33,000	118,050
Cost of goods manufactured	194,600	159,600	71,380	412,950
Beginning finished goods	100,800	42,600	41,520	205,350
Ending finished goods	112,000	60,200	22,200	198,600
Cost of goods sold	183,400	142,000	90,700	419,700

E2-20

Req. 1

StorSmart Company
Cost of Goods Manufactured Report
For the Month of March

Beginning Raw Materials Inventory	$33,000
Plus: Raw Material Purchases	84,000
Less: Indirect Material Used	10,000
Less: Ending Raw Materials Inventory	22,000
Direct Materials Used in Production	$85,000
Direct Labor	55,000
Manufacturing Overhead	85,000
Total Current Manufacturing Costs	$225,000
Plus: Beginning Work in Process Inventory	25,000
Total Work in Process	$250,000
Less: Ending Work in Process Inventory	44,000
Cost of Goods Manufactured*	$206,000

Req. 2

StorSmart Company
Income Statement
For the Month of March

Sales Revenue		$450,000
Less: Cost of Goods Sold		
Beginning Finished Goods Inventory	60,000	
Plus: Cost of Goods Manufactured* (see schedule above)	206,000	
Cost of Goods Available for Sale	266,000	
Less: Ending Finished Goods Inventory	58,000	
Cost of Goods Sold		208,000
Gross Profit		242,000
Less: Operating (Period) Expenses		58,000
Net Income from Operations		$184,000

E2–21

Work in Process Inventory ($450 + $320 + $280)……..	1,050	
Manufacturing Overhead…….……	200	
Raw Materials Inventory……...		1,250

E2–22

a.

Raw Materials (Parts and Supplies) Inventory…….	16,000	
Accounts Payable……...		16,000

b.

Repair Jobs in Process……..	10,000	
Garage/Shop Overhead Costs…….	4,000	
Raw Materials (Part and Supplies) Inventory…….		14,000

c.

Repair Jobs in Process……..	12,000	
Wages Payable……...		12,000

d.

Repair Jobs in Process (500 hours X $20)……..	10,000	
Garage/Shop Overhead Costs…….		10,000

e.

Garage/Shop Overhead Costs…….	14,500	
Prepaid Rent……		8,000
Accumulated Depreciation……		2,500
Salaries Payable…….		4,000

f.

Cost of Repairs Completed and Sold……..	40,000	
Repair Jobs in Process……..		40,000

g.

Accounts Receivable……..	52,000	
Service Revenue ($40,000 x 1.3) ……		52,000

E2–23

Req. 1
Predetermined Overhead Rate = $125,000 / 5,000 = $ 25.00

Req. 2	Oliverio	McComb
Direct labor cost (professional)	$ 4,000	$ 3,000
Travel costs	500	100
Overhead ($25 per hour)	40 x $25 = 1,000	30 x $25 = 750
Total Cost to Serve	$ 5,500	$ 3,850

Req. 3		
Sales Revenue ($250 per hour)	40 x $250 = $ 10,000	30 x $250 = $ 7,500
Total Cost to Serve	5,500	3,850
Gross Profit	$ 4,500	$ 3,650

ANSWERS TO GROUP A PROBLEMS

PA2-1

Req. 1 and 2

Raw Materials Inventory		Work in Process Inventory		Finished Goods Inventory	
Bal. 25,000	b. 122,000	Bal. 55,000	f. 375,000	Bal. 60,000	g. 402,000
a. 136,000		b. 94,000		f. 375,000	
		c. 131,000			
		e. 176,850			
Bal. 39,000		Bal. 81,850		Bal. 33,000	

Manufacturing Overhead		Cost of Goods Sold	
b. 28,000	e. 176,850	g. 402,000	
c. 24,000			
d. 26,000			
d. 30,000			
d. 24,000			
	44,850 Overapplied	Bal. 402,000	

Sales Revenue		Non-Manufacturing Expenses	
	h. 500,000	d. 44,000	
		d. 15,000	

	Bal. 500,000	Bal. 59,000	

Req. 3

Manufacturing overhead is overapplied by $44,850. If this amount is closed directly to Cost of Goods Sold, it will DECREASE Cost of Goods Sold.

PA2-1 (Continued)

Req. 4

Lamonda Corp. Cost of Goods Manufactured Report For the Month of April	
Beginning raw materials inventory	$ 25,000
Plus: Raw material purchases	136,000
Less: Indirect materials	28,000
Less: Ending raw materials inventory	39,000
Direct materials used	$ 94,000
Direct labor	131,000
Manufacturing overhead applied	176,850
Total current manufacturing costs	$401,850
Plus: Beginning work in process inventory	55,000
Less: Ending Work in Process Inventory	81,850
Cost of Goods Manufactured	$375,000

Req. 5

Lamonda Corp. Income Statement For the Month of April		
Sales revenue		$500,000
Cost of goods sold		
Beginning finished goods inventory	60,000	
Plus: Cost of goods manufactured	375,000	
Less Ending finished goods inventory	33,000	
Unadjusted Cost of goods sold	402,000	
Less: Overapplied manufacturing overhead	44,850	
Adjusted Cost of Goods Sold		$357,150
Gross profit		142,850
Selling and administrative expenses		59,000
Net Income from Operations		$83,850

PA2-2

a.

Raw Materials Inventory	136,000	
Accounts Payable		136,000

b.

Manufacturing Overhead	28,000	
Work In Process Inventory	94,000	
Raw Materials Inventory		122,000

c.

Work In Process Inventory	131,000	
Manufacturing Overhead	24,000	
Salaries/Wages Payable		155,000

d.

Selling and Administrative Expenses (44,000 + 15,000)	59,000	
Manufacturing Overhead (26,000 + 30,000 + 24,000)	80,000	
Miscellaneous Accounts (Payables, Cash, Prepaid Assets, Accumulated Dep.)		139,000

e.

Work in Process Inventory	176,850	
Manufacturing Overhead		176,850

f.

Finished Goods Inventory	375,000	
Work in Process Inventory		375,000

g.

Cost of Goods Sold	402,000	
Finished Goods Inventory		402,000

h.

Accounts Receivable	500,000	
Sales Revenue		500,000

PA2–3

Req. 1
Predetermined overhead rate = $420,000 / 60,000 = $7.00 per machine hour

Req. 2
Total Applied Manufacturing Overhead = 7,000 hours X $7.00 = $49,000

Req. 3
Ending Work in Process Inventory (Job 103) = $9,600 + $9,600 + (2,000 machine hours X $7.00) = $33,200

Req. 4
Cost of Job 101 = $19,200 + $28,800 + (1,000 machine hours X $7.00) = $55,000

Since this was the only job sold, the gross profit before the adjustment for over or underapplied manufacturing overhead is $60,000 - $55,000 = $5,000.

Req. 5

Manufacturing Overhead			
Actual	45,000	49,000	Applied
		4,000	Balance
		(Overapplied)	

PA2-4

Req. 1
Cost of Job 102 = $14,400 + $11,200 + (4,000 machine hours X $7.00) = $53,600

Finished Goods Inventory……	53,600	
Work in Process Inventory……..		53,600

Req. 2
Cost of Job 101 = $19,200 + $28,800 + (1,000 machine hours X $7.00) = $55,000

Cost of Goods Sold……...	55,000	
Finished Goods Inventory……...		55,000

Cash or Accounts Receivable…….	60,000	
Sales Revenue……..		60,000

Req. 3

Manufacturing Overhead..……..	4,000	
Cost of Goods Sold ……		4,000

PA2–5

Req. 1

Raw Materials Inventory	
1/1 20,000	b. 40,000
a. 26,000	
Bal. 6,000	

Work in Process Inventory	
1/1 15,000	h. 97,000
b. 32,000	
c. 18,000	
g. 54,000	
Bal. 22,000	

Finished Goods Inventory	
1/1 32,000	i. 70,000
h. 97,000	
Bal. 59,000	

Cost of Goods Sold	
i. 70,000	
Bal. 70,000	

Manufacturing Overhead	
b. 8,000	g. 54,000
c. 5,200	
d. 8,500	
e. 1,600	
f. 7,800	
	Bal. 22,900 Overapplied

Selling and Administrative Expenses	
c. 46,500	
d. 2,400	
e. 2,400	
Bal. 51,300	

Sales Revenue	
	i. 91,000
	Bal. 91,000

Other Accounts (Cash, Payables, etc.)	
i. 91,000	a. 26,000
	c. 69,700
	d. 10,900
	e. 4,000
	f. 7,800
	Bal. 27,400

Req. 2
Unadjusted gross profit = $91,000 - $70,000 = $21,000

Req. 3
Manufacturing overhead is $22,900 overapplied.

Req. 4
Adjusted gross profit = $91,000 – ($70,000 - $22,900) = $43,900

PA2–6

Item	Amount
Direct Materials Used In Production	$93,850
Direct Labor	100,000
Manufacturing Overhead Applied	125,000
Total Current Manufacturing Costs	$318,850
Plus: Beginning Work in Process Inventory	12,000
Less: Ending Work in Process Inventory	9,600
Cost of Goods Manufactured	$321,250
Plus: Beginning Finished Goods Inventory	25,000
Less: Ending Finished Goods Inventory	31,250
Unadjusted Cost of Goods Sold	$315,000
Overhead Adjustment	10,000
Adjusted Cost of Goods Sold	$325,000

PA2–7

Req. 1
a. Predetermined overhead rate = $594,000 / 16,500 = $36.00 per direct labor hour
b. Applied manufacturing overhead = 18,000 actual direct labor hours x $36 = $648,000
c. $655,000 Actual - $648,000 Applied = $7,000 Underapplied

Req. 2
a. Predetermined overhead rate = $594,000 / $396,000 = 150% of direct labor cost
b. Applied manufacturing overhead = $450,000 x 150% = $675,000
c. $655,000 Actual - $675,000 Applied = $20,000 Overapplied

Req. 3
a. Predetermined overhead rate = $594,000 / 7,500 = $79.20 per machine hour
b. Applied manufacturing overhead = 8,500 actual machine hours x $79.20 = $673,200
c. $655,000 Actual - $673,200 Applied = $18,200 Overapplied

Req. 4
Based on last year's data, direct labor hours was the most accurate allocation base for applying manufacturing overhead, because it results in the lowest amount of over- or underapplied manufacturing overhead, or the smallest difference between actual and applied manufacturing overhead cost.

Req. 5
Ideally, companies should choose an allocation base that has a cause and effect relationship with the incurrence of manufacturing overhead cost. In addition, the allocation measure must be something that can be reasonably measured for each individual unit or job, and the benefits must outweigh cost of measurement. This is one reason that many companies choose to use direct labor hours to apply manufacturing overhead to production. This measure is already captured in the accounting system and often has a direct relationship with the incurrence of manufacturing overhead cost. However, with advances in automation and the changing nature of the labor force, direct labor hours is not necessarily the best measure for applying manufacturing overhead to production.

PA2–8
Req. 1
Predetermined overhead rate = $91,000 / 65,000 = 140% of Direct labor cost

Req. 2

Raw Materials Inventory	
Beg. Balance 15,000	80,000 (15,000 +
Purchases 95,000	95,000 – 30,000)
Ending Bal. 30,000	

Work in Process Inventory		
Beginning Balance	30,000	200,000 (30,000 +
Direct Materials	70,000	70,000 + 50,000 +
Direct Labor	50,000	70,000 – 20,000)
Applied Overhead ($50,000 X 140%)	70,000	
Ending Balance	20,000	

Finished Goods Inventory	
Beginning Bal. 40,000	190,000
	(40,000 + 200,000
Cost of Goods Completed 200,000	- 50,000)
Ending Balance 50,000	

Cost of Goods Sold	
Unadjusted Cost of Goods Sold 190,000	12,000 Adjustment
Adjusted Cost of Goods Sold 178,000	

Manufacturing Overhead	
Indirect Materials 10,000	70,000 Applied
Indirect Labor 15,000	
Factory Depreciation 13,000	
Factory Rent 7,000	
Factory Utilities 3,000	
Other Factory Costs 10,000	
	12,000 Overapplied
Adjustment 12,000	

Sales Revenue	
	300,000

Selling and Administrative Expenses	
Adm. Salaries 28,000	
Office Depreciation 20,000	
Advertising 15,000	
Ending Balance 63,000	

PA2–8 (Continued)

Req. 3
$58,000 Actual - $70,000 Applied = $12,000 Overapplied manufacturing overhead

Req. 4

Dobson Manufacturing Company Cost of Goods Manufactured Report and Sold	
Beginning Raw Materials Inventory	$15,000
Plus: Raw Material Purchases	95,000
Less: Indirect Material Used	10,000
Less: Ending Raw Materials Inventory	30,000
Direct Materials Used in Production	$70,000
Direct Labor	50,000
Manufacturing Overhead	70,000
Total Current Manufacturing Costs	$190,000
Plus: Beginning Work in Process Inventory	30,000
Total Work in Process	$220,000
Less: Ending Work in Process Inventory	20,000
Cost of Goods Manufactured	$200,000
Plus: Beginning Finished Goods Inventory	40,000
Cost of Goods Available for Sale	$240,000
Less: Ending Finished Goods Inventory	50,000
Unadjusted Cost of Goods Sold	$190,000
Adjustment for Overapplied Overhead	(12,000)
Adjusted Cost of Goods Sold	$178,000

Req. 5

Dobson Manufacturing Company Income Statement	
Sales Revenue	$300,000
Less: Cost of Goods Sold	178,000
Gross Profit	$122,000
Less: Selling and Administrative Expenses	63,000
Net Income from Operations	$59,000

ANSWERS TO GROUP B PROBLEMS

PB2-1

Req. 1 and 2

Raw Materials Inventory	
Bal. 62,000	b. 195,500
a. 270,500	
Bal. 137,000	

Work in Process Inventory	
Bal. 22,900	f. 607,250
b. 180,000	
c. 213,600	
e. 290,000	
Bal. 99,250	

Finished Goods Inventory	
Bal.130,000	g. 557,700
f. 607,250	
Bal. 179,550	

Manufacturing Overhead	
b. 15,500	e. 290,000
c. 53,400	
d. 68,300	
d. 125,000	
d. 64,800	
37,000 Underapplied	

Cost of Goods Sold	
g. 557,700	
Bal 557,700	

Sales Revenue	
	h. 850,000
	Bal. 850,000

Non-Manufacturing Expenses	
d. 65,300	
d. 92,500	
Bal 157,800	

Req. 3

Manufacturing overhead is underapplied by $37,000. If this amount is closed directly to Cost of Goods Sold, it will INCREASE Cost of Goods Sold.

PB2-1 (Continued)

Req. 4

Coda Industries Cost of Goods Manufactured Report For the Month of November	
Beginning Raw Materials Inventory	$62,000
Plus: Raw Material Purchases	270,500
Less: Indirect Material Used	15,500
Less: Ending Raw Materials Inventory	137,000
Direct Materials Used in Production	$180,000
Direct Labor	213,600
Manufacturing Overhead	290,000
Total Current Manufacturing Costs	$683,600
Plus: Beginning Work in Process Inventory	22,900
Total Work in Process	$706,500
Less: Ending Work in Process Inventory	99,250
Cost of Goods Manufactured	$607,250

Req. 5

Coda Industries Income Statement For the Month of November		
Sales Revenue		$850,000
Less: Cost of Goods Sold		
Beginning Finished Goods Inventory	130,000	
Plus: Cost of Goods Manufactured (see schedule above)	607,250	
Less: Ending Finished Goods Inventory	179,550	
Unadjusted Cost of Goods Sold	557,700	
Plus: Underapplied Manufacturing Overhead	37,000	
Adjusted Cost of Goods Sold		$594,700
Gross Profit		255,300
Less: Operating (Period) Expenses		157,800
Net Income from Operations		$97,500

PB2-2

a.

Raw Materials Inventory	270,500	
Accounts Payable		270,500

b.

Manufacturing Overhead	15,500	
Work In Process Inventory	180,000	
Raw Materials Inventory		195,500

c.

Work In Process Inventory	213,600	
Manufacturing Overhead	53,400	
Salaries/Wages Payable		267,000

d.

Selling and Administrative Expenses (65,300 + 92,500)	157,800	
Manufacturing Overhead (68,300 + 125,000 + 64,800)	258,100	
Miscellaneous Accounts (Payables, Cash, Prepaid Assets, Accumulated Dep.)		415,900

e.

Work in Process Inventory	290,000	
Manufacturing Overhead		290,000

f.

Finished Goods Inventory	607,250	
Work in Process Inventory		607,250

g

Cost of Goods Sold	557,700	
Finished Goods Inventory		557,700

h.

Accounts Receivable	850,000	
Sales Revenue		850,000

PB2–3

Req. 1
Predetermined overhead rate = $450,000 / 150,000 = $3.00 per machine hour

Req. 2
Applied manufacturing overhead = 17,000 machine hours X $3.00 = $51,000

Req. 3
Ending Work in Process Inventory (Job 103) = $8,500 + $13,600 + (5,000 machine hours X $3.00) = $37,100

Req. 4
Cost of Job 101 = $25,500 + $11,900 + (8,000 X $3.00) = $61,400

Since this was the only job sold, the gross profit before the adjustment for over or underapplied manufacturing overhead is $75,000 - $61,400 = $13,600.

Req. 5

Manufacturing Overhead			
Actual	56,000	51,000	Applied
Balance (Underapplied)	5,000		

PB2-4

Req. 1
Cost of Job 102 = $17,000 + $8,500 + (4,000 machine hours X $3.00) = $37,500

Finished Goods Inventory……	37,500	
Work in Process Inventory……..		37,500

Req. 2
Cost of Job 101 = $25,500 + $11,900 + (8,000 X $3.00) = $61,400

Cash or Accounts Receivable…….	75,000	
Sales Revenue……..		75,000
Cost of Goods Sold……...	61,400	
Finished Goods Inventory……...		61,400

Req. 3

Cost of Goods Sold …….	5,000	
Manufacturing Overhead…….		5,000

PB2–5

1.

Raw Materials Inventory

1/1 15,600	b. 45,000
a. 42,000	
Bal. 12,600	

Work in Process Inventory

1/1 33,500	h. 84,650
b. 38,250	
c. 17,300	
g. 34,600	
Bal. 39,000	

Finished Goods Inventory

1/1 42,300	i. 40,000
h. 84,650	
Bal. 86,950	

Cost of Goods Sold

i. 40,000	
Bal. 40,000	

Manufacturing Overhead

b. 6,750	g. 34,600
c. 8,400	
d. 9,000	
e. 5,400	
f. 7,900	
Bal. 2,850 Underapplied	

Selling and Administrative Expenses

c. 4,300	
d. 25,000	
e. 3,600	
Bal. 32,900	

Sales Revenue

Other Accounts (Cash, Payables, etc.)

	i. 50,000
	Bal. 50,000

i. 50,000	a. 42,000
	c. 30,000
	d. 34,000
	e. 9,000
	f. 7,900
	Bal. 72,900

Req. 2
Unadjusted gross profit = $50,000 - $40,000 = $10,000

Req. 3
Manufacturing overhead is $2,850 underapplied

Req. 4
Adjusted Gross Profit = $50,000 – ($40,000 + $2,850) = $7,150

PB2-6

Item	**Amount**
Direct Materials Used In Production	$87,643
Direct Labor	128,857
Manufacturing Overhead Applied	225,500
Total Current Manufacturing Costs	$442,000
Plus: Beginning Work in Process Inventory	32,000
Less: Ending Work in Process Inventory	24,000
Cost of Goods Manufactured	$450,000
Plus: Beginning Finished Goods Inventory	15,000
Less: Ending Finished Goods Inventory	19,500
Unadjusted Cost of Goods Sold	$445,500
Overhead Adjustment	-120,500
Adjusted Cost of Goods Sold	$325,000

PB2–7

Req. 1
a. Predetermined overhead rate = $700,000 / 25,000 = $28.00 per direct labor hour
b. Applied manufacturing overhead = 27,000 actual hours x $28 = $756,000
c. $750,000 Actual - $756,000 Applied = $6,000 Overapplied

Req. 2
a. Predetermined overhead rate = $700,000 / $437,500 = 160% of direct labor cost
b. Applied manufacturing overhead = $464,000 x 160% = $742,400
c. $750,000 Actual - $742,400 Applied = $7,600 Underapplied

Req. 3
a. Predetermined overhead rate = $700,000 / 12,500 = $56 per machine hour
b. Applied manufacturing overhead = 13,000 actual machine hours x $56 = $728,000
c. $750,000 Actual - $728,000 Applied = $22,000 Underapplied

Req. 4
Based on last year's data, direct labor hours was the most accurate allocation base for applying manufacturing overhead, because it results in the lowest amount of over- or underapplied manufacturing overhead, or the smallest difference between actual and applied manufacturing overhead cost.

Req. 5
Ideally, companies should choose an allocation base that has a cause and effect relationship with the incurrence of manufacturing overhead cost. In addition, the allocation measure must be something that can be reasonably measured for each individual unit or job, and the benefits must outweigh cost of measurement. This is one reason that many companies choose to use direct labor hours to apply manufacturing overhead to production. This measure is already captured in the accounting system and often has a direct relationship with the incurrence of manufacturing overhead cost. However, with advances in automation and the changing nature of the labor force, direct labor hours is not necessarily the best measure for applying manufacturing overhead to production.

PB2–8

Req. 1

Predetermined overhead rate = $75,600 / $42,000 = 180% of Direct labor cost

Req. 2

Raw Materials Inventory		
Beginning Balance	10,000	76,500 (10,000 +
Purchases	85,000	85,000 – 18,500)
Ending Balance	18,500	

Work in Process Inventory		
Beginning Balance	30,000	174,500 (30,000 +
Direct Materials	66,500	66,500 + 35,000 +
Direct Labor	35,000	63,000 – 20,000)
Applied Overhead ($35,000 X 180%)	63,000	
Ending Balance	20,000	

Finished Goods Inventory		
Beginning Balance	60,000	194,500 (60,000 +
Cost of Goods Completed	174,500	174,500 - 40,000)
Ending Balance	40,000	

Cost of Goods Sold		
Unadjusted Cost of Goods Sold	194,500	
Adjustment	11,000	
Adjusted Cost of Goods Sold	205,500	

Manufacturing Overhead		
Indirect Materials	10,000	63,000 Applied
Indirect Labor	20,000	
Factory Depreciation	13,000	
Factory Rent	12,000	
Factory Utilities	5,000	
Other Factory Costs	14,000	
Actual Overhead	74,000	
Underapplied	11,000	
		11,000 Adjustment

Sales Revenue		
		280,000 Sales Revenue

Selling and Administrative Expenses		
Adm. Salaries	30,000	
Office Depreciation	20,000	
Advertising	19,000	
Ending Balance	69,000	

PB2–8

Req. 3
$74,000 Actual - $63,000 Applied = $11,000 Underapplied manufacturing overhead

Req. 4

Carlton Manufacturing Company Cost of Goods Manufactured Report and Sold	
Beginning Raw Materials Inventory	$10,000
Plus: Raw Material Purchases	85,000
Less: Indirect Material Used	10,000
Less: Ending Raw Materials Inventory	18,500
Direct Materials Used in Production	$66,500
Direct Labor	35,000
Manufacturing Overhead	63,000
Total Current Manufacturing Costs	$164,500
Plus: Beginning Work in Process Inventory	30,000
Total Work in Process	$194,500
Less: Ending Work in Process Inventory	20,000
Cost of Goods Manufactured	$174,500
Plus: Beginning Finished Goods Inventory	60,000
Cost of Goods Available for Sale	$234,500
Less: Ending Finished Goods Inventory	40,000
Unadjusted Cost of Goods Sold	$194,500
Adjustment for Overapplied Overhead	11,000
Adjusted Cost of Goods Sold	$205,500

Req. 5

Carlton Manufacturing Company Income Statement	
Sales Revenue	$280,000
Less: Cost of Goods Sold	205,500
Gross Profit	$74,500
Less: Selling and Administrative Expenses	69,000
Net Income from Operations	$5,500

ANSWERS TO SKILLS DEVELOPMENT CASES

S1–1

The solution to this case will depend on the particular item that the student chooses to investigate. The primary purpose of this case is to get students to think more concretely about what is involved in manufacturing a product. Since most students at this level will have very limited work experience, and may never have been inside a manufacturing facility, this exercise will help make the definitions in the chapter more concrete. Tying it to an everyday item that they use will also allow them to visualize the end product and the different types of costs that go into making that product.

S2–2

Solutions to this case will vary depending on the business venture that students select.

S2–3

Req. 1

$$\text{Predetermined Overhead Rate} = \frac{\text{Estimated Total Overhead}}{\text{Estimated Allocation Base}}$$

$$\text{Predetermined Overhead Rate} = \frac{\$720{,}000}{24{,}000 \text{ DL Hours}}$$

Predetermined Overhead Rate = $30 per DL Hour

This rate means the company needs to apply $30 in overhead for each direct labor hour worked in order to cover all of the indirect costs of production, such as factory rent, utilities, supervision, depreciation, etc.

Req. 2

Applied Overhead = Predetermined Overhead Rate X Actual DL Hours

Applied to Job 102 = $30 X 300 hours =	$ 9,000
Applied to Job 103 = $30 X 200 hours =	6,000
Total Overhead Applied = $30 X 500 hours =	$15,000

Req. 3

	Job 102	Job 103
Beginning balance of jobs in process	$ 15,000	$ -
Direct materials	2,000	5,000
Direct labor	6,000	4,000
Manufacturing overhead applied	9,000	6,000
Total manufacturing cost	$32,000	$15,000

Since Job 102 was completed, but not sold, its cost of $32,000 would appear in Finished Goods Inventory. The $15,000 balance of Job 103 would appear in Work in Process inventory since it is not yet completed.

S2–3 (Continued)

Req. 4

a.	Raw Materials Inventory……	10,000	
	Accounts Payable……		10,000
b.	Work in Process Inventory……...	7,000	
	Manufacturing Overhead……..	2,000	
	Raw Materials Inventory……...		9,000
c.	Work in Process Inventory……...	10,000	
	Manufacturing Overhead…….……	4,000	
	Administrative Salary Expense……	5,000	
	Salaries and Wages Payable…….……...		19,000
d.	Work in Process Inventory……...	15,000	
	Manufacturing Overhead……		15,000
e.	Manufacturing Overhead…….	16,000	
	Cash……..		6,000
	Accumulated Depreciation—Factory Equipment……		5,000
	Prepaid Insurance……		3,000
	Utilities Payable……		2,000
f.	Advertising Expense…….	2,000	
	Cash…….		2,000
	Depreciation Expense……..	3,000	
	Accumulated Depreciation—Office Equipment…….		3,000
	General and Administrative Expenses……..	1,000	
	Accounts Payable……		1,000

g.	Accounts Receivable or Cash…….……...	55,000	
	Sales Revenue…….……...		55,000
	Cost of Goods Sold…….……..	30,000	
	Finished Goods Inventory……..……..		30,000
h.	Finished Goods Inventory…….. ……	32,000	
	Work in Process Inventory……...		32,000

S2–3 (Continued)
Postings to the general ledger T-accounts and job cost sheets are shown below.

Raw Materials Inventory

1/1 Balance	10,000	9,000	(b)
(a)	10,000		
1/31 Balance	11,000		

Manufacturing Overhead

(b)	2,000	15,000	(d)
(c)	4,000		
(e)	16,000		
	7,000		
	Underapplied		

7,000 Adjustment (Req. 6)

Work In Process Inventory

1/1 Bal.	15,000	32,000	(h)
(b)	7,000		
(c)	10,000		
(d)	15,000		
1/31 Bal.	15,000		

Individual Job Cost Sheets
(Subsidiary Ledgers to WIP)

	Job 102	Job 103
1/1 Balance	15,000	-
Direct Materials	2,000	5,000
Direct Labor	6,000	4,000
Applied Manuf. Overhead	9,000	6,000
Total Manufacturing Cost	32,000	15,000

Finished Goods Inventory

1/1 Bal.	30,000	30,000	(g)
(h)	32,000		
1/31 Bal.	32,000		

Cost of Goods Sold

(g)	30,000		
Adjustment	7,000		
1/31 Bal.	37,000		

Sales Revenue

		55,000	(g)
		55,000	Bal.

Selling and Administrative Expenses

(c)	5,000		
(f)	2,000		
(f)	3,000		
(f)	1,000		
1/31 Bal.	11,000		

Cash and Other Assets

1/1 Balance	100,000	6,000	(e)
(g)	55,000	5,000	(e)

Payables and Other Liabilities

		85,000	1/1 Balance
		10,000	(a)

		3,000	(e)		19,000	(c)
		2,000	(f)		2,000	(e)
		3,000	(f)		1,000	(f)
1/31 Bal.	136,000				117,000	1/31 Bal.

Stockholders' Equity	
	70,000
	Bal. 70,000

S2–3 (Continued)

Req. 5: Actual $22,000 – Applied $15,000 = $7,000 Underapplied

Req. 6

Cost of Goods Sold……..	7,000	
Manufacturing Overhead…….……		7,000

Req. 7

Sampson Company
Cost of Goods Manufactured and Sold
For the Month Ended January 31, 2014

Beginning Raw Materials Inventory	$10,000
Plus: Raw Materials Purchased	10,000
Less: Indirect Materials Issued	- 2,000
Less: Ending Raw Materials Inventory	-11,000
Direct Materials Used In Production	7,000
Direct Labor	10,000
Manufacturing Overhead Applied	15,000
Total Current Manufacturing Costs	32,000
Plus: Beginning Work in Process Inventory	15,000
Less: Ending Work in Process Inventory	- 15,000
Cost of Goods Manufactured	32,000
Plus: Beginning Finished Goods Inventory	30,000
Less: Ending Finished Goods Inventory	- 32,000
Unadjusted Cost of Goods Sold	30,000
Plus: Underapplied overhead	7,000
Adjusted Cost of Goods Sold	$ 37,000

Req. 8

Sampson Company
Income Statement
For the Month Ended January 31, 2014

Sales Revenue	$55,000
Less: Cost of Goods Sold	37,000
Gross Profit	18,000
Less: Selling and Administrative Expenses	11,000
Net Income from Operations	$ 7,000