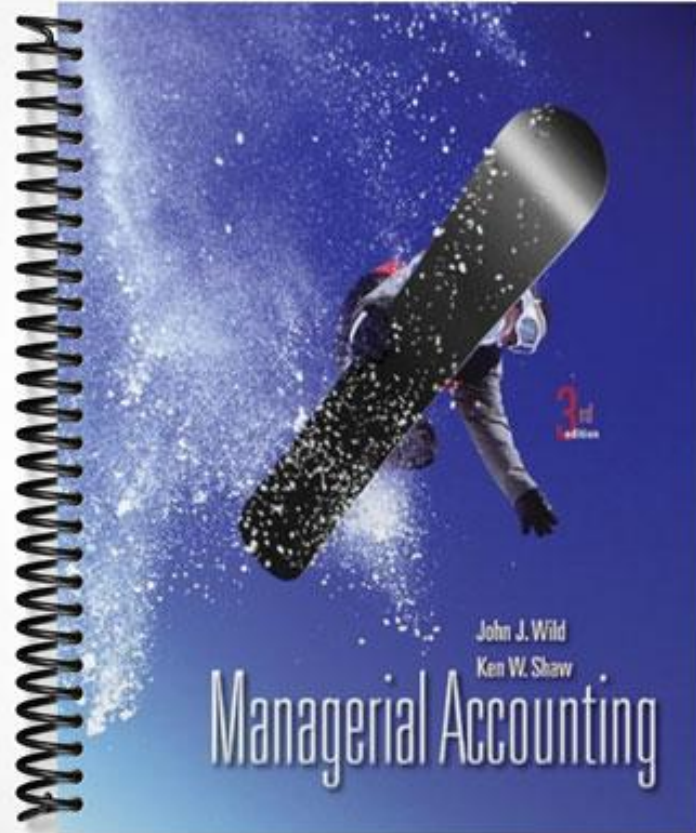


TEST BANK



Chapter 02 Job Order Costing and Analysis

True / False Questions

1. A manufacturing company that uses a cost accounting system normally has only two inventory accounts: Finished Goods Inventory and Goods in Process Inventory.

True False

2. Cost accounting systems accumulate costs and then assign them to products or services.

True False

3. There are two basic types of cost accounting systems: job order costing and periodic costing.

True False

4. A manufacturing firm that produces a large numbers of standardized units would normally use a job order cost accounting system.

True False

5. Job order manufacturing systems would be appropriate for companies that produce custom homes, specialized equipment, and special computer systems.

True False

6. Job order manufacturing systems would be appropriate for companies that produce compact disks or disposable cameras.

True False

7. A job order cost accounting system would be appropriate for a manufacturer of automobile tires.

True False

8. Job order manufacturing systems would be appropriate for companies that produce training films for a specific customer or custom-made furniture to be used in a new five-star resort hotel.

True False

9. A company's file of job cost sheets for finished but unsold jobs equals the balance in the Finished Goods Inventory account.

True False

10. The raw materials section of a job cost sheet shows the materials costs assigned to a job, but the direct labor section only shows the total hours of labor exerted by employees on the job.

True False

11. In a job order cost accounting system, the total balances of all of the job cost sheets for unfinished jobs equal the balance in the Goods in Process Inventory account.

True False

12. A job cost sheet is useful for developing financial accounting numbers but does not contain information that is useful for managing the manufacturing process.

True False

13. Job cost sheets are used to track all of the costs assigned to a job, including direct materials, direct labor, overhead, and all selling and administrative costs.

True False

14. When a job is finished, its job cost sheet is completed and moved from the file of jobs in process to the file of finished jobs that are yet to be delivered to customers.

True False

15. The file of job cost sheets for completed but undelivered jobs equals the balance in the Goods in Process Inventory account.

True False

16. Job order costing is applicable to manufacturing firms only and not service firms.

True False

17. Service firms, unlike manufacturing firms, should only use actual costs when determining a selling price for their services.

True False

18. The cost of all direct materials used on a job is debited to the Finished Goods Inventory account.

True False

19. When materials are used as indirect materials, their cost is debited to the Factory Overhead account.

True False

20. A materials requisition is a source document used by production managers to request materials for manufacturing and also used to assign materials costs to specific jobs or to overhead.

True False

21. A materials requisition is a source document used by materials managers of a manufacturing company to order raw materials from suppliers; it serves the same purpose as a purchase order in a merchandising company.

True False

22. Materials requisitions and time tickets are cost accounting source documents.

True False

23. A clock card is a source document that an employee uses to report how much time was spent working on a job or on overhead and that is used to determine the amount of direct labor to charge to the job or to determine the amount of indirect labor to charge to factory overhead.

True False

24. A time ticket is a source document used by an employee to record the number of hours worked on a particular job during the work day.

True False

25. A time ticket is a source document an employee uses to record the number of hours at work and that is used each pay period to determine the total labor cost.

True False

26. A clock card is a source document used by an employee to record the total number of hours worked during the pay period.

True False

27. When time ticket information is entered into the accounting system, the journal entry is a debit to Factory Payroll and a credit to Goods in Process Inventory.

True False

28. Factory overhead is often collected and summarized in a factory overhead ledger.

True False

29. The predetermined overhead allocation rate is used to apply overhead cost to products.

True False

30. Predetermined overhead rates are necessary because cost accountants use periodic inventory systems.

True False

31. The predetermined overhead allocation rate based on direct labor cost is the ratio of estimated overhead cost for the period to estimated direct labor cost for the period.

True False

32. The balance of the Factory Overhead account appears on the income statement.

True False

33. In a job order cost accounting system, indirect labor costs are debited to the Factory Overhead account.

True False

34. Since a predetermined overhead allocation rate is established before a period begins, this rate is revised many times during the period to compensate for inaccurate estimates previously made.

True False

35. Under a job order cost accounting system, individual jobs are always charged with actual overhead costs when they are transferred to finished goods.

True False

36. Overapplied overhead is the amount by which actual overhead cost exceeds the overhead applied to products during the period.

True False

37. In a job order cost accounting system, any immaterial underapplied overhead at the end of the period can be charged entirely to Cost of Goods Sold.

True False

38. If actual overhead incurred during a period exceeds applied overhead, the difference will be a credit balance in the Factory Overhead account at the end of the period.

True False

39. The Factory Overhead account will have a credit balance at the end of a period if overhead applied during the period is greater than the overhead incurred.

True False

40. Any material amount of under- or overapplied factory overhead must always be closed to Cost of Goods Sold at the end of an accounting period.

True False

41. Underapplied overhead is the amount by which overhead applied to jobs using the predetermined overhead allocation rate exceeds the overhead incurred during a period.

True False

42. Overapplied overhead is the amount by which overhead applied to jobs using the predetermined overhead allocation rate exceeds the overhead incurred during a period.

True False

43. Overapplied or underapplied overhead should be removed from the Factory Overhead account at the end of each accounting period.

True False

Multiple Choice Questions

44. Cost accounting systems used by manufacturing companies are based on the:

- A. Periodic inventory system.
- B. Perpetual inventory system.
- C. Finished goods inventories.
- D. Weighted average inventories.
- E. LIFO inventory system.

45. A system of accounting for manufacturing operations that produces timely information about inventories and manufacturing costs per unit of product is a:

- A. Finished goods accounting system.
- B. General accounting system.
- C. Manufacturing accounting system.
- D. Cost accounting system.
- E. Production accounting system.

46. Job order costing systems normally use:

- A. Periodic inventory systems.
- B. Perpetual inventory systems.
- C. Real inventory systems.
- D. General inventory systems.
- E. All of the above.

47. In comparison to a general accounting system for a manufacturing company, a cost accounting system places an emphasis on:

- A. Periodic inventory counts.
- B. Total costs.
- C. Unit costs and cost control.
- D. Products and average costs.
- E. Large volume operations involving standardized products.

48. The production activities for a customized product represent a(n):

- A. Operation.
- B. Job.
- C. Unit.
- D. Pool.
- E. Process.

49. A job order cost accounting system would best fit the needs of a company that makes:

- A. Shoes and apparel.
- B. Paint.
- C. Cement.
- D. Custom machinery.
- E. Pencils and erasers.

50. A type of manufacturing that produces customized products or services for each customer is called:

- A. Customer orientation manufacturing.
- B. Job order manufacturing.
- C. Just-in-time manufacturing.
- D. Job lot manufacturing.
- E. Process manufacturing.

51. Job order manufacturing is also known as:

- A. Mass production manufacturing.
- B. Process manufacturing.
- C. Unit manufacturing.
- D. Customized manufacturing.
- E. Standard costing.

52. Dell Builders manufactures each house to customer specifications. It most likely would use:

- A. Capital process costing.
- B. A periodic inventory system.
- C. Unique costing.
- D. Job order costing.
- E. Activity-based costing.

53. A job order manufacturing system would be appropriate for a company that produces which one of the following items?

- A. A landscaping design for a new hospital.
- B. Seedlings for sale in a nursery.
- C. Sacks of yard fertilizer.
- D. Packets of flower seeds.
- E. Small gardening tools, including rakes, shovels, and hoes.

54. Large aircraft manufacturers such as McDonnell Douglas normally use:

- A. Job order costing.
- B. Process costing.
- C. Mixed costing.
- D. Full costing.
- E. Simple costing.

55. A document in a job order cost accounting system that is used to record the costs of producing a job is a(n):

- A. Job cost sheet.
- B. Job lot.
- C. Finished goods summary.
- D. Process cost system.
- E. Units-of-production sheet.

56. A job cost sheet shows information about each of the following items except:

- A. The direct labor costs assigned to the job.
- B. The name of the customer.
- C. The costs incurred by the marketing department in selling the job.
- D. The overhead costs assigned to the job.
- E. The direct materials costs assigned to the job.

57. The job order cost sheets used by Garza Company revealed the following:

<u>Job. No.</u>	<u>Bal. May 1</u>	<u>May Production</u>
		<u>Costs</u>
124	\$1,700	\$----
125	1,200	300
126	----	900

Job No. 125 was completed during May and Jobs No. 124 and 125 were shipped to customers in May. What was the company's cost of goods sold for May and the goods in process inventory on May 31?

- A. \$3,200; \$900
- B. \$2,900; \$1,200
- C. \$1,200; \$2,900
- D. \$1,700; \$1,200
- E. \$4,100; \$0

58. A job cost sheet includes:

- A. Direct materials, direct labor, operating costs.
- B. Direct materials, overhead, administrative costs.
- C. Direct labor, overhead, selling costs.
- D. Direct material, direct labor, overhead.
- E. Direct materials, direct labor, selling costs.

59. A perpetual record of a raw materials item that records data on the quantity and cost of units purchased, units issued for use in production, and units that remain in the raw materials inventory, is called a(n):

- A. Materials ledger card.
- B. Materials requisition.
- C. Purchase order.
- D. Materials voucher.
- E. Purchase ledger.

60. A source document that production managers use to request materials for manufacturing and that is used to assign materials costs to specific jobs or to overhead is a:

- A. Job cost sheet.
- B. Production order.
- C. Materials requisition.
- D. Materials purchase order.
- E. Receiving report.

61. The Goods in Process Inventory account for the AB Corp. follows:

Goods in Process Inventory		
Beginning balance	4,500	
Direct materials	47,100	
Direct labor	29,600	? Finished goods
Applied overhead	15,800	
Ending balance	8,900	

The cost of units transferred to finished goods is:

- A. \$97,000
- B. \$105,900
- C. \$88,100
- D. \$95,200
- E. \$92,500

62. The Goods in Process Inventory Account for XYZ Inc. follows:

Goods in Process Inventory			
Beginning balance	\$4,750		
Direct materials	17,925	?	COG Manufactured
Direct labor	24,750		
Applied overhead	?		
Ending balance	\$10,400		

If the overhead is applied at the rate of 80% of direct labor cost, what is the amount of Cost of Goods Manufactured?

- A. \$19,800
- B. \$56,825
- C. \$61,775
- D. \$51,365
- E. \$37,025

63. A company's overhead rate is 60% of direct labor cost. Using the following incomplete accounts, determine the cost of direct materials used.

Goods in Process Inventory				Finished Goods Inventory		
Beg. Bal.	100,800			Beg. Bal.	118,200	
D.M.	?				324,800	301,000
D.L.	?					
O.H.	?	F. G.	?			
End. Bal.	131,040			End. Bal.	142,000	
Factory Overhead						
	93,240		90,720			

- A. \$106,400
- B. \$113,120
- C. \$30,240
- D. \$211,680
- E. \$324,800

64. During last period, a company's direct labor cost was double the cost of its direct material used. In addition, factory overhead was \$5,000 underapplied. Use the following incomplete accounts to determine the cost of direct labor.

Goods in Process Inventory		Finished Goods Inventory	
Beg. Bal.	60,000	Beg. Bal.	76,000
D.M.			? 93,000
?			
D.L.	?		
O.H.		F. G.	?
?			
End. Bal.	87,000	End. Bal.	71,000
Factory Overhead			
75,000			

- A. \$15,000
- B. \$88,000
- C. \$45,000
- D. \$70,000
- E. \$30,000

65. During last period, a company's overhead rate was 150% of direct labor cost. This caused factory overhead to be \$10,000 over applied. Use the following incomplete accounts to determine the cost of goods manufactured.

Goods in Process Inventory		Finished Goods Inventory	
Beg. Bal.	10,000	Beg. Bal.	30,000
D.M.	80,000		?
D.L.	?		?
O.H.	?		
End. Bal.	20,000	End. Bal.	70,000
Factory Overhead			
50,000			

- A. \$130,000
- B. \$170,000
- C. \$40,000
- D. \$60,000
- E. \$90,000

66. During last period, a company's overhead rate was 150% of direct labor cost. This caused factory overhead to be \$10,000 overapplied. Use the following incomplete accounts to determine the cost of goods sold.

Goods in Process Inventory		Finished Goods Inventory	
Beg. Bal.	10,000	Beg. Bal.	30,000
D.M.	80,000		?
D.L.	?		?
O.H.	?		
End. Bal.	20,000	End. Bal.	70,000
Factory Overhead			
50,000			

- A. \$130,000
- B. \$170,000
- C. \$40,000
- D. \$60,000
- E. \$90,000

67. A source document that an employee uses to record the number of hours at work and that is used to determine the total labor cost for each pay period is a:

- A. Job cost sheet.
- B. Hours-of-production sheet.
- C. Time ticket.
- D. Job order ticket.
- E. Clock card.

68. A source document that an employee uses to report how much time was spent working on a job or on overhead activities and that is used to determine the amount of direct labor to charge to the job or to determine the amount of indirect labor to charge to factory overhead is called a:

- A. Payroll Register.
- B. Factory payroll record.
- C. General Ledger.
- D. Time ticket.
- E. Factory Overhead Ledger.

69. When raw materials are used in production and are recorded in job cost system:

- A. Goods in Process is credited and Finished Goods is debited.
- B. Direct Material and Indirect Material are debited and Goods in Process is credited.
- C. Direct Material and Indirect Material are debited and Raw Materials Inventory is credited.
- D. Goods in Process is debited and Raw Materials Inventory is credited.
- E. Goods in Process and Factory Overhead are debited and Raw Materials Inventory is credited.

70. When factory payroll costs are recorded in a job cost accounting system:

- A. Factory Payroll is debited and Goods in Process is credited.
- B. Goods in Process Inventory and Factory Overhead are debited and Factory Payroll is credited.
- C. Cost of Goods Manufactured is debited and Direct Labor is credited.
- D. Direct Labor and Indirect Labor are debited and Factory Payroll is credited.
- E. Goods in Process is debited and factory payroll is credited.

71. Penn Company uses a job order cost accounting system. In the last month, the system accumulated labor time tickets totaling \$24,600 for direct labor and \$4,300 for indirect labor. These costs were accumulated in Factory Payroll as they were paid. Which entry should Penn make to assign the Factory Payroll?

(A)	Payroll Expense	28,900	
	Cash		28,900
(B)	Payroll Expense	24,600	
	Factory Overhead	4,300	
	Factory Payroll		28,900
(C)	Goods in Process Inventory	24,600	
	Factory Overhead	4,300	
	Factory Payroll		28,900
(D)	Goods in Process Inventory	24,600	
	Factory Overhead	4,300	
	Accrued Wages Payable		28,900
(E)	Goods in Process Inventory	28,900	
	Factory Payroll		28,900

- A. A above
- B. B above
- C. C above
- D. D above
- E. E above

72. Labor costs in manufacturing can be:

- A. Direct or indirect.
- B. Indirect or sunk.
- C. Direct or payroll.
- D. Indirect or payroll.
- E. Direct or sunk.

73. Canberra Company uses a job order cost accounting system. During the current month, the factory payroll of \$180,000 was paid in cash. The amount of labor classified as indirect labor was three times greater than the amount classified as indirect labor. What amount should be debited to Factory Overhead for indirect labor for this month?

- A. \$135,000
- B. \$180,000
- C. \$45,000
- D. \$60,000
- E. \$20,000

74. A company has an overhead application rate of 125% of direct labor costs. How much overhead would be allocated to a job if it required total labor costing \$20,000?

- A. \$5,000
- B. \$16,000
- C. \$25,000
- D. \$125,000
- E. \$250,000

75. Canoe Company's manufacturing accounting system uses direct labor costs to apply overhead to goods in process and finished goods inventories. Canoe Company's manufacturing costs for the year were: direct labor, \$30,000; direct materials, \$50,000; and factory overhead applied, \$6,000. The overhead application rate was:

- A. 5.0%
- B. 12.0%
- C. 20.0%
- D. 500.0%
- E. 16.7%

76. The overhead cost applied to a job during a period is recorded with a credit to Factory Overhead and a debit to:

- A. Jobs Overhead Expense
- B. Cost of Goods Sold
- C. Finished Goods Inventory
- D. Indirect Labor
- E. Goods in Process Inventory

77. The rate established prior to the beginning of a period that relates estimated overhead to an allocation factor such as estimated direct labor, and that is used to assign overhead cost to jobs, is the:

- A. Predetermined overhead allocation rate.
- B. Overhead variance rate.
- C. Estimated labor cost rate.
- D. Chargeable overhead rate.
- E. Miscellaneous overhead rate.

78. BVD Company uses a job order cost accounting system and last period incurred \$80,000 of overhead and \$100,000 of direct labor. BVD estimates that its overhead next period will be \$75,000. It also expects to incur \$100,000 of direct labor. If BVD bases applied overhead on direct labor cost, their overhead application rate for the next period should be:

- A. 75%
- B. 80%
- C. 107%
- D. 125%
- E. 133%

79. O.K. Company uses a job order cost accounting system and allocates its overhead on the basis of direct labor costs. O.K. expects to incur \$800,000 of overhead during the next period, and expects to use 50,000 labor hours at a cost of \$10.00 per hour. What is O.K. Company's overhead application rate?

- A. 6.25%
- B. 62.5%
- C. 160%
- D. 1600%
- E. 67%

80. Austin Company uses a job order cost accounting system. The company's executives estimated that direct labor would be \$2,000,000 (200,000 hours at \$10/hour) and that factory overhead would be \$1,500,000 for the current period. At the end of the period, the records show that there had been 180,000 hours of direct labor and \$1,200,000 of actual overhead costs. Using direct labor hours as a base, what was the predetermined overhead allocation rate?

- A. \$6.00 per direct labor hour.
- B. \$7.50 per direct labor hour.
- C. \$6.67 per direct labor hour.
- D. \$8.33 per direct labor hour.
- E. \$7.08 per direct labor hour.

81. Austin Company uses a job order cost accounting system. The company's executives estimated that direct labor would be \$2,000,000 (200,000 hours at \$10/hour) and that factory overhead would be \$1,500,000 for the current period. At the end of the period, the records show that there had been 180,000 hours of direct labor and \$1,200,000 of actual overhead costs. Using direct labor hours as the allocation base, calculate the under or over applied overhead for the period.

- A. \$150,000 overapplied.
- B. \$150,000 underapplied.
- C. \$300,000 underapplied.
- D. \$300,000 overapplied.
- E. \$200,000 underapplied.

82. The R&R Company's manufacturing costs for August are: direct labor, \$13,000; indirect labor, \$6,500; direct materials, \$15,000; taxes on raw materials and work in process, \$800; heat, lights and power, \$1,000; and insurance on plant and equipment, \$200. R&R Company's factory overhead incurred for August is:

- A. \$2,000
- B. \$6,500
- C. \$8,500
- D. \$21,500
- E. \$36,500

83. Deltan Corp. allocates overhead to production on the basis of direct labor costs. If Deltan's total estimated overhead is \$450,000 and estimated direct labor cost is \$180,000, determine the amount of overhead to be allocated to finished goods inventory. There is \$20,000 of total direct labor cost in the jobs in the finished goods inventory.

- A. \$8,000
- B. \$20,000
- C. \$70,000
- D. \$50,000
- E. \$90,000

84. A company allocates overhead to production on the basis of direct labor cost. If the company's total estimated overhead is \$870,000 and estimated direct labor cost is \$1,160,000, determine the amount of overhead to be allocated to finished goods inventory. There is \$791,000 of total direct labor cost in the jobs in the finished goods inventory.

- A. \$1,054,667
- B. \$593,250
- C. \$1,275,853
- D. \$1,079,482
- E. \$79,000

85. The Goods in Process Inventory account of a manufacturing company that uses an overhead rate based on direct labor cost has a \$4,400 debit balance after all posting is completed. The cost sheet of the one job still in process shows direct material cost of \$2,000 and direct labor cost of \$800. Therefore, the company's overhead application rate is:

- A. 40%
- B. 50%
- C. 80%
- D. 200%
- E. 220%

86. The Goods in Process Inventory account of a manufacturing company that uses an overhead rate based on direct labor cost has a \$7,750 debit balance after all posting is completed. The cost sheet of the one job still in process shows direct material cost of \$6,000 and direct labor cost of \$1,000. Therefore, the company's overhead application rate is:

- A. 10.7%
- B. 75.0%
- C. 133.0%
- D. 90.3%
- E. 111.0%

87. Using the following accounts and an overhead rate of 90% of direct labor cost, determine the amount of applied overhead.

Goods in Process Inventory		Finished Goods Inventory	
Beg. Bal.	17,600	Beg. Bal.	5,200
D.M.	52,800		201,520
D.L.	?		
O.H.	?	F. G.	?
End. Bal.	36,080		

- A. \$79,200
- B. \$167,200
- C. \$34,320
- D. \$88,000
- E. \$35,376

88. Using the following accounts and an overhead rate of 80% of direct labor cost, determine the amount of applied overhead.

Goods in Process Inventory		Finished Goods Inventory	
Beg. Bal.	53,000	Beg. Bal.	9,000
D.M.	48,000		200,000
D.L.	?		129,000
O.H.	?	F. G.	?
End. Bal.	36,000	End. Bal.	80,000

- A. \$135,000
- B. \$75,000
- C. \$60,000
- D. \$101,000
- E. \$17,000

89. If one unit of Product X used \$2.50 of direct materials and \$3.00 of direct labor, sold for \$8.00, and was assigned overhead at the rate of 30% of direct labor costs, how much gross profit was realized from this sale?

- A. \$8.00
- B. \$5.50
- C. \$2.50
- D. \$1.60
- E. \$0.90

90. If one unit of Product X used \$.75 of direct materials and \$6.00 of direct labor, sold for \$12.00, and was assigned overhead at the rate of 20% of direct labor costs, how much gross profit was realized from this sale?

- A. \$12.00
- B. \$6.75
- C. \$.75
- D. \$1.20
- E. \$4.05

91. The ending inventory of finished goods has a total cost of \$9,000 and consists of 600 units. If the overhead applied to these goods is \$3,000, and the overhead rate is 75% of direct labor, how much direct materials cost was incurred in producing these units?

- A. \$3,750
- B. \$2,000
- C. \$4,000
- D. \$6,000
- E. \$9,000

92. The ending inventory of finished goods has a total cost of \$10,000 and consists of 500 units. If the overhead applied to these goods is \$2,000, and the overhead rate is 50% of direct labor, how much direct materials cost was incurred in producing these units?

- A. \$4,000
- B. \$6,000
- C. \$3,000
- D. \$7,000
- E. \$10,000

93. A manufacturing company uses a job order cost accounting system. Overhead is applied using direct labor hours as an allocation base. Total costs for a particular job were \$5,720. Of this amount \$2,600 was direct labor and \$1,040 was direct material. The company pays \$26 per hour of direct labor and \$2 per pound of direct materials. What is this company's overhead rate?

- A. \$26.00 per direct labor hour.
- B. \$20.80 per direct labor hour.
- C. \$4.00 per direct labor hour.
- D. \$80.00 per direct labor hour.
- E. \$2,080 per direct labor hour.

94. A manufacturing company uses a job order cost accounting system. Overhead is applied using pounds of direct materials used as an allocation base. Total costs for a particular job were \$5,720. Of this amount \$2,600 was direct labor and \$1,040 was direct material. The company pays \$26 per hour of direct labor and \$2 per pound of direct materials. What is this company's overhead rate?

- A. \$2 per pound of direct material used.
- B. \$1,040 per pound of direct material used.
- C. \$520 per pound of direct material used.
- D. \$4 per pound of direct material used.
- E. \$2,080 per pound of direct material used.

95. At the current year-end, Hardly Company found that its overhead was underapplied by \$2,500, and this amount was not deemed to be a material amount. Based on this information, Hardly should:

- A. Close the \$2,500 to Cost of Goods Sold.
- B. Close the \$2,500 to Finished Goods Inventory.
- C. Do nothing about the \$2,500, since it is not material, and it is likely that overhead will be overapplied by the same amount next year.
- D. Carry the \$2,500 to the income statement as "Other Expense".
- E. Carry the \$2,500 to the next period.

96. If overhead applied is less than actual overhead, it is:

- A. Fully applied.
- B. Underapplied.
- C. Overapplied.
- D. Expected.
- E. Normal.

97. The amount by which the overhead applied to jobs during a period exceeds the overhead incurred during the period is known as:

- A. Adjusted overhead.
- B. Estimated overhead.
- C. Predetermined overhead.
- D. Underapplied overhead.
- E. Overapplied overhead.

98. The amount by which overhead incurred during a period exceeds the overhead applied to jobs is:

- A. Balanced overhead.
- B. Predetermined overhead.
- C. Actual overhead.
- D. Underapplied overhead.
- E. Overapplied overhead.

99. If a company applies overhead to production with a predetermined rate, a credit balance in the Factory Overhead account at the end of the period means that:

- A. The bookkeeper has made an error because the debits don't equal the credits.
- B. The balance will be carried forward to the next period as an overhead cost.
- C. Actual overhead was less than the overhead amount charged to production.
- D. The overhead was underapplied for the period.
- E. Actual overhead was greater than the overhead amount charged to production.

100. M.A.E. charged the following amounts of overhead to jobs during the year: \$20,000 to jobs still in process, \$60,000 to jobs completed but not sold, and \$120,000 to jobs finished and sold. At year-end, M.A.E. Company's Factory Overhead account has a credit balance of \$5,000, which is not a material amount. What entry should M.A.E. make at year-end?

- (A) No entry is needed.
- (B)

Factory Overhead	5,000	
Cost of Goods Sold		5,000
- (C)

Cost of Goods Sold	5,000	
Factory Overhead		5,000
- (D)

Factory Overhead	5,000	
Goods in Process Inventory		5,000
- (E)

Factory Overhead	5,000	
Finished Goods		5,000

- A. A Above
 B. B Above
 C. C Above
 D. D Above
 E. E Above

101. Estimated overhead and direct labor costs for the year were \$112,500 and \$125,000, respectively. During the year, actual overhead was \$107,400 and actual direct labor cost was \$120,000. The entry to close the over- or underapplied overhead at year-end, assuming an immaterial amount, would include:

- A. A debit to Cost of Goods Sold for \$600.
 B. A credit to Factory Overhead for \$600.
 C. A credit to Finished Goods Inventory for \$600.
 D. A debit to Goods in Process Inventory for \$600.
 E. A credit to Cost of Goods Sold for \$600.

102. Estimated overhead and direct labor costs for the year were \$250,000 and \$125,000, respectively. During the year, actual overhead was \$248,000 and actual direct labor cost was \$123,000. The entry to close the over- or under-applied overhead at year-end, assuming an immaterial amount, would include:

- A. A debit to Cost of Goods Sold for \$2,000.
- B. A debit to Factory Overhead for \$2,000.
- C. A credit to Finished Goods Inventory for \$2,000.
- D. A debit to Goods in Process Inventory for \$2,000.
- E. A credit to Cost of Goods Sold for \$2,000.

103. If it is a material amount, overapplied or underapplied overhead should be disposed of by allocating it to:

- A. Cost of goods sold and finished goods.
- B. Finished goods and goods in process.
- C. Goods in process, finished goods, and cost of goods sold.
- D. Goods in process, if immaterial.
- E. Raw materials, goods in process, and finished goods.

104. The Dina Corp. has applied overhead to jobs during the period as follows:

Jobs finished and sold	\$ 46,000
Jobs started and in process	54,000
Jobs finished and unsold	100,000

The application of overhead has resulted in a \$5,600 credit balance in the Factory Overhead account, and this amount is not material. The entry to dispose of this remaining factory overhead balance is:

- | | | | |
|-----|---------------------|-------|-------|
| (A) | Cost of Goods Sold | 5,600 | |
| | Factory Overhead | | 5,600 |
| (B) | Factory Overhead | 5,600 | |
| | Cost of Goods Sold | | 5,600 |
| (C) | Factory Overhead | 5,600 | |
| | Goods in Process | | 5,600 |
| (D) | Goods in Process | 5,600 | |
| | Factory Overhead | | 5,600 |
| (E) | No entry is needed. | | |

- A. A Above
- B. B Above
- C. C Above
- D. D Above
- E. E Above

Matching Questions

105. Match the following terms to the appropriate definition.

- | | | |
|--------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| 1. Overapplied overhead | The production of products in response to special orders; also called customized production | _____ |
| 2. Time ticket | A source document that is used to record the number of hours an employee works and to determine the total labor cost for each pay period | _____ |
| 3. Materials ledger card | The amount by which the overhead applied to jobs in a period with the predetermined overhead allocation rate exceeds the overhead incurred in a period | _____ |
| 4. Clock card | An accounting system for manufacturing activities based on the periodic inventory system | _____ |
| 5. Job order cost accounting system | The rate established prior to the beginning of a period that relates estimated overhead to an allocation factor such as estimated direct labor and is used to assign overhead cost to a job | _____ |
| 6. Underapplied overhead | A cost accounting system designed to determine the cost of producing each job or job lot | _____ |
| 7. Job order manufacturing | A source document that production managers use to request materials for manufacturing and that is used to assign materials costs to specific jobs or to overhead | _____ |
| 8. Job cost sheet | A perpetual record that is updated each time units of raw material are both purchased and issued for use in production | _____ |
| 9. Materials requisition | A source document that is used to report how much time an employee spent working on a job or on overhead activities and then to determine the amount of direct labor to charge to the job or the amount of indirect labor to charge to overhead | _____ |
| 10. General accounting system | The amount by which overhead incurred in a period exceeds the overhead applied to jobs with the predetermined overhead allocation rate | _____ |
| 11. Predetermined overhead allocation rate | A separate record maintained for each job in a job order costing system; it shows direct materials, direct labor, and overhead for each job | _____ |

Essay Questions

106. What is a cost accounting system? What are the two basic types of cost accounting systems?

107. How have some computer manufacturers implemented the concept of job order cost accounting?

108. Describe the purpose of a job cost sheet, and explain what information is found on the job cost sheet.

109. Explain how a service firm, such as an advertising agency, might use job order costing.

110. Describe how materials flow through a job order cost accounting system, and identify the key documents in the system.

111. Describe the flow of labor costs in a job order costing system, and identify the documents used in the system.

112. Explain what a predetermined overhead allocation rate is, how it is calculated, and why it is used.

113. Briefly describe how manufacturing firms dispose of overapplied or underapplied factory overhead.

Short Answer Questions

114. The Johnson Manufacturing Company has the following job cost sheets on file. They represent jobs that have been worked on during March of the current year. This table summarizes information provided on each sheet:

<u>Number</u>	<u>Total Cost</u> <u>Incurred</u>	<u>Status of Job</u>
444	\$15,050	Finished and delivered
445	\$22,400	Finished and delivered
446	\$ 7,500	Finished and unsold
447	\$ 4,300	Finished and delivered
448	\$33,000	Finished and unsold
449	\$62,000	Finished and unsold
450	\$14,600	Unfinished
451	\$22,200	Finished and delivered
452	\$ 3,600	Unfinished
453	\$ 1,000	Unfinished

- (a) What is the cost of goods sold for the month of March?
- (b) What is the cost of the goods in process inventory on March 31?
- (c) What is the cost of the finished goods inventory on March 31?

115. The Terrapin Manufacturing Company has the following job cost sheets on file. They represent jobs that have been worked on during June of the current year. This table summarizes information provided on each sheet:

<u>Number</u>	<u>Total Cost</u> <u>Incurred</u>	<u>Status of Job</u>
951	\$ 4,200	Finished and delivered
952	\$ 7,700	Unfinished
953	\$ 9,300	Finished and unsold
954	\$11,100	Finished and delivered
955	\$ 3,000	Finished and unsold
956	\$ 5,500	Finished and delivered
957	\$35,000	Unfinished
958	\$ 3,200	Finished and delivered
959	\$ 500	Unfinished
960	\$22,110	Unfinished
961	\$ 7,200	Finished and unsold
962	\$ 8,500	Unfinished
963	\$11,200	Finished and unsold

- (a) What is the cost of the goods in process inventory on June 30?
- (b) What is the cost of the finished goods inventory on June 30?
- (c) What is the cost of goods sold for the month of June?

116. Plumley Ad Agency contracted with a company to prepare an ad campaign. Plumley uses a job order costing system. Plumley estimates that the job will take 145 designer hours at \$90 per hour and 85 staff hours at \$45 per hour. Plumley uses two overhead rates in applying overhead to jobs: Designer-related at \$100 per designer hour and staff-related at \$50 per staff hour. Determine the total estimated cost for this job.

117. Erlander Company uses a job order cost accounting system. On November 1, \$15,000 of direct materials and \$3,500 of indirect materials were requisitioned for production. Prepare the general journal entry to record this requisition.

118. RC Corp. uses a job order cost accounting system. During the month of April, the following events occurred:

- (a) Purchased raw materials on credit, \$32,000.
- (b) Raw materials requisitioned: \$25,800 as direct materials and \$10,500 indirect materials.
- (c) Paid factory payroll for the month totaling \$37,700 which includes \$8,200 indirect labor.
- (d) Assigned the factory payroll to jobs and overhead.

Make the necessary journal entries to record the above transactions and events.

119. RC Corp. uses a job order cost accounting system. During the month of April, the following events occurred:

- (a) Purchased raw materials on credit, \$32,000.
 - (b) Raw materials requisitioned: \$25,800 as direct materials (Job 1:\$4,200, Job 2: \$7,500, Job 3: \$3,600 and Job 4: \$10,500) and \$10,500 indirect materials.
 - (c) Paid factory payroll for the month totaling \$37,700 which includes \$8,200 indirect labor.
 - (d) Assigned the factory payroll to jobs and overhead. (Job 1:\$7,000, Job 2: \$9,800, Job 3: \$3,000 and Job 4: \$9,700)
 - (e) Overhead was assigned at a rate of 50% of direct labor cost.
- Determine the total cost of each job.

120. Key Manufacturing Co. applies factory overhead to production on the basis of direct labor costs. Assume that at the beginning of the current year the company estimated that direct material costs would be \$178,800, direct labor costs would be \$154,000, and factory overhead costs would be \$231,000.

- (1) If the \$28,000 cost of Key's goods in process inventory included \$5,200 of direct labor cost, what amount of direct materials cost was included?
- (2) If \$8,100 of the company's \$34,300 finished goods inventory was direct materials cost, determine the direct labor cost and factory overhead cost of the finished goods inventory.

121. PRO, Inc. had the following activities during its most recent period of operations:

- (a) Purchased raw materials on account for \$140,000 (both direct and indirect materials are recorded in the Raw Materials Inventory account).
- (b) Issued raw materials to production of \$130,000 (80% direct and 20% indirect).
- (c) Incurred and paid labor costs of \$250,000 cash (70% direct and 30% indirect).
- (d) Incurred factory utilities costs of \$20,000; this amount is still payable.
- (e) Applied overhead at 80% of direct labor costs.
- (f) Recorded factory depreciation, \$22,000.

Prepare journal entries to record the above transactions.

122. Prepare journal entries to record the following transactions and events for April using a job order cost accounting system.

- (a) Purchased raw materials on credit, \$69,000.
- (b) Raw materials requisitioned: \$26,000 direct and \$5,400 indirect.
- (c) Factory payroll totaled \$46,000 (paid in cash), including \$9,500 indirect labor.
- (d) Paid other actual overhead costs totaling \$14,500 cash.
- (e) Applied overhead totaling \$28,200.
- (f) Finished and transferred jobs totaling \$77,500.
- (g) Jobs costing \$58,800 were sold on credit for \$103,000.

123. A company's ending inventory of finished goods has a cost of \$35,000 and consists of 750 units. If the overhead applicable to these goods is \$8,400, and overhead is applied at the rate of 60% of direct labor, what is the cost of the direct materials used to produce these units?

124. The production of one unit of Product BBB used \$17.50 of direct materials and \$21.00 of direct labor. The unit sold for \$56.00 and was assigned overhead at a rate of 30% of labor costs. What is the gross profit per unit on its sale?

125. A company uses a job order cost accounting system and applies overhead on the basis of direct labor cost. At the end of a recent period, the company's Goods in Process Inventory account appeared as follows:

Goods in Process					
Date	Explanation	PR	Debit	Credit	Balance
Mar. 17	Job No. 5 completed	G-8		90,900	(17,100)
Apr. 13	Job No. 6 completed	G-10		131,400	(148,500)
July 20	Job No. 7 completed	G-12		73,800	(222,300)
Oct. 11	Job No. 8 completed	G-15		168,300	(390,600)
Dec. 31	Direct Materials	G-20	235,800		(154,800)
	31 Direct Labor	G-20	117,000		(37,800)
	31 Factory Overhead	G-20	187,200		149,400

Write in the blanks for the following:

- (1) The total cost of the direct materials, direct labor, and factory overhead applied in the December 31 goods in process inventory is \$_____.
- (2) The company's overhead application rate is _____%.
- (3) Job No. 6 had \$26,550 of direct labor cost. Therefore, the job must have had \$_____ of direct materials cost.
- (4) Job No. 8 had \$73,998 of direct materials cost. Therefore, the job must have had \$_____ of factory overhead cost.

126. The following data relates to the Density Company's first operating period. Calculate cost of goods sold for each product.

<u>Product</u>	<u>Cost/unit</u>		<u>Units</u>		<u>Overhead rate (Percent of Direct Labor cost)</u>
	<u>Direct</u>	<u>Direct</u>	<u>Produced</u>	<u>Ending</u>	
	<u>Materials</u>	<u>Labor</u>			
A	\$10	\$12	215	115	60%
B	8	15	330	180	40%
C	14	10	250	200	80%

127. The following data relates to the Density Company's first operating period. Calculate cost of ending inventory for each product.

<u>Product</u>	<u>Cost/unit</u>		<u>Units</u>		<u>Overhead rate (Percent of Direct Labor cost)</u>
	<u>Direct</u>	<u>Direct</u>	<u>Produced</u>	<u>Ending</u>	
	<u>Materials</u>	<u>Labor</u>			
A	\$10	\$12	215	115	60%
B	8	15	330	180	40%
C	14	10	250	200	80%

128. The overhead allocation rate in Frantz Company's job order cost accounting system applies overhead based on direct labor costs. The company's manufacturing costs for the current year were: direct materials, \$108,000; direct labor, \$144,000; and factory overhead, \$18,000. At year-end, the total cost of goods in process is \$36,000, which includes \$12,000 of direct labor cost. What amount of direct material cost is included in the ending goods in process inventory?

129. Medlar Corp. maintains a Web-based general ledger. Overhead is applied on the basis of direct labor costs. Its bookkeeper accidentally deleted most of the entries that had been recorded for January. A printout of the general ledger (in T-account form) showed the following:

Raw Materials Inventory			Goods in Process Inventory		
Bal. 1/1 10,000			Bal 1/1 4,000		f)
a)		b)	c)		
			d)		
			e)		
17,500			g)		

Accounts Payable			Finished Goods Inventory		
h)		Bal. 1/1 5,000	j)		l)
		i)	k)		
		Bal. 1/31 9,000	Bal. 1/31 15,000		

Factory Overhead			Cost of Goods Sold		
m)		n)	o)		

A review of the prior year's financial statements, the current year's budget, and January's source documents produced the following information:

- (1) Accounts Payable are used for raw material purchases only. January purchases were \$49,000.
- (2) Factory overhead costs for January were \$17,000 none of which is indirect materials.
- (3) The January 1 balance for finished goods inventory was \$10,000.
- (4) There was a single job in process at January 31 with a cost of \$2,000 for direct materials and \$1,500 for direct labor.
- (5) Total cost of goods manufactured for January was \$90,000.
- (6) All direct laborers earn the same rate (\$13/hour). During January, 2,500 direct labor hours were worked.
- (7) The predetermined overhead allocation rate is based on direct labor costs. Budgeted (expected) overhead for the year is \$195,000 and budgeted (expected) direct labor is \$390,000.

Write in the missing amounts a through o above in the T-accounts above.

130. Selwyn's Service applied overhead on the basis of direct labor costs during the current year. Overhead applied was \$16,500. Actual overhead incurred was \$17,200.

- (a.) Prepare a journal entry to remove this difference assuming that it is not material.
- (b.) Instead, assume actual overhead incurred was only \$24,000. Describe (without computations) the alternative procedure that Selwyn might use to record this material difference.

131. Dina Corp. uses a job order cost accounting system. Four jobs were started during the current year. The following is a record of the costs incurred:

<u>Job #</u>	<u>Material Used</u>	<u>Direct Labor Used</u>	<u>Direct Labor Hours Used</u>
1010	\$45,000	\$72,000	8,000
1011	59,000	77,000	7,000
1012	35,000	30,000	3,000
1013	26,000	40,000	5,000

Actual overhead costs were \$55,800. The predetermined overhead allocation rate is \$2.40 per direct labor hour. During the year, Jobs 1010, 1012, and 1013 were completed. Also, Jobs 1010 and 1013 were sold for \$387,000. Assuming that this is Dina's first year of operations:

- (a) Calculate the balance in the Goods in Process Inventory, Finished Goods Inventory, and Cost of Goods Sold accounts.
- (b) Does the Factory Overhead account balance indicate an over- or underapplication of overhead? Prepare the entry to close this out assuming the amount is not material.

132. The following information is available for the Millennium Corporation for the current year:

Cost of goods sold	\$292,000
Depreciation of factory equipment	25,200
Direct labor	64,750
Finished goods inventory, Beginning–year	45,000
Factory insurance	11,200
Factory utilities	16,800
Goods transferred from Goods in Process	
Inventory to Finished Goods Inventory	285,150
Indirect labor	8,400
Raw materials inventory, Beginning–year	4,200
Raw materials purchased	116,200
Raw materials used in production	
(includes \$7,000 of indirect materials)	121,800
Rent on factory building	22,400

Millennium Corporation uses a predetermined overhead rate of 150% of direct labor cost. Prepare journal entries for the following transactions/and events:

- (a) Purchase of raw materials on account.
- (b) Assignment of materials costs to Goods in Process Inventory and Factory Overhead
- (c) Payment of Factory Payroll in cash
- (d) Assignment of Factory Payroll to Goods in Process Inventory and Factory Overhead
- (e) Recording of other factory overhead. Assume that all items other than depreciation are paid in cash.
- (f) Assignment of Factory Overhead to Goods in Process Inventory
- (g) Transfer of goods completed to Finished Goods Inventory
- (h) Recording cost of goods sold
- (i) Assignment of over- or underapplied overhead to Cost of Goods Sold

133. A company that uses a job order cost accounting system incurred \$10,000 of factory payroll during May. Present the May 31 entry assuming \$8,000 is direct labor and \$2,000 is indirect labor.

134. Time tickets for factory employees during the month of August are summarized as follows:

Job 919	\$ 9,800
Job 920	14,650
Job 921	12,250
Job 922	<u>16,000</u>
Total direct labor	\$52,700
Indirect labor	<u>16,800</u>
Total labor cost	<u>\$69,500</u>

Prepare the necessary journal entries to record factory payroll.

135. A company's predetermined overhead allocation rate is 130% based on direct labor cost. How much overhead would be allocated to Job No. 105 if it required total direct labor costs of \$60,000?

136. Selected information from the budget of the Khalid Corp. at the beginning of the year follows:

Estimated factory overhead	\$132,000
Estimated direct labor hours	55,000 hours
Estimated machine hours	41,250 hours
Estimated direct labor cost	\$825,000
Actual factory overhead incurred during the year	\$144,000

Calculate the predetermined overhead allocation rate if the company uses the following as a basis:

- (a) Direct labor hours.
- (b) Direct labor cost.
- (c) Machine hours.

137. A manufacturing company uses an overhead allocation rate based on direct labor cost. The company's Goods in Process Inventory account has a \$15,000 debit balance after all posting is completed, and the cost sheet of the one job still in process shows direct material costs of \$6,600 and direct labor costs of \$3,000. What is the company's overhead application rate?

138. Bean Company uses a job order cost system and last period incurred \$70,000 of overhead and \$100,000 of direct labor. Bean estimates that its overhead next period will be \$65,000. The company also expects to incur \$100,000 of direct labor. If Bean bases its overhead applied on direct labor cost, what should be the overhead allocation rate for the next period?

139. A company's manufacturing accounting system applies overhead based on direct labor cost. The company's manufacturing costs for the current year were: direct labor, \$57,600; direct materials, \$76,800; and factory overhead, \$9,600. Calculate the company's overhead allocation rate.

140. The job cost sheet for Job number 93-471 includes the following information:

DIRECT MATERIALS:

7/12 Requisition R93-566: 20 units @ \$3.50 per unit

7/13 Requisition R93-576: 18 units @ \$5.00 per unit

7/13 Requisition R93-578: 4 units @ \$25.00 per unit

7/14 Requisition R93-591: 40 units @ \$1.25 per unit

DIRECT LABOR:

7/12 Employee 19: 8 hours @ \$9.00 per hour

7/13 Employee 19: 6 hours @ \$9.00 per hour

7/13 Employee 37: 6 hours @ \$7.00 per hour

7/14 Employee 19: 5 hours @ \$9.00 per hour

7/14 Employee 92: 5 hours @ \$11.00 per hour

FACTORY OVERHEAD:

Assigned at 150% of direct labor cost.

What is the total cost of Job number 93-471?

141. The following calendar year information about the Tahoma Corporation is available on December 31:

Advertising expense	\$ 28,800
Depreciation of factory equipment	42,320
Depreciation of office equipment	10,800
Direct labor	142,600
Factory utilities	35,650
Interest expense	6,650
Inventories, January 1:	
Raw materials	3,450
Goods in process	17,250
Finished goods	35,650
Inventories, December 31:	
Raw materials	2,300
Goods in process	20,700
Finished goods	31,050
Raw materials purchases	132,450
Rent on factory building	41,400
Indirect labor	51,750
Sales commissions	16,500

The company applies overhead on the basis of 125% of direct labor costs. Calculate the amount of over- or underapplied overhead.

142. The predetermined overhead allocation rate for Forsythe, Inc. is based on estimated direct labor costs of \$400,000 and estimated factory overhead of \$500,000. Actual costs incurred were:

Direct materials	<u>\$250,000</u>
Direct labor	<u>410,000</u>
Indirect materials	<u>55,000</u>
Indirect labor	<u>125,000</u>
Sales commissions	<u>50,000</u>
Factory depreciation	<u>170,000</u>
Property taxes, factory	<u>15,000</u>
Factory utilities	<u>35,000</u>
Advertising	<u>62,500</u>
Factory equipment rental	<u>100,000</u>

- (a) Calculate the predetermined overhead rate and calculate the overhead applied during the year.
- (b) Determine the amount of over- or underapplied overhead and prepare the journal entry to eliminate the over- or underapplied overhead assuming that it is not material in amount.

143. A company charged the following amounts of overhead to jobs during the current year: \$12,000 to jobs still in process, \$42,000 to jobs completed but not sold, and \$66,000 to jobs finished and sold. At year-end, the company's Factory Overhead account has a credit balance of \$9,000, which is not a material amount. What entry (if any) should the company make at year-end related to this overhead balance?

144. Samer Corp. uses a job order cost accounting system. The following is selected information pertaining to costs applied to jobs during the year:

Jobs still in process at the end of the year:

\$167,000, which includes \$65,000 direct labor costs.

Jobs finished and sold during the year:

\$395,000, which includes \$172,000 direct labor costs.

Jobs finished but unsold at end of the year:

\$103,000, which includes \$38,000 direct labor costs.

Samer Corp.'s predetermined overhead allocation rate is 60% of direct labor cost. At the end of the year, the company's records show that \$189,000 of factory overhead has been incurred.

(a) Determine the amount of overapplied or underapplied overhead.

(b) Prepare the necessary journal entry to close the Factory Overhead account assuming that any remaining balance is not material.

145. Use the following information to compute the following items:

Beginning raw materials	\$5,600
Ending raw materials	4,200
Direct labor	17,250
Raw material purchases	7,400
Depreciation on factory equipment	6,750
Factory repairs and maintenance	3,300
Beginning finished goods inventory	10,800
Ending finished goods inventory	8,900
Beginning goods in process inventory	5,350
Ending goods in process inventory	6,300
OH application rate	60% of DL

- (a) Calculate the cost of materials used.
- (b) Calculate the manufacturing costs incurred during the period.
- (c) Calculate the Cost of Goods Manufactured during the period.
- (d) Calculate the Cost of Goods Sold during the period.
- (e) Calculate the amount by which overhead is under- or over-applied.

Fill in the Blank Questions

146. A _____ accounting system records manufacturing activities using a periodic inventory system. A _____ accounting system records manufacturing activities using a perpetual inventory system.

147. _____, or customized production, produces products in response to customer orders.

148. A _____ is a separate record maintained for each job.

149. The collection of job cost sheets for all jobs in process makes up the subsidiary ledger controlled by the _____ inventory.

150. When a job is finished, its job cost sheet is completed and moved from the jobs in process file to the _____ file.

151. In a job order cost accounting system, raw materials requisitioned as direct materials are debited to _____; indirect materials are debited to _____.

152. When factory payroll is assigned to specific jobs, _____ is debited.

153. When factory payroll for indirect labor is assigned, _____ is debited.

154. A _____ is calculated by relating total estimated factory overhead to an allocation factor such as total estimated direct labor cost, and is used to allocate factory overhead to specific jobs.

Chapter 02 Job Order Costing and Analysis **Answer Key**

True / False Questions

1. A manufacturing company that uses a cost accounting system normally has only two inventory accounts: Finished Goods Inventory and Goods in Process Inventory.

FALSE

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: C1 Describe important features of job order production.

2. Cost accounting systems accumulate costs and then assign them to products or services.

TRUE

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: C1 Describe important features of job order production.

3. There are two basic types of cost accounting systems: job order costing and periodic costing.

FALSE

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: C1 Describe important features of job order production.

4. A manufacturing firm that produces a large numbers of standardized units would normally use a job order cost accounting system.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C1 Describe important features of job order production.*

5. Job order manufacturing systems would be appropriate for companies that produce custom homes, specialized equipment, and special computer systems.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C1 Describe important features of job order production.*

6. Job order manufacturing systems would be appropriate for companies that produce compact disks or disposable cameras.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C1 Describe important features of job order production.*

7. A job order cost accounting system would be appropriate for a manufacturer of automobile tires.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: C1 Describe important features of job order production.*

8. Job order manufacturing systems would be appropriate for companies that produce training films for a specific customer or custom-made furniture to be used in a new five-star resort hotel.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: C1 Describe important features of job order production.*

9. A company's file of job cost sheets for finished but unsold jobs equals the balance in the Finished Goods Inventory account.

TRUE

*AACSB: Communications
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.*

10. The raw materials section of a job cost sheet shows the materials costs assigned to a job, but the direct labor section only shows the total hours of labor exerted by employees on the job.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.*

11. In a job order cost accounting system, the total balances of all of the job cost sheets for unfinished jobs equal the balance in the Goods in Process Inventory account.

TRUE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.

12. A job cost sheet is useful for developing financial accounting numbers but does not contain information that is useful for managing the manufacturing process.

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.

13. Job cost sheets are used to track all of the costs assigned to a job, including direct materials, direct labor, overhead, and all selling and administrative costs.

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.

14. When a job is finished, its job cost sheet is completed and moved from the file of jobs in process to the file of finished jobs that are yet to be delivered to customers.

TRUE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.

15. The file of job cost sheets for completed but undelivered jobs equals the balance in the Goods in Process Inventory account.

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.

16. Job order costing is applicable to manufacturing firms only and not service firms.

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Bloom's: Remember

Difficulty: Easy

Learning Objective: A1 Apply job order costing in pricing services.

17. Service firms, unlike manufacturing firms, should only use actual costs when determining a selling price for their services.

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Bloom's: Remember

Difficulty: Easy

Learning Objective: A1 Apply job order costing in pricing services.

18. The cost of all direct materials used on a job is debited to the Finished Goods Inventory account.

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

19. When materials are used as indirect materials, their cost is debited to the Factory Overhead account.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.*

20. A materials requisition is a source document used by production managers to request materials for manufacturing and also used to assign materials costs to specific jobs or to overhead.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.*

21. A materials requisition is a source document used by materials managers of a manufacturing company to order raw materials from suppliers; it serves the same purpose as a purchase order in a merchandising company.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.*

22. Materials requisitions and time tickets are cost accounting source documents.

TRUE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

23. A clock card is a source document that an employee uses to report how much time was spent working on a job or on overhead and that is used to determine the amount of direct labor to charge to the job or to determine the amount of indirect labor to charge to factory overhead.

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

24. A time ticket is a source document used by an employee to record the number of hours worked on a particular job during the work day.

TRUE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

25. A time ticket is a source document an employee uses to record the number of hours at work and that is used each pay period to determine the total labor cost.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.*

26. A clock card is a source document used by an employee to record the total number of hours worked during the pay period.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.*

27. When time ticket information is entered into the accounting system, the journal entry is a debit to Factory Payroll and a credit to Goods in Process Inventory.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.*

28. Factory overhead is often collected and summarized in a factory overhead ledger.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.*

29. The predetermined overhead allocation rate is used to apply overhead cost to products.

TRUE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Bloom's: Remember

Difficulty: Easy

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

30. Predetermined overhead rates are necessary because cost accountants use periodic inventory systems.

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Bloom's: Understand

Difficulty: Medium

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

31. The predetermined overhead allocation rate based on direct labor cost is the ratio of estimated overhead cost for the period to estimated direct labor cost for the period.

TRUE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

32. The balance of the Factory Overhead account appears on the income statement.

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

33. In a job order cost accounting system, indirect labor costs are debited to the Factory Overhead account.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.*

34. Since a predetermined overhead allocation rate is established before a period begins, this rate is revised many times during the period to compensate for inaccurate estimates previously made.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Bloom's: Understand
Difficulty: Medium
Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.*

35. Under a job order cost accounting system, individual jobs are always charged with actual overhead costs when they are transferred to finished goods.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.*

36. Overapplied overhead is the amount by which actual overhead cost exceeds the overhead applied to products during the period.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.*

37. In a job order cost accounting system, any immaterial underapplied overhead at the end of the period can be charged entirely to Cost of Goods Sold.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium
Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.*

38. If actual overhead incurred during a period exceeds applied overhead, the difference will be a credit balance in the Factory Overhead account at the end of the period.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.*

39. The Factory Overhead account will have a credit balance at the end of a period if overhead applied during the period is greater than the overhead incurred.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.*

40. Any material amount of under- or overapplied factory overhead must always be closed to Cost of Goods Sold at the end of an accounting period.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.*

41. Underapplied overhead is the amount by which overhead applied to jobs using the predetermined overhead allocation rate exceeds the overhead incurred during a period.

FALSE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.*

42. Overapplied overhead is the amount by which overhead applied to jobs using the predetermined overhead allocation rate exceeds the overhead incurred during a period.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.*

43. Overapplied or underapplied overhead should be removed from the Factory Overhead account at the end of each accounting period.

TRUE

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.*

Multiple Choice Questions

44. Cost accounting systems used by manufacturing companies are based on the:
- A. Periodic inventory system.
 - B. Perpetual inventory system.**
 - C. Finished goods inventories.
 - D. Weighted average inventories.
 - E. LIFO inventory system.

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: C1 Describe important features of job order production.

45. A system of accounting for manufacturing operations that produces timely information about inventories and manufacturing costs per unit of product is a:
- A. Finished goods accounting system.
 - B. General accounting system.
 - C. Manufacturing accounting system.
 - D. Cost accounting system.**
 - E. Production accounting system.

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: C1 Describe important features of job order production.

46. Job order costing systems normally use:

- A. Periodic inventory systems.
- B.** Perpetual inventory systems.
- C. Real inventory systems.
- D. General inventory systems.
- E. All of the above.

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: C1 Describe important features of job order production.

47. In comparison to a general accounting system for a manufacturing company, a cost accounting system places an emphasis on:

- A. Periodic inventory counts.
- B. Total costs.
- C.** Unit costs and cost control.
- D. Products and average costs.
- E. Large volume operations involving standardized products.

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: C1 Describe important features of job order production.

48. The production activities for a customized product represent a(n):

- A. Operation.
- B.** Job.
- C. Unit.
- D. Pool.
- E. Process.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: C1 Describe important features of job order production.

49. A job order cost accounting system would best fit the needs of a company that makes:

- A. Shoes and apparel.
- B. Paint.
- C. Cement.
- D.** Custom machinery.
- E. Pencils and erasers.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: C1 Describe important features of job order production.

50. A type of manufacturing that produces customized products or services for each customer is called:

- A. Customer orientation manufacturing.
- B.** Job order manufacturing.
- C. Just-in-time manufacturing.
- D. Job lot manufacturing.
- E. Process manufacturing.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: C1 Describe important features of job order production.

51. Job order manufacturing is also known as:

- A. Mass production manufacturing.
- B. Process manufacturing.
- C. Unit manufacturing.
- D.** Customized manufacturing.
- E. Standard costing.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: C1 Describe important features of job order production.

52. Dell Builders manufactures each house to customer specifications. It most likely would use:

- A. Capital process costing.
- B. A periodic inventory system.
- C. Unique costing.
- D. Job order costing.**
- E. Activity-based costing.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C1 Describe important features of job order production.

53. A job order manufacturing system would be appropriate for a company that produces which one of the following items?

- A. A landscaping design for a new hospital.**
- B. Seedlings for sale in a nursery.
- C. Sacks of yard fertilizer.
- D. Packets of flower seeds.
- E. Small gardening tools, including rakes, shovels, and hoes.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: C1 Describe important features of job order production.

54. Large aircraft manufacturers such as McDonnell Douglas normally use:

- A. Job order costing.**
- B. Process costing.
- C. Mixed costing.
- D. Full costing.
- E. Simple costing.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: C1 Describe important features of job order production.

55. A document in a job order cost accounting system that is used to record the costs of producing a job is a(n):

- A. Job cost sheet.
- B. Job lot.
- C. Finished goods summary.
- D. Process cost system.
- E. Units-of-production sheet.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.

56. A job cost sheet shows information about each of the following items except:

- A. The direct labor costs assigned to the job.
- B. The name of the customer.
- C. The costs incurred by the marketing department in selling the job.
- D. The overhead costs assigned to the job.
- E. The direct materials costs assigned to the job.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.

Static/Algo: Static

57. The job order cost sheets used by Garza Company revealed the following:

<u>Job. No.</u>	<u>Bal. May 1</u>	<u>May Production</u>
		<u>Costs</u>
124	\$1,700	\$----
125	1,200	300
126	----	900

Job No. 125 was completed during May and Jobs No. 124 and 125 were shipped to customers in May. What was the company's cost of goods sold for May and the goods in process inventory on May 31?

- A.** \$3,200; \$900
- B. \$2,900; \$1,200
- C. \$1,200; \$2,900
- D. \$1,700; \$1,200
- E. \$4,100; \$0

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.

58. A job cost sheet includes:

- A. Direct materials, direct labor, operating costs.
- B. Direct materials, overhead, administrative costs.
- C. Direct labor, overhead, selling costs.
- D.** Direct material, direct labor, overhead.
- E. Direct materials, direct labor, selling costs.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.

59. A perpetual record of a raw materials item that records data on the quantity and cost of units purchased, units issued for use in production, and units that remain in the raw materials inventory, is called a(n):

- A.** Materials ledger card.
- B. Materials requisition.
- C. Purchase order.
- D. Materials voucher.
- E. Purchase ledger.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

60. A source document that production managers use to request materials for manufacturing and that is used to assign materials costs to specific jobs or to overhead is a:

- A. Job cost sheet.
- B. Production order.
- C.** Materials requisition.
- D. Materials purchase order.
- E. Receiving report.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

61. The Goods in Process Inventory account for the AB Corp. follows:

Goods in Process Inventory		
Beginning balance	4,500	
Direct materials	47,100	
Direct labor	29,600	? Finished goods
Applied overhead	15,800	
Ending balance	8,900	

The cost of units transferred to finished goods is:

- A. \$97,000
- B. \$105,900
- C. \$88,100**
- D. \$95,200
- E. \$92,500

$$\$4,500 + \$47,100 + \$29,600 + \$15,800 - \$8,900 = \$88,100$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

62. The Goods in Process Inventory Account for XYZ Inc. follows:

Goods in Process Inventory		
Beginning balance	\$4,750	
Direct materials	17,925	?
Direct labor	24,750	COG Manufactured
Applied overhead	?	
Ending balance	\$10,400	

If the overhead is applied at the rate of 80% of direct labor cost, what is the amount of Cost of Goods Manufactured?

- A. \$19,800
- B. \$56,825**
- C. \$61,775
- D. \$51,365
- E. \$37,025

$$4,750 + 17,925 + 24,750 + (24,750)(.8) - 10,400 = \text{COGM} = 56,825$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

63. A company's overhead rate is 60% of direct labor cost. Using the following incomplete accounts, determine the cost of direct materials used.

Goods in Process Inventory		Finished Goods Inventory	
Beg. Bal.	100,800	Beg. Bal.	118,200
D.M.	?		324,800
D.L.	?		301,000
O.H.	?	F. G.	?
End. Bal.	131,040	End. Bal.	142,000
Factory Overhead			
	93,240		90,720

- A. \$106,400
- B. \$113,120**
- C. \$30,240
- D. \$211,680
- E. \$324,800

$$DL = \$90,720 / .6 = \$151,200$$

$$\$100,800 + DM + \$151,200 + \$90,720 - \$324,800 = \$131,040$$

$$DM = \$113,120$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

64. During last period, a company's direct labor cost was double the cost of its direct material used. In addition, factory overhead was \$5,000 underapplied. Use the following incomplete accounts to determine the cost of direct labor.

Goods in Process Inventory		Finished Goods Inventory	
Beg. Bal.	60,000	Beg. Bal.	76,000
D.M.			? 93,000
?			
D.L.	?		
O.H.		F. G.	?
?			
End. Bal.	87,000	End. Bal.	71,000
Factory Overhead			
	75,000		

- A. \$15,000
- B. \$88,000
- C. \$45,000
- D. \$70,000
- E. \$30,000**

$$FG = FG \text{ end } \$71,000 + COGS \$93,000 - FG \text{ beg } \$76,000 = \$88,000$$

$$\text{Applied FOH} = \$75,000 \text{ actual} - \$5,000 \text{ underapplied} = \$70,000$$

Goods in Process

$$\text{Beg } \$60,000 + DM \ x + DL \ 2x + \text{applied FOH } \$70,000 - FG \ \$88,000 = \text{End } \$87,000$$

$$\$42,000 + 3x = \$87,000$$

$$3x = \$45,000$$

$$x = \$15,000 \text{ direct material}$$

$$2x = \$30,000 \text{ direct labor}$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

65. During last period, a company's overhead rate was 150% of direct labor cost. This caused factory overhead to be \$10,000 over applied. Use the following incomplete accounts to determine the cost of goods manufactured.

Goods in Process Inventory		Finished Goods Inventory					
Beg. Bal.	10,000	Beg. Bal.	30,000				
D.M.	80,000		?				
D.L.	?		?				
O.H.	?						
End. Bal.	20,000	End. Bal.	70,000				
	COGM		?				
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Factory Overhead</th> </tr> </thead> <tbody> <tr> <td style="width: 50%;"></td> <td style="width: 50%; text-align: center;">50,000</td> </tr> </tbody> </table>				Factory Overhead			50,000
Factory Overhead							
	50,000						

- A. \$130,000
- B. \$170,000**
- C. \$40,000
- D. \$60,000
- E. \$90,000

OH applied = 50,000 + 10,000 overapplied = 60,000
 Direct Labor = \$60,000/1.5 = \$40,000
 COGM = 10,000 + 80,000 + 40,000 + 60,000-20,000 = \$170,000

AACSB: Analytic
 AICPA BB: Industry
 AICPA FN: Reporting
 Bloom's: Apply
 Difficulty: Hard
 Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.
 Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.
 Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

66. During last period, a company's overhead rate was 150% of direct labor cost. This caused factory overhead to be \$10,000 overapplied. Use the following incomplete accounts to determine the cost of goods sold.

Goods in Process Inventory		Finished Goods Inventory	
Beg. Bal.	10,000	Beg. Bal.	30,000
D.M.	80,000		?
D.L.	?		?
O.H.	?		
End. Bal.	20,000	End. Bal.	70,000
	COGM		
	?		
Factory Overhead			
	50,000		

- A.** \$130,000
- B. \$170,000
- C. \$40,000
- D. \$60,000
- E. \$90,000

Applied FOH = \$50,000 actual + \$10,000 overapplied = \$60,000

Direct Labor = \$60,000/1.5 = \$40,000

Finished Goods

= GIP beg \$10,000 + DM \$80,000 + DL \$40,000 + Applied FOH \$60,000 - End GIP \$20,000

= \$170,000

Cost of Goods Sold

= Beg FG \$30,000 + FG \$170,000 - End FG \$70,000

= \$130,000

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

67. A source document that an employee uses to record the number of hours at work and that is used to determine the total labor cost for each pay period is a:

- A. Job cost sheet.
- B. Hours-of-production sheet.
- C. Time ticket.
- D. Job order ticket.
- E.** Clock card.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

68. A source document that an employee uses to report how much time was spent working on a job or on overhead activities and that is used to determine the amount of direct labor to charge to the job or to determine the amount of indirect labor to charge to factory overhead is called a:

- A. Payroll Register.
- B. Factory payroll record.
- C. General Ledger.
- D.** Time ticket.
- E. Factory Overhead Ledger.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

69. When raw materials are used in production and are recorded in job cost system:
- A. Goods in Process is credited and Finished Goods is debited.
 - B. Direct Material and Indirect Material are debited and Goods in Process is credited.
 - C. Direct Material and Indirect Material are debited and Raw Materials Inventory is credited.
 - D. Goods in Process is debited and Raw Materials Inventory is credited.
 - E.** Goods in Process and Factory Overhead are debited and Raw Materials Inventory is credited.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

70. When factory payroll costs are recorded in a job cost accounting system:
- A. Factory Payroll is debited and Goods in Process is credited.
 - B.** Goods in Process Inventory and Factory Overhead are debited and Factory Payroll is credited.
 - C. Cost of Goods Manufactured is debited and Direct Labor is credited.
 - D. Direct Labor and Indirect Labor are debited and Factory Payroll is credited.
 - E. Goods in Process is debited and factory payroll is credited.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

71. Penn Company uses a job order cost accounting system. In the last month, the system accumulated labor time tickets totaling \$24,600 for direct labor and \$4,300 for indirect labor. These costs were accumulated in Factory Payroll as they were paid. Which entry should Penn make to assign the Factory Payroll?

(A)	Payroll Expense	28,900	
	Cash		28,900
(B)	Payroll Expense	24,600	
	Factory Overhead	4,300	
	Factory Payroll		28,900
(C)	Goods in Process Inventory	24,600	
	Factory Overhead	4,300	
	Factory Payroll		28,900
(D)	Goods in Process Inventory	24,600	
	Factory Overhead	4,300	
	Accrued Wages Payable		28,900
(E)	Goods in Process Inventory	28,900	
	Factory Payroll		28,900

- A. A above
- B. B above
- C.** C above
- D. D above
- E. E above

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

72. Labor costs in manufacturing can be:

- A. Direct or indirect.
- B. Indirect or sunk.
- C. Direct or payroll.
- D. Indirect or payroll.
- E. Direct or sunk.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

73. Canberra Company uses a job order cost accounting system. During the current month, the factory payroll of \$180,000 was paid in cash. The amount of labor classified as indirect labor was three times greater than the amount classified as indirect labor. What amount should be debited to Factory Overhead for indirect labor for this month?

- A. \$135,000
- B. \$180,000
- C. \$45,000
- D. \$60,000
- E. \$20,000

Factory Payroll = Direct Labor + Indirect Labor

$$\$180,000 = x + 3x$$

$$\$180,000 = 4x$$

$$\$45,000 = x$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

74. A company has an overhead application rate of 125% of direct labor costs. How much overhead would be allocated to a job if it required total labor costing \$20,000?

- A. \$5,000
- B. \$16,000
- C. \$25,000**
- D. \$125,000
- E. \$250,000

$$\$20,000 \times 1.25 = \$25,000$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

75. Canoe Company's manufacturing accounting system uses direct labor costs to apply overhead to goods in process and finished goods inventories. Canoe Company's manufacturing costs for the year were: direct labor, \$30,000; direct materials, \$50,000; and factory overhead applied, \$6,000. The overhead application rate was:

- A. 5.0%
- B. 12.0%
- C. 20.0%**
- D. 500.0%
- E. 16.7%

$$\text{OH rate} = \text{OH applied/DL} = \$6,000/\$30,000 = 20\%$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

76. The overhead cost applied to a job during a period is recorded with a credit to Factory Overhead and a debit to:

- A. Jobs Overhead Expense
- B. Cost of Goods Sold
- C. Finished Goods Inventory
- D. Indirect Labor
- E.** Goods in Process Inventory

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

77. The rate established prior to the beginning of a period that relates estimated overhead to an allocation factor such as estimated direct labor, and that is used to assign overhead cost to jobs, is the:

- A.** Predetermined overhead allocation rate.
- B. Overhead variance rate.
- C. Estimated labor cost rate.
- D. Chargeable overhead rate.
- E. Miscellaneous overhead rate.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

78. BVD Company uses a job order cost accounting system and last period incurred \$80,000 of overhead and \$100,000 of direct labor. BVD estimates that its overhead next period will be \$75,000. It also expects to incur \$100,000 of direct labor. If BVD bases applied overhead on direct labor cost, their overhead application rate for the next period should be:

- A. 75%
- B. 80%
- C. 107%
- D. 125%
- E. 133%

$$\text{OH rate} = \$75,000/\$100,000 = 75\%$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

79. O.K. Company uses a job order cost accounting system and allocates its overhead on the basis of direct labor costs. O.K. expects to incur \$800,000 of overhead during the next period, and expects to use 50,000 labor hours at a cost of \$10.00 per hour. What is O.K. Company's overhead application rate?

- A. 6.25%
- B. 62.5%
- C. 160%
- D. 1600%
- E. 67%

$$\text{Total DL Cost} = 50,000 \text{ hours} \times \$10/\text{hr} = \$500,000$$

$$\text{OH rate} = \$800,000/\$500,000 = 160\%$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

80. Austin Company uses a job order cost accounting system. The company's executives estimated that direct labor would be \$2,000,000 (200,000 hours at \$10/hour) and that factory overhead would be \$1,500,000 for the current period. At the end of the period, the records show that there had been 180,000 hours of direct labor and \$1,200,000 of actual overhead costs. Using direct labor hours as a base, what was the predetermined overhead allocation rate?

- A. \$6.00 per direct labor hour.
- B. \$7.50 per direct labor hour.**
- C. \$6.67 per direct labor hour.
- D. \$8.33 per direct labor hour.
- E. \$7.08 per direct labor hour.

$$\text{OH rate} = \$1,500,000 / 200,000 \text{ hours} = \$7.50/\text{hour}$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

81. Austin Company uses a job order cost accounting system. The company's executives estimated that direct labor would be \$2,000,000 (200,000 hours at \$10/hour) and that factory overhead would be \$1,500,000 for the current period. At the end of the period, the records show that there had been 180,000 hours of direct labor and \$1,200,000 of actual overhead costs. Using direct labor hours as the allocation base, calculate the under or over applied overhead for the period.

- A. \$150,000 overapplied.**
- B. \$150,000 underapplied.
- C. \$300,000 underapplied.
- D. \$300,000 overapplied.
- E. \$200,000 underapplied.

$$\text{OH rate} = \$1,500,000 / 200,000 \text{ hours} = \$7.50/\text{hour}$$

$$\text{OH applied} = (180,000)(7.50) = \$1,350,000; \text{OH actual} = \$1,200,000$$

OH is \$150,000 overapplied

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

82. The R&R Company's manufacturing costs for August are: direct labor, \$13,000; indirect labor, \$6,500; direct materials, \$15,000; taxes on raw materials and work in process, \$800; heat, lights and power, \$1,000; and insurance on plant and equipment, \$200. R&R Company's factory overhead incurred for August is:

- A. \$2,000
- B. \$6,500
- C. \$8,500**
- D. \$21,500
- E. \$36,500

$$\$6,500 + 1,000 + 200 + 800 = \$8,500$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

83. Deltan Corp. allocates overhead to production on the basis of direct labor costs. If Deltan's total estimated overhead is \$450,000 and estimated direct labor cost is \$180,000, determine the amount of overhead to be allocated to finished goods inventory. There is \$20,000 of total direct labor cost in the jobs in the finished goods inventory.

- A. \$8,000
- B. \$20,000
- C. \$70,000
- D. \$50,000**
- E. \$90,000

$$\text{OH rate} = \$450,000 / \$180,000 = 250\%$$

$$\text{OH allocated} = 250\% \times \$20,000 = \$50,000$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

84. A company allocates overhead to production on the basis of direct labor cost. If the company's total estimated overhead is \$870,000 and estimated direct labor cost is \$1,160,000, determine the amount of overhead to be allocated to finished goods inventory. There is \$791,000 of total direct labor cost in the jobs in the finished goods inventory.

- A. \$1,054,667
- B. \$593,250**
- C. \$1,275,853
- D. \$1,079,482
- E. \$79,000

$$\text{OH rate} = \$870,000 / \$1,160,000 = 75\%$$

$$\text{OH allocated} = 75\% \times \$791,000 = \$593,250$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

Static/Algo: Static

85. The Goods in Process Inventory account of a manufacturing company that uses an overhead rate based on direct labor cost has a \$4,400 debit balance after all posting is completed. The cost sheet of the one job still in process shows direct material cost of \$2,000 and direct labor cost of \$800. Therefore, the company's overhead application rate is:

- A. 40%
- B. 50%
- C. 80%
- D. 200%**
- E. 220%

$$\text{GIP} = \text{DM} + \text{DL} + \text{OH}$$

$$\$4,400 = \$2,000 + \$800 + \text{OH}$$

$$\text{OH} = \$1,600$$

$$\text{OH rate} = \$1,600 / \$800 = 200\%$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

Static/Algo: Static

86. The Goods in Process Inventory account of a manufacturing company that uses an overhead rate based on direct labor cost has a \$7,750 debit balance after all posting is completed. The cost sheet of the one job still in process shows direct material cost of \$6,000 and direct labor cost of \$1,000. Therefore, the company's overhead application rate is:

- A. 10.7%
- B. 75.0%**
- C. 133.0%
- D. 90.3%
- E. 111.0%

$$\text{GIP} = \text{DM} + \text{DL} + \text{OH}$$

$$\$7,750 = \$6,000 + \$1,000 + \text{OH}$$

$$\text{OH} = \$750$$

$$\text{OH rate} = \$750/\$1,000 = 75.0\%$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

Static/Algo: Static

87. Using the following accounts and an overhead rate of 90% of direct labor cost, determine the amount of applied overhead.

Goods in Process Inventory		Finished Goods Inventory	
Beg. Bal.	17,600	Beg. Bal.	5,200
D.M.	52,800		201,520
D.L.	?		
O.H.	?	F. G.	?
End. Bal.	36,080		

- A.** \$79,200
- B. \$167,200
- C. \$34,320
- D. \$88,000
- E. \$35,376

$$\$17,600 + 52,800 + DL + OH - 201,520 = \$36,080$$

$$DL + OH = \$167,200$$

$$DL + .9DL = \$167,200$$

$$1.9DL = \$167,200$$

$$DL = \$88,000$$

$$\$88,000 + OH = \$167,200$$

$$OH = \$79,200$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

Static/Algo: Static

88. Using the following accounts and an overhead rate of 80% of direct labor cost, determine the amount of applied overhead.

Goods in Process Inventory		Finished Goods Inventory	
Beg. Bal.	53,000	Beg. Bal.	9,000
D.M.	48,000		200,000
D.L.	?		129,000
O.H.	?	F. G.	?
End. Bal.	36,000	End. Bal.	80,000

- A. \$135,000
- B. \$75,000
- C. \$60,000**
- D. \$101,000
- E. \$17,000

$$\$53,000 + 48,000 + DL + OH - 200,000 = \$36,000$$

$$DL + OH = \$135,000$$

$$DL + .8DL = \$135,000$$

$$1.8DL = \$135,000$$

$$DL = 75,000$$

$$\$75,000 + OH = \$135,000$$

$$OH = \$60,000$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

Static/Algo: Static

89. If one unit of Product X used \$2.50 of direct materials and \$3.00 of direct labor, sold for \$8.00, and was assigned overhead at the rate of 30% of direct labor costs, how much gross profit was realized from this sale?

- A. \$8.00
- B. \$5.50
- C. \$2.50
- D.** \$1.60
- E. \$0.90

$$\text{Cost of goods sold} = \text{DM} + \text{DL} + \text{OH} = \$2.50 + \$3.00 + .3(\$3.00) = \$6.40$$

$$\text{Gross profit} = \text{Sales} - \text{cost of goods sold} = \$8.00 - \$6.40 = \$1.60$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

Static/Algo: Static

90. If one unit of Product X used \$.75 of direct materials and \$6.00 of direct labor, sold for \$12.00, and was assigned overhead at the rate of 20% of direct labor costs, how much gross profit was realized from this sale?

- A. \$12.00
- B. \$6.75
- C. \$.75
- D. \$1.20
- E.** \$4.05

$$\text{Cost of goods sold} = \text{DM} + \text{DL} + \text{OH} = \$.75 + \$6.00 + .2(\$6.00) = \$7.95$$

$$\text{Gross profit} = \text{Sales} - \text{cost of goods sold} = \$12.00 - \$7.95 = \$4.05$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

91. The ending inventory of finished goods has a total cost of \$9,000 and consists of 600 units. If the overhead applied to these goods is \$3,000, and the overhead rate is 75% of direct labor, how much direct materials cost was incurred in producing these units?

- A. \$3,750
- B. \$2,000**
- C. \$4,000
- D. \$6,000
- E. \$9,000

$$\begin{aligned} \text{DM} + \text{DL} + \text{OH} &= \text{Total cost} \\ \text{DM} + (\$3,000 / .75) + \$3,000 &= \$9,000 \\ \text{DM} + \$4,000 + \$3,000 &= \$9,000 \\ \text{DM} &= \$2,000 \end{aligned}$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Hard
Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

92. The ending inventory of finished goods has a total cost of \$10,000 and consists of 500 units. If the overhead applied to these goods is \$2,000, and the overhead rate is 50% of direct labor, how much direct materials cost was incurred in producing these units?

- A. \$4,000**
- B. \$6,000
- C. \$3,000
- D. \$7,000
- E. \$10,000

$$\begin{aligned} \text{DM} + \text{DL} + \text{OH} &= \text{Total cost} \\ \text{DM} + (\$2,000 / .5) + \$2,000 &= \$10,000 \\ \text{DM} + \$4,000 + \$2,000 &= \$10,000 \\ \text{DM} &= \$4,000 \end{aligned}$$

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Hard
Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

93. A manufacturing company uses a job order cost accounting system. Overhead is applied using direct labor hours as an allocation base. Total costs for a particular job were \$5,720. Of this amount \$2,600 was direct labor and \$1,040 was direct material. The company pays \$26 per hour of direct labor and \$2 per pound of direct materials. What is this company's overhead rate?

- A. \$26.00 per direct labor hour.
- B. \$20.80 per direct labor hour.**
- C. \$4.00 per direct labor hour.
- D. \$80.00 per direct labor hour.
- E. \$2,080 per direct labor hour.

DM + DL + OH = Total cost

\$1,040 + \$2,600 + OH = \$5,720

OH = \$2,080 applied overhead

Total DL cost/DL cost per hour = number of DL hours

\$2,600/\$26 = 100 direct labor hours

Predetermined overhead rate (POHR) x allocation base = applied overhead

POHR x 100 DL hours = \$2,080

POHR = \$2,080/100

POHR = \$20.80 per DL hour

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

94. A manufacturing company uses a job order cost accounting system. Overhead is applied using pounds of direct materials used as an allocation base. Total costs for a particular job were \$5,720. Of this amount \$2,600 was direct labor and \$1,040 was direct material. The company pays \$26 per hour of direct labor and \$2 per pound of direct materials. What is this company's overhead rate?

- A. \$2 per pound of direct material used.
- B. \$1,040 per pound of direct material used.
- C. \$520 per pound of direct material used.
- D. \$4 per pound of direct material used.**
- E. \$2,080 per pound of direct material used.

DM + DL + OH = Total cost

\$1,040 + \$2,600 + OH = \$5,720

OH = \$2,080 applied overhead

Total DM cost/DM cost per pound = number of DM pounds

\$1,040/\$2 = 520 pounds of DM

Predetermined overhead rate (POHR) x allocation base = applied overhead

POHR x 520 DM pounds = \$2,080

POHR = \$2,080/520

POHR = \$4.00 per pound of DM

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

95. At the current year-end, Hardly Company found that its overhead was underapplied by \$2,500, and this amount was not deemed to be a material amount. Based on this information, Hardly should:

- A.** Close the \$2,500 to Cost of Goods Sold.
- B. Close the \$2,500 to Finished Goods Inventory.
- C. Do nothing about the \$2,500, since it is not material, and it is likely that overhead will be overapplied by the same amount next year.
- D. Carry the \$2,500 to the income statement as "Other Expense".
- E. Carry the \$2,500 to the next period.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

96. If overhead applied is less than actual overhead, it is:

- A. Fully applied.
- B.** Underapplied.
- C. Overapplied.
- D. Expected.
- E. Normal.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

97. The amount by which the overhead applied to jobs during a period exceeds the overhead incurred during the period is known as:

- A. Adjusted overhead.
- B. Estimated overhead.
- C. Predetermined overhead.
- D. Underapplied overhead.
- E.** Overapplied overhead.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

98. The amount by which overhead incurred during a period exceeds the overhead applied to jobs is:

- A. Balanced overhead.
- B. Predetermined overhead.
- C. Actual overhead.
- D.** Underapplied overhead.
- E. Overapplied overhead.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

99. If a company applies overhead to production with a predetermined rate, a credit balance in the Factory Overhead account at the end of the period means that:

- A. The bookkeeper has made an error because the debits don't equal the credits.
- B. The balance will be carried forward to the next period as an overhead cost.
- C.** Actual overhead was less than the overhead amount charged to production.
- D. The overhead was underapplied for the period.
- E. Actual overhead was greater than the overhead amount charged to production.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

100. M.A.E. charged the following amounts of overhead to jobs during the year: \$20,000 to jobs still in process, \$60,000 to jobs completed but not sold, and \$120,000 to jobs finished and sold. At year-end, M.A.E. Company's Factory Overhead account has a credit balance of \$5,000, which is not a material amount. What entry should M.A.E. make at year-end?

- (A) No entry is needed.
- (B)

Factory Overhead	5,000	
Cost of Goods Sold		5,000
- (C)

Cost of Goods Sold	5,000	
Factory Overhead		5,000
- (D)

Factory Overhead	5,000	
Goods in Process Inventory		5,000
- (E)

Factory Overhead	5,000	
Finished Goods		5,000

- A. A Above
B. B Above
 C. C Above
 D. D Above
 E. E Above

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

101. Estimated overhead and direct labor costs for the year were \$112,500 and \$125,000, respectively. During the year, actual overhead was \$107,400 and actual direct labor cost was \$120,000. The entry to close the over- or underapplied overhead at year-end, assuming an immaterial amount, would include:

- A. A debit to Cost of Goods Sold for \$600.
- B. A credit to Factory Overhead for \$600.
- C. A credit to Finished Goods Inventory for \$600.
- D. A debit to Goods in Process Inventory for \$600.
- E.** A credit to Cost of Goods Sold for \$600.

Predetermined OH rate = $\$112,500/\$125,000 = 90\%$; OH applied = $120,000(.9) = \$108,000$; OH is overapplied by \$600 leaving a credit balance in OH.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

102. Estimated overhead and direct labor costs for the year were \$250,000 and \$125,000, respectively. During the year, actual overhead was \$248,000 and actual direct labor cost was \$123,000. The entry to close the over- or under-applied overhead at year-end, assuming an immaterial amount, would include:

- A.** A debit to Cost of Goods Sold for \$2,000.
- B. A debit to Factory Overhead for \$2,000.
- C. A credit to Finished Goods Inventory for \$2,000.
- D. A debit to Goods in Process Inventory for \$2,000.
- E. A credit to Cost of Goods Sold for \$2,000.

Predetermined OH rate = $\$250,000/\$125,000 = 200\%$; OH applied = $123,000(2.0) = \$246,000$; OH is underapplied by \$2,000 leaving a debit balance in OH.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

103. If it is a material amount, overapplied or underapplied overhead should be disposed of by allocating it to:

- A. Cost of goods sold and finished goods.
- B. Finished goods and goods in process.
- C.** Goods in process, finished goods, and cost of goods sold.
- D. Goods in process, if immaterial.
- E. Raw materials, goods in process, and finished goods.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

104. The Dina Corp. has applied overhead to jobs during the period as follows:

Jobs finished and sold	\$ 46,000
Jobs started and in process	54,000
Jobs finished and unsold	100,000

The application of overhead has resulted in a \$5,600 credit balance in the Factory Overhead account, and this amount is not material. The entry to dispose of this remaining factory overhead balance is:

- | | | | |
|-----|---------------------|-------|-------|
| (A) | Cost of Goods Sold | 5,600 | |
| | Factory Overhead | | 5,600 |
| (B) | Factory Overhead | 5,600 | |
| | Cost of Goods Sold | | 5,600 |
| (C) | Factory Overhead | 5,600 | |
| | Goods in Process | | 5,600 |
| (D) | Goods in Process | 5,600 | |
| | Factory Overhead | | 5,600 |
| (E) | No entry is needed. | | |

- A. A Above
- B. B Above**
- C. C Above
- D. D Above
- E. E Above

AACSB: Analytic
 AICPA BB: Industry
 AICPA FN: Reporting
 Bloom's: Understand
 Difficulty: Medium
 Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

Matching Questions

105. Match the following terms to the appropriate definition.

- | | | |
|--------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 1. Overapplied overhead | The production of products in response to special orders; also called customized production | <u>7</u> |
| 2. Time ticket | A source document that is used to record the number of hours an employee works and to determine the total labor cost for each pay period | <u>4</u> |
| 3. Materials ledger card | The amount by which the overhead applied to jobs in a period with the predetermined overhead allocation rate exceeds the overhead incurred in a period | <u>1</u> |
| 4. Clock card | An accounting system for manufacturing activities based on the periodic inventory system | <u>10</u> |
| 5. Job order cost accounting system | The rate established prior to the beginning of a period that relates estimated overhead to an allocation factor such as estimated direct labor and is used to assign overhead cost to a job | <u>11</u> |
| 6. Underapplied overhead | A cost accounting system designed to determine the cost of producing each job or job lot | <u>5</u> |
| 7. Job order manufacturing | A source document that production managers use to request materials for manufacturing and that is used to assign materials costs to specific jobs or to overhead | <u>9</u> |
| 8. Job cost sheet | A perpetual record that is updated each time units of raw material are both purchased and issued for use in production | <u>3</u> |
| 9. Materials requisition | A source document that is used to report how much time an employee spent working on a job or on overhead activities and then to determine the amount of direct labor to charge to the job or the amount of indirect labor to charge to overhead | <u>2</u> |
| 10. General accounting system | The amount by which overhead incurred in a period exceeds the overhead applied to jobs with the predetermined overhead allocation rate | <u>6</u> |
| 11. Predetermined overhead allocation rate | A separate record maintained for each job in a job order costing system; it shows direct materials, direct labor, and overhead for each job | <u>8</u> |

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: C1 Describe important features of job order production.

Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

Essay Questions

106. What is a cost accounting system? What are the two basic types of cost accounting systems?

A cost accounting system is an accounting system that uses a perpetual inventory system to continuously update records for costs of materials, goods in process, and finished goods inventories. It also provides timely information about inventories and manufacturing costs per unit of product. The two basic types of cost accounting systems are job order costing and process cost accounting.

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: C1 Describe important features of job order production.

107. How have some computer manufacturers implemented the concept of job order cost accounting?

Dell Computer, for example, customizes orders and sells direct by telephone or by using the Internet. In this way, these manufacturers are attempting to make a "standard" product more "custom-made" for the customer.

AACSB: Communications

AICPA BB: Industry

AICPA FN: Decision Making

Bloom's: Understand

Difficulty: Medium

Learning Objective: C1 Describe important features of job order production.

108. Describe the purpose of a job cost sheet, and explain what information is found on the job cost sheet.

A job cost sheet is a separate record that is maintained for each job. The job cost sheet will include the job number, the customer name, and the costs of the job separated into direct materials, direct labor, and overhead.

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.

109. Explain how a service firm, such as an advertising agency, might use job order costing.

Since most jobs in a service firm such as an advertising agency has unique requirements, a job order costing system is appropriate. The service firm would estimate the labor required for each customer order, and then add overhead to the estimated labor based on a predetermined overhead rate. This estimated total cost could be used to prepare a bid for a potential customer. Cost of the job is one factor to consider when determining a potential selling price (bid) for a service.

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: A1 Apply job order costing in pricing services.

110. Describe how materials flow through a job order cost accounting system, and identify the key documents in the system.

When materials are received from suppliers, they are inspected and counted, and the information is recorded on a receiving report. The materials ledger card is a perpetual record that keeps track of each item of raw materials. When materials are needed for production, a materials requisition is prepared and the materials are issued into production. Direct materials are added to the job cost sheet. Indirect materials are added to overhead.

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

111. Describe the flow of labor costs in a job order costing system, and identify the documents used in the system.

The flow of labor costs in a job order costing system begins with clock cards. Clock cards are source documents that are used by each employee to record their hours worked, and are used to record the factory payroll each pay period. Labor is assigned to specific jobs using time tickets. Time tickets are used by employees to keep track of the time they spend on a specific job, in both direct labor and indirect labor time. These time tickets are recorded in the accounting system with a debit to Goods in Process Inventory for the direct labor, a debit to Factory Overhead for the indirect labor, and a credit to Factory Payroll for the total amount of both the direct and indirect labor.

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

112. Explain what a predetermined overhead allocation rate is, how it is calculated, and why it is used.

A predetermined overhead allocation rate is used to apply factory overhead costs to jobs produced during the period. It is calculated by relating estimated overhead costs for a period to an allocation factor such as estimated direct labor hours. It is used because overhead costs benefit all jobs and cannot be directly related to any one job. In addition, the perpetual inventory system requires an estimate of overhead for timeliness of information for decision making.

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

113. Briefly describe how manufacturing firms dispose of overapplied or underapplied factory overhead.

If overapplied or underapplied overhead is immaterial, cost of goods sold is used for its disposal. If the amount is material, it is allocated among cost of goods sold, finished goods, and goods in process.

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

Short Answer Questions

114. The Johnson Manufacturing Company has the following job cost sheets on file. They represent jobs that have been worked on during March of the current year. This table summarizes information provided on each sheet:

<u>Number</u>	<u>Total Cost</u> <u>Incurred</u>	<u>Status of Job</u>
444	\$15,050	Finished and delivered
445	\$22,400	Finished and delivered
446	\$ 7,500	Finished and unsold
447	\$ 4,300	Finished and delivered
448	\$33,000	Finished and unsold
449	\$62,000	Finished and unsold
450	\$14,600	Unfinished
451	\$22,200	Finished and delivered
452	\$ 3,600	Unfinished
453	\$ 1,000	Unfinished

- (a) What is the cost of goods sold for the month of March?
- (b) What is the cost of the goods in process inventory on March 31?
- (c) What is the cost of the finished goods inventory on March 31?

Chapter 02 - Job Order Costing and Analysis

(a) Cost of goods sold for March:

<u>Number</u>	<u>Total Cost</u> <u>Incurred</u>	<u>Status of Job</u>
444	\$15,050	Finished and delivered
445	22,400	Finished and delivered
447	4,300	Finished and delivered
451	<u>22,200</u>	Finished and delivered
Total	<u>\$63,950</u>	

(b) Cost of the goods in process inventory on March 31:

<u>Number</u>	<u>Total Cost</u> <u>Incurred</u>	<u>Status of Job</u>
450	\$14,600	Unfinished
452	3,600	Unfinished
453	<u>1,000</u>	Unfinished
Total	\$19,200	

(c) Cost of the finished goods inventory on March 31:

<u>Number</u>	<u>Total Cost</u> <u>Incurred</u>	<u>Status of Job</u>
446	\$ 7,500	Finished and unsold
448	33,000	Finished and unsold
449	<u>62,000</u>	Finished and unsold
Total	<u>\$102,500</u>	

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.

115. The Terrapin Manufacturing Company has the following job cost sheets on file. They represent jobs that have been worked on during June of the current year. This table summarizes information provided on each sheet:

<u>Number</u>	<u>Total Cost</u> <u>Incurred</u>	<u>Status of Job</u>
951	\$ 4,200	Finished and delivered
952	\$ 7,700	Unfinished
953	\$ 9,300	Finished and unsold
954	\$11,100	Finished and delivered
955	\$ 3,000	Finished and unsold
956	\$ 5,500	Finished and delivered
957	\$35,000	Unfinished
958	\$ 3,200	Finished and delivered
959	\$ 500	Unfinished
960	\$22,110	Unfinished
961	\$ 7,200	Finished and unsold
962	\$ 8,500	Unfinished
963	\$11,200	Finished and unsold

- What is the cost of the goods in process inventory on June 30?
- What is the cost of the finished goods inventory on June 30?
- What is the cost of goods sold for the month of June?

Chapter 02 - Job Order Costing and Analysis

(a) Cost of the goods in process inventory on June 30:

<u>Number</u>	<u>Total Cost</u> <u>Incurred</u>	<u>Status of Job</u>
952	\$ 7,700	Unfinished
957	35,000	Unfinished
959	500	Unfinished
960	22,110	Unfinished
962	<u>8,500</u>	Unfinished
Total	<u>\$73,810</u>	

(b) Cost of the finished goods inventory on June 30:

<u>Number</u>	<u>Total Cost</u> <u>Incurred</u>	<u>Status of Job</u>
953	\$ 9,300	Finished and unsold
955	3,000	Finished and unsold
961	7,200	Finished and unsold
963	<u>11,200</u>	Finished and unsold
Total	<u>\$30,700</u>	

(c) Cost of goods sold for June:

<u>Number</u>	<u>Total Cost</u> <u>Incurred</u>	<u>Status of Job</u>
951	\$ 4,200	Finished and delivered
954	11,100	Finished and delivered
956	5,500	Finished and delivered
958	<u>3,200</u>	Finished and delivered
Total	<u>\$24,000</u>	

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Hard

Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.

116. Plumley Ad Agency contracted with a company to prepare an ad campaign. Plumley uses a job order costing system. Plumley estimates that the job will take 145 designer hours at \$90 per hour and 85 staff hours at \$45 per hour. Plumley uses two overhead rates in applying overhead to jobs: Designer-related at \$100 per designer hour and staff-related at \$50 per staff hour. Determine the total estimated cost for this job.

Direct labor:			
Designers (145 hours @ \$90 per hour)		\$13,050	
Staff (85 hours @ \$45 per hour)		<u>3,825</u>	
Total direct labor			\$16,875
Overhead:			
Designer-related (145 hours @ \$100 per hour)		\$14,500	
Staff-related (85 hours @ \$50 per hour)		<u>4,250</u>	
Total overhead			<u>18,750</u>
Total estimated cost			<u>\$35,625</u>

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: A1 Apply job order costing in pricing services.

117. Erlander Company uses a job order cost accounting system. On November 1, \$15,000 of direct materials and \$3,500 of indirect materials were requisitioned for production. Prepare the general journal entry to record this requisition.

11/1	Goods in process inventory	15,000	
	Factory overhead	3,500	
	Raw materials inventory		18,500

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

118. RC Corp. uses a job order cost accounting system. During the month of April, the following events occurred:

- (a) Purchased raw materials on credit, \$32,000.
- (b) Raw materials requisitioned: \$25,800 as direct materials and \$10,500 indirect materials.
- (c) Paid factory payroll for the month totaling \$37,700 which includes \$8,200 indirect labor.
- (d) Assigned the factory payroll to jobs and overhead.

Make the necessary journal entries to record the above transactions and events.

(a)	Raw Materials Inventory	32,000	
	Accounts Payable		32,000
(b)	Goods in Process Inventory	25,800	
	Factory Overhead	10,500	
	Raw Materials Inventory		36,300
(c)	Factory Payroll	37,700	
	Cash		37,700
(d)	Goods in Process Inventory	29,500	
	Factory Overhead	8,200	
	Factory Payroll		37,700

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

119. RC Corp. uses a job order cost accounting system. During the month of April, the following events occurred:

- (a) Purchased raw materials on credit, \$32,000.
- (b) Raw materials requisitioned: \$25,800 as direct materials (Job 1:\$4,200, Job 2: \$7,500, Job 3: \$3,600 and Job 4: \$10,500) and \$10,500 indirect materials.
- (c) Paid factory payroll for the month totaling \$37,700 which includes \$8,200 indirect labor.
- (d) Assigned the factory payroll to jobs and overhead. (Job 1:\$7,000, Job 2: \$9,800, Job 3: \$3,000 and Job 4: \$9,700)
- (e) Overhead was assigned at a rate of 50% of direct labor cost.

Determine the total cost of each job.

$$\text{Job 1: } \$4,200 + 7,000 + (7,000)(.5) = \$14,700$$

$$\text{Job 2: } \$7,500 + 9,800 + (9,800)(.5) = \$22,200$$

$$\text{Job 3: } \$3,600 + 3,000 + (3,000)(.5) = \$8,100$$

$$\text{Job 4: } \$10,500 + 9,700 + (9,700)(.5) = \$25,050$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

120. Key Manufacturing Co. applies factory overhead to production on the basis of direct labor costs. Assume that at the beginning of the current year the company estimated that direct material costs would be \$178,800, direct labor costs would be \$154,000, and factory overhead costs would be \$231,000.

(1) If the \$28,000 cost of Key's goods in process inventory included \$5,200 of direct labor cost, what amount of direct materials cost was included?

(2) If \$8,100 of the company's \$34,300 finished goods inventory was direct materials cost, determine the direct labor cost and factory overhead cost of the finished goods inventory.

(1) Overhead rate: $(\$231,000/\$154,000) = 150\%$

Total cost of goods in process inventory		\$28,000
Deduct: Direct labor	\$5,200	
Factory overhead ($\$5,200 \times 150\%$)	<u>7,800</u>	<u>13,000</u>
Direct materials		<u>\$15,000</u>

(2) The overhead rate is 150%. (part 1)

Total cost of finished goods inventory	\$34,300
Direct materials	<u>8,100</u>
Direct labor and factory overhead costs	<u>\$26,200</u>

Direct labor + 1.5 (Direct Labor) = \$26,200

Direct Labor = \$10,480

OH = DL \times 1.5

OH = \$10,480 \times 1.5

OH = \$15,720

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

121. PRO, Inc. had the following activities during its most recent period of operations:
- (a) Purchased raw materials on account for \$140,000 (both direct and indirect materials are recorded in the Raw Materials Inventory account).
 - (b) Issued raw materials to production of \$130,000 (80% direct and 20% indirect).
 - (c) Incurred and paid labor costs of \$250,000 cash (70% direct and 30% indirect).
 - (d) Incurred factory utilities costs of \$20,000; this amount is still payable.
 - (e) Applied overhead at 80% of direct labor costs.
 - (f) Recorded factory depreciation, \$22,000.
- Prepare journal entries to record the above transactions.

(a)	Raw Materials Inventory	140,000	
	Accounts Payable		140,000
(b)	Goods in Process Inventory	104,000	
	Factory Overhead	26,000	
	Raw Materials Inventory		130,000
(c)	Factory Payroll	250,000	
	Cash		250,000
	Goods in Process Inventory	175,000	
	Factory Overhead	75,000	
	Factory Payroll		250,000
(d)	Factory Overhead	20,000	
	Accounts Payable		20,000
(e)	Goods in Process Inventory	140,000	
	Factory Overhead		140,000
	(\$175,000 x 80% = \$140,000)		
(f)	Factory Overhead	22,000	
	Accumulated Depreciation—Factory		22,000

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

122. Prepare journal entries to record the following transactions and events for April using a job order cost accounting system.

- (a) Purchased raw materials on credit, \$69,000.
- (b) Raw materials requisitioned: \$26,000 direct and \$5,400 indirect.
- (c) Factory payroll totaled \$46,000 (paid in cash), including \$9,500 indirect labor.
- (d) Paid other actual overhead costs totaling \$14,500 cash.
- (e) Applied overhead totaling \$28,200.
- (f) Finished and transferred jobs totaling \$77,500.
- (g) Jobs costing \$58,800 were sold on credit for \$103,000.

(a)	Raw Materials Inventory	69,000	
	Accounts Payable		69,000
(b)	Goods in Process Inventory	26,000	
	Factory Overhead	5,400	
	Raw Materials Inventory		31,400
(c)	Factory Payroll	46,000	
	Cash		46,000
	Goods in Process Inventory	36,500	
	Factory Overhead	9,500	
	Factory Payroll		46,000
(d)	Factory Overhead	14,500	
	Cash		14,500
(e)	Goods in Process Inventory	28,200	
	Factory Overhead		28,200
(f)	Finished Goods Inventory	77,500	
	Goods in Process Inventory		77,500
(g)	Accounts Receivable	103,000	
	Sales		103,000
	Cost of Goods Sold	58,800	
	Finished Goods Inventory		58,800

Chapter 02 - Job Order Costing and Analysis

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

123. A company's ending inventory of finished goods has a cost of \$35,000 and consists of 750 units. If the overhead applicable to these goods is \$8,400, and overhead is applied at the rate of 60% of direct labor, what is the cost of the direct materials used to produce these units?

Factory overhead in finished goods inventory	\$ 8,400
Direct labor in finished goods inventory ($\$8,400/0.60$)	<u>14,000</u>
Total factory overhead and direct labor	22,400
Total job cost	\$35,000
Factory overhead and direct labor	<u>22,400</u>
Direct materials	<u>\$12,600</u>

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

124. The production of one unit of Product BBB used \$17.50 of direct materials and \$21.00 of direct labor. The unit sold for \$56.00 and was assigned overhead at a rate of 30% of labor costs. What is the gross profit per unit on its sale?

Selling price per unit		\$56.00
Direct materials	\$17.50	
Direct labor	21.00	
Overhead applied (\$21 x .3)	<u>6.30</u>	
Total job cost per unit		<u>44.80</u>
Gross profit per unit		<u>\$11.20</u>

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

125. A company uses a job order cost accounting system and applies overhead on the basis of direct labor cost. At the end of a recent period, the company's Goods in Process Inventory account appeared as follows:

Goods in Process					
Date	Explanation	PR	Debit	Credit	Balance
Mar. 17	Job No. 5 completed	G-8		90,900	(17,100)
Apr. 13	Job No. 6 completed	G-10		131,400	(148,500)
July 20	Job No. 7 completed	G-12		73,800	(222,300)
Oct. 11	Job No. 8 completed	G-15		168,300	(390,600)
Dec. 31	Direct Materials	G-20	235,800		(154,800)
	31 Direct Labor	G-20	117,000		(37,800)
	31 Factory Overhead	G-20	187,200		149,400

Write in the blanks for the following:

(1) The total cost of the direct materials, direct labor, and factory overhead applied in the December 31 goods in process inventory is \$_____.

(2) The company's overhead application rate is _____%.

(3) Job No. 6 had \$26,550 of direct labor cost. Therefore, the job must have had \$_____ of direct materials cost.

(4) Job No. 8 had \$73,998 of direct materials cost. Therefore, the job must have had \$_____ of factory overhead cost.

(1) \$149,400 (ending balance of account)

(2) $(\$187,200 / \$117,000) \times 100\% = 160\%$

(3) $\$26,550 \times 160\% = \$42,480$

$\$131,400 - \$26,550 - \$42,480 = \$62,370$

(4) $\$168,300 - \$73,998 = \$94,302$ Direct labor + OH

260% Direct labor = \$94,302

Direct labor = \$36,270

OH = $\$94,302 - \$36,270 = \$58,032$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

126. The following data relates to the Density Company's first operating period. Calculate cost of goods sold for each product.

Product	Cost/unit		Units		Overhead rate (Percent of Direct Labor cost)
	Direct Materials	Direct Labor	Produced	Ending Inventory	
A	\$10	\$12	215	115	60%
B	8	15	330	180	40%
C	14	10	250	200	80%

	<u>A</u>	<u>B</u>	<u>C</u>
Direct materials	\$10.00	\$ 8.00	\$14.00
Direct labor	12.00	15.00	10.00
Overhead*	<u>7.20</u>	<u>6.00</u>	<u>8.00</u>
Total cost	\$29.20	\$29.00	\$32.00
Units sold**	<u>x 100</u>	<u>x 150</u>	<u>x 50</u>
Cost of goods sold	\$2,920	\$4,350	\$1,600

* Overhead applied:

A: $\$12.00 \times 60\% = \7.20

B: $\$15.00 \times 40\% = \6.00

C: $\$10.00 \times 80\% = \8.00

** Units sold

A: 215 produced - 115 in ending inventory = 100 sold

B: 330 produced - 180 in ending inventory = 150 sold

C: 250 produced - 200 in ending inventory = 50 sold

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

127. The following data relates to the Density Company's first operating period. Calculate cost of ending inventory for each product.

Product	Cost/unit		Units		Overhead rate (Percent of Direct Labor cost)
	Direct Materials	Direct Labor	Produced	Ending Inventory	
A	\$10	\$12	215	115	60%
B	8	15	330	180	40%
C	14	10	250	200	80%

	<u>A</u>	<u>B</u>	<u>C</u>
Direct materials	\$10.00	\$ 8.00	\$14.00
Direct labor	12.00	15.00	10.00
Overhead*	<u>7.20</u>	<u>6.00</u>	<u>8.00</u>
Total cost	\$29.20	\$29.00	\$32.00
Units left	<u>x 115</u>	<u>x 180</u>	<u>x 200</u>
Cost of EI	\$3,358	\$5,220	\$6,400

* Overhead applied:

A: $\$12.00 \times 60\% = \7.20

B: $\$15.00 \times 40\% = \6.00

C: $\$10.00 \times 80\% = \8.00

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

128. The overhead allocation rate in Frantz Company's job order cost accounting system applies overhead based on direct labor costs. The company's manufacturing costs for the current year were: direct materials, \$108,000; direct labor, \$144,000; and factory overhead, \$18,000. At year-end, the total cost of goods in process is \$36,000, which includes \$12,000 of direct labor cost. What amount of direct material cost is included in the ending goods in process inventory?

Direct labor in goods in process inventory	\$12,000
Factory overhead in goods in process inventory (\$12,000 x .125)	<u>1,500</u>
Total factory overhead and direct labor	13,500
Total cost in goods in process inventory	\$36,000
Factory overhead and direct labor	<u>13,500</u>
Direct materials	<u><u>\$22,500</u></u>

Overhead rate = $\$18,000 / \$144,000 = 12.5\%$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

129. Medlar Corp. maintains a Web-based general ledger. Overhead is applied on the basis of direct labor costs. Its bookkeeper accidentally deleted most of the entries that had been recorded for January. A printout of the general ledger (in T-account form) showed the following:

Raw Materials Inventory			Goods in Process Inventory		
Bal. 1/1 10,000			Bal 1/1 4,000		f)
a)		b)	c)		
			d)		
			e)		
17,500			g)		

Accounts Payable			Finished Goods Inventory		
h)		Bal. 1/1 5,000	j)		l)
		i)	k)		
		Bal. 1/31 9,000	Bal. 1/31 15,000		

Factory Overhead			Cost of Goods Sold		
m)		n)	o)		

A review of the prior year's financial statements, the current year's budget, and January's source documents produced the following information:

- (1) Accounts Payable are used for raw material purchases only. January purchases were \$49,000.
- (2) Factory overhead costs for January were \$17,000 none of which is indirect materials.
- (3) The January 1 balance for finished goods inventory was \$10,000.
- (4) There was a single job in process at January 31 with a cost of \$2,000 for direct materials and \$1,500 for direct labor.
- (5) Total cost of goods manufactured for January was \$90,000.
- (6) All direct laborers earn the same rate (\$13/hour). During January, 2,500 direct labor hours were worked.
- (7) The predetermined overhead allocation rate is based on direct labor costs. Budgeted (expected) overhead for the year is \$195,000 and budgeted (expected) direct labor is \$390,000.

Write in the missing amounts a through o above in the T-accounts above.

Raw Materials Inventory				Goods in Process Inventory			
Bal. 1/1 10,000				Bal 1/1 4,000			
a) 49,000			b) 41,500	c) DM 41,500			
				d) DL 32,500			
				e) OH 16,250			f) COGM 90,000
17,500				g) 4,250			

Accounts Payable				Finished Goods Inventory			
h) 45,000			Bal. 1/1 5,000	j) Bal 1/1 10,000			
			i) 49,000				
				k) COGM 90,000			l) 85,000
			Bal. 1/31 9,000	Bal. 1/31 15,000			

Factory Overhead				Cost of Goods Sold			
m) OH 17,000			n) OH 16,250	o) 85,000			
(actual)			(applied)				

Calculation:

(1) Purchases of \$49,000: debit of \$49,000 to Raw Materials Inventory (a); credit of \$49,000 to Accounts Payable (i).

(2) Overhead costs of \$17,000: debit of \$17,000 to Factory Overhead (m)

(3) January 1 balance in finished goods inventory (j)

(4) Overhead applied to jobs = $\$195,000 / \$390,000$ (item 7) = 50%

Job in Goods in Process = $\$2,000 + \$1,500 + (\$1,500 \times .50) = \$4,250$ (g)

(5) Cost of goods manufactured = \$90,000: debit of \$90,000 to Finished Goods Inventory (k), credit of \$90,000 to Goods in Process Inventory (f)

(6) Direct labor used = 2,500 hours x \$13/hour = \$32,500: debit to Goods in Process Inventory (d)

(7) Overhead applied to production = $\$32,500 \times .50 = \$16,250$: debit to Goods in Process Inventory (e), credit to Factory Overhead (n)

Additional calculations:

(b) $\$10,000 + \$49,000 - (b) = \$17,500$; $(b) = \$41,500$: corresponding debit to Goods in Process Inventory for \$41,500 (c)

(h) $\$5,000 + \$49,000 - (h) = \$9,000$; $(h) = \$45,000$

(l) $\$10,000 + \$90,000 - (l) = \$15,000$; $(l) = \$85,000$: corresponding debit to Cost of Goods Sold (o)

Chapter 02 - Job Order Costing and Analysis

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

130. Selwyn's Service applied overhead on the basis of direct labor costs during the current year. Overhead applied was \$16,500. Actual overhead incurred was \$17,200.

(a.) Prepare a journal entry to remove this difference assuming that it is not material.

(b.) Instead, assume actual overhead incurred was only \$24,000. Describe (without computations) the alternative procedure that Selwyn might use to record this material difference.

(a)	Cost of Goods Sold	700	
	Factory overhead		700

(b.) Since the \$7,500 difference is material, it should be allocated among Cost of Goods Sold, Finished Goods and Goods in Process.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

131. Dina Corp. uses a job order cost accounting system. Four jobs were started during the current year. The following is a record of the costs incurred:

<u>Job #</u>	<u>Material Used</u>	<u>Direct Labor Used</u>	<u>Direct Labor Hours Used</u>
1010	\$45,000	\$72,000	8,000
1011	59,000	77,000	7,000
1012	35,000	30,000	3,000
1013	26,000	40,000	5,000

Actual overhead costs were \$55,800. The predetermined overhead allocation rate is \$2.40 per direct labor hour. During the year, Jobs 1010, 1012, and 1013 were completed. Also, Jobs 1010 and 1013 were sold for \$387,000. Assuming that this is Dina's first year of operations:
 (a) Calculate the balance in the Goods in Process Inventory, Finished Goods Inventory, and Cost of Goods Sold accounts.

(b) Does the Factory Overhead account balance indicate an over- or underapplication of overhead? Prepare the entry to close this out assuming the amount is not material.

Job No.	Direct materials	Direct labor	Overhead applied*	Total job cost
1010	\$45,000	\$72,000	\$19,200	\$136,200
1011	59,000	77,000	16,800	152,800
1012	35,000	30,000	7,200	72,200
1013	<u>26,000</u>	<u>40,000</u>	<u>12,000</u>	<u>78,000</u>
Totals	\$165,000	\$219,000	\$55,200	\$439,200

Job 1010: 8,000 hours x \$2.40/hour = \$19,200

Job 1011: 7,000 hours x \$2.40/hour = \$16,800

Job 1012: 3,000 hours x \$2.40/hour = \$7,200

Job 1013: 5,000 hours x \$2.40/hour = \$12,000

(a) Goods in Process Inventory Job 1011 \$152,800

Finished Goods: Job 1012 \$72,200

Cost of Goods Sold: Job 1010 + Job 1013 = \$136,200 + 78,000 = \$214,200.

(b)

Factory Overhead:

Applied \$55,200

Actual 55,800

\$600 debit balance (underapplied)

Cost of Goods Sold 600

Factory Overhead 600

Chapter 02 - Job Order Costing and Analysis

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

132. The following information is available for the Millennium Corporation for the current year:

Cost of goods sold	\$292,000
Depreciation of factory equipment	25,200
Direct labor	64,750
Finished goods inventory, Beginning–year	45,000
Factory insurance	11,200
Factory utilities	16,800
Goods transferred from Goods in Process	
Inventory to Finished Goods Inventory	285,150
Indirect labor	8,400
Raw materials inventory, Beginning–year	4,200
Raw materials purchased	116,200
Raw materials used in production	
(includes \$7,000 of indirect materials)	121,800
Rent on factory building	22,400

Millennium Corporation uses a predetermined overhead rate of 150% of direct labor cost. Prepare journal entries for the following transactions/and events:

- (a) Purchase of raw materials on account.
- (b) Assignment of materials costs to Goods in Process Inventory and Factory Overhead
- (c) Payment of Factory Payroll in cash
- (d) Assignment of Factory Payroll to Goods in Process Inventory and Factory Overhead
- (e) Recording of other factory overhead. Assume that all items other than depreciation are paid in cash.
- (f) Assignment of Factory Overhead to Goods in Process Inventory
- (g) Transfer of goods completed to Finished Goods Inventory
- (h) Recording cost of goods sold
- (i) Assignment of over- or underapplied overhead to Cost of Goods Sold

Chapter 02 - Job Order Costing and Analysis

a.	Raw Materials Inventory	116,200	
	Accounts Payable		116,200
b.	Goods in Process Inventory	114,800	
	Factory Overhead	7,000	
	Raw Materials Inventory		121,800
c.	Factory Payroll (\$64,750 + \$8,400)	73,150	
	Cash		73,150
d.	Goods in Process Inventory	64,750	
	Factory Overhead	8,400	
	Factory Payroll		73,150
e.	Factory Overhead(\$25,200+\$11,200+\$16,800+\$22,400)	75,600	
	Accumulated Depreciation—factory equipment		25,200
	Cash		50,400
f.	Goods in Process Inventory	97,125	
	Factory Overhead (64,750 x 150%)		97,125
g.	Finished Goods Inventory	285,150	
	Goods in Process Inventory		285,150
h.	Cost of Goods Sold	292,000	
	Finished Goods Inventory		292,000
i.	Factory Overhead	6,125	
	Cost of Goods Sold		6,125
	Actual Overhead = \$7,000 + 8,400 + 75,600 = \$91,000		
	Overhead applied =	<u>\$97,125</u>	
	Overapplied overhead =	<u>\$ 6,125</u>	

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

133. A company that uses a job order cost accounting system incurred \$10,000 of factory payroll during May. Present the May 31 entry assuming \$8,000 is direct labor and \$2,000 is indirect labor.

May 31	Goods in Process Inventory	8,000	
	Factory Overhead	2,000	
	Factory Payroll		10,000

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

134. Time tickets for factory employees during the month of August are summarized as follows:

Job 919	\$ 9,800
Job 920	14,650
Job 921	12,250
Job 922	<u>16,000</u>
Total direct labor	\$52,700
Indirect labor	<u>16,800</u>
Total labor cost	<u>\$69,500</u>

Prepare the necessary journal entries to record factory payroll.

Factory Payroll	69,500	
Cash		69,500
Goods in Process	52,700	
Factory Overhead	16,800	
Factory Payroll		69,500

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

135. A company's predetermined overhead allocation rate is 130% based on direct labor cost. How much overhead would be allocated to Job No. 105 if it required total direct labor costs of \$60,000?

$$\$60,000 \times 130\% = \$78,000$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

136. Selected information from the budget of the Khalid Corp. at the beginning of the year follows:

Estimated factory overhead	\$132,000
Estimated direct labor hours	55,000 hours
Estimated machine hours	41,250 hours
Estimated direct labor cost	\$825,000
Actual factory overhead incurred during the year	\$144,000

Calculate the predetermined overhead allocation rate if the company uses the following as a basis:

- (a) Direct labor hours.
- (b) Direct labor cost.
- (c) Machine hours.

(a) $\$132,000/55,000 = \2.40 per direct labor hour

(b) $\$132,000/\$825,000 = 16\%$ of direct labor cost

(c) $\$132,000/41,250 = \3.20 per machine hour

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

137. A manufacturing company uses an overhead allocation rate based on direct labor cost. The company's Goods in Process Inventory account has a \$15,000 debit balance after all posting is completed, and the cost sheet of the one job still in process shows direct material costs of \$6,600 and direct labor costs of \$3,000. What is the company's overhead application rate?

$$(\$15,000 - \$6,600 - \$3,000)/\$3,000 = 180\%$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

138. Bean Company uses a job order cost system and last period incurred \$70,000 of overhead and \$100,000 of direct labor. Bean estimates that its overhead next period will be \$65,000. The company also expects to incur \$100,000 of direct labor. If Bean bases its overhead applied on direct labor cost, what should be the overhead allocation rate for the next period?

$$\frac{\$65,000}{\$100,000} = \underline{\underline{65\%}}$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

139. A company's manufacturing accounting system applies overhead based on direct labor cost. The company's manufacturing costs for the current year were: direct labor, \$57,600; direct materials, \$76,800; and factory overhead, \$9,600. Calculate the company's overhead allocation rate.

$$\frac{\$9,600}{\$57,600} = \underline{\underline{16.7\%}}$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P3 Describe and record the flow of overhead costs in job order cost accounting.

140. The job cost sheet for Job number 93-471 includes the following information:

DIRECT MATERIALS:

- 7/12 Requisition R93-566: 20 units @ \$3.50 per unit
- 7/13 Requisition R93-576: 18 units @ \$5.00 per unit
- 7/13 Requisition R93-578: 4 units @ \$25.00 per unit
- 7/14 Requisition R93-591: 40 units @ \$1.25 per unit

DIRECT LABOR:

- 7/12 Employee 19: 8 hours @ \$9.00 per hour
- 7/13 Employee 19: 6 hours @ \$9.00 per hour
- 7/13 Employee 37: 6 hours @ \$7.00 per hour
- 7/14 Employee 19: 5 hours @ \$9.00 per hour
- 7/14 Employee 92: 5 hours @ \$11.00 per hour

FACTORY OVERHEAD:

Assigned at 150% of direct labor cost.

What is the total cost of Job number 93-471?

Total cost of job:

DIRECT MATERIALS:

7/12 Requisition R93-566: 20 units @ \$ 3.50 per unit	=	\$ 70
7/13 Requisition R93-576: 18 units @ \$ 5.00 per unit	=	90
7/13 Requisition R93-578: 4 units @ \$25.00 per unit	=	100
7/14 Requisition R93-591: 40 units @ \$ 1.25 per unit	=	<u>50</u>
Total direct materials cost	=	<u>\$310</u>

DIRECT LABOR:

7/12 Employee 19: 8 hours @ \$ 9.00 per hour	=	\$ 72
7/13 Employee 19: 6 hours @ \$ 9.00 per hour	=	54
7/13 Employee 37: 6 hours @ \$ 7.00 per hour	=	42
7/14 Employee 19: 5 hours @ \$ 9.00 per hour	=	45
7/14 Employee 92: 5 hours @ \$11.00 per hour	=	<u>55</u>
Total direct labor cost	=	<u>\$268</u>

FACTORY OVERHEAD:

150% of direct labor cost (150% x \$268)	=	<u>\$402</u>
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TOTAL COST ASSIGNED TO THE JOB	=	<u>\$980</u>
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AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

141. The following calendar year information about the Tahoma Corporation is available on December 31:

Advertising expense	\$ 28,800
Depreciation of factory equipment	42,320
Depreciation of office equipment	10,800
Direct labor	142,600
Factory utilities	35,650
Interest expense	6,650
Inventories, January 1:	
Raw materials	3,450
Goods in process	17,250
Finished goods	35,650
Inventories, December 31:	
Raw materials	2,300
Goods in process	20,700
Finished goods	31,050
Raw materials purchases	132,450
Rent on factory building	41,400
Indirect labor	51,750
Sales commissions	16,500

The company applies overhead on the basis of 125% of direct labor costs. Calculate the amount of over- or underapplied overhead.

Factory overhead costs:

Depreciation of factory equipment	\$ 42,320
Factory utilities	35,650
Rent on factory building	41,400
Indirect labor	<u>51,750</u>
Total actual factory overhead costs	\$171,120
Factory overhead applied (142,600 x 125%)	<u>\$178,250</u>
Overapplied overhead	<u>\$ 7,130</u>

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

142. The predetermined overhead allocation rate for Forsythe, Inc. is based on estimated direct labor costs of \$400,000 and estimated factory overhead of \$500,000. Actual costs incurred were:

Direct materials	<u>\$250,000</u>
Direct labor	<u>410,000</u>
Indirect materials	<u>55,000</u>
Indirect labor	<u>125,000</u>
Sales commissions	<u>50,000</u>
Factory depreciation	<u>170,000</u>
Property taxes, factory	<u>15,000</u>
Factory utilities	<u>35,000</u>
Advertising	<u>62,500</u>
Factory equipment rental	<u>100,000</u>

(a) Calculate the predetermined overhead rate and calculate the overhead applied during the year.

(b) Determine the amount of over- or underapplied overhead and prepare the journal entry to eliminate the over- or underapplied overhead assuming that it is not material in amount.

(a) Predetermined overhead rate = $\$500,000 / \$400,000 = 125\%$ of direct labor cost
 Overhead applied = $\$410,000 \times 125\% = \$512,500$

Actual overhead:

Indirect materials	\$ 55,000
Indirect labor	125,000
Factory depreciation	170,000
Property taxes, factory	15,000
Factory utilities	35,000
Factory equipment rental	<u>100,000</u>
Total actual overhead	\$500,000
Overhead applied	<u>512,500</u>
(b) Overapplied overhead	<u>\$ 12,500</u>

Factory overhead	12,500	
Cost of goods sold		12,500

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

Chapter 02 - Job Order Costing and Analysis

143. A company charged the following amounts of overhead to jobs during the current year: \$12,000 to jobs still in process, \$42,000 to jobs completed but not sold, and \$66,000 to jobs finished and sold. At year-end, the company's Factory Overhead account has a credit balance of \$9,000, which is not a material amount. What entry (if any) should the company make at year-end related to this overhead balance?

Dec. 31	Factory Overhead	9,000	
	Cost of Goods Sold		9,000

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

144. Samer Corp. uses a job order cost accounting system. The following is selected information pertaining to costs applied to jobs during the year:

Jobs still in process at the end of the year:

\$167,000, which includes \$65,000 direct labor costs.

Jobs finished and sold during the year:

\$395,000, which includes \$172,000 direct labor costs.

Jobs finished but unsold at end of the year:

\$103,000, which includes \$38,000 direct labor costs.

Samer Corp.'s predetermined overhead allocation rate is 60% of direct labor cost. At the end of the year, the company's records show that \$189,000 of factory overhead has been incurred.

(a) Determine the amount of overapplied or underapplied overhead.

(b) Prepare the necessary journal entry to close the Factory Overhead account assuming that any remaining balance is not material.

(a)	Actual overhead cost	\$189,000	
	Applied overhead (60% x \$275,000)*	<u>165,000</u>	
	Underapplied overhead	<u>\$ 24,000</u>	
(b)	Cost of Goods Sold	24,000	
	Factory Overhead		24,000

*\$65,000 + \$172,000 + \$38,000 = \$275,000

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.

145. Use the following information to compute the following items:

Beginning raw materials	\$5,600
Ending raw materials	4,200
Direct labor	17,250
Raw material purchases	7,400
Depreciation on factory equipment	6,750
Factory repairs and maintenance	3,300
Beginning finished goods inventory	10,800
Ending finished goods inventory	8,900
Beginning goods in process inventory	5,350
Ending goods in process inventory	6,300
OH application rate	60% of DL

- (a) Calculate the cost of materials used.
- (b) Calculate the manufacturing costs incurred during the period.
- (c) Calculate the Cost of Goods Manufactured during the period.
- (d) Calculate the Cost of Goods Sold during the period.
- (e) Calculate the amount by which overhead is under- or over-applied.

(a) $\$5,600 + 7,400 - 4,200 = \$8,800$

(b) $MCI = \$8,800 + 17,250 + (.6)(17,250) = \$36,400$

(c) $COGM = \$5,350 + 36,400 - 6,300 = \$35,450$

(d) $COGS = \$10,800 + 35,450 - 8,900 = \$37,350$

(e) $OH\ balance = Actual\ of\ \$10,050\ vs.\ Applied\ of\ \$10,350 = CR\ of\ \$300\ (overapplied)$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Bloom's: Apply

Difficulty: Hard

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

Fill in the Blank Questions

146. A _____ accounting system records manufacturing activities using a periodic inventory system. A _____ accounting system records manufacturing activities using a perpetual inventory system.

General; Cost

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C1 Describe important features of job order production.*

147. _____, or customized production, produces products in response to customer orders.

Job order manufacturing

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C1 Describe important features of job order production.*

148. A _____ is a separate record maintained for each job.

Job cost sheet

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.*

149. The collection of job cost sheets for all jobs in process makes up the subsidiary ledger controlled by the _____ inventory.

Goods in process

*AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.*

150. When a job is finished, its job cost sheet is completed and moved from the jobs in process file to the _____ file.

Finished job

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: C2 Explain job cost sheets and how they are used in job order cost accounting.

151. In a job order cost accounting system, raw materials requisitioned as direct materials are debited to _____; indirect materials are debited to _____.

Goods in process inventory; factory overhead

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P1 Describe and record the flow of materials costs in job order cost accounting.

152. When factory payroll is assigned to specific jobs, _____ is debited.

Goods in Process Inventory

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

153. When factory payroll for indirect labor is assigned, _____ is debited.

Factory Overhead

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P2 Describe and record the flow of labor costs in job order cost accounting.

154. A _____ is calculated by relating total estimated factory overhead to an allocation factor such as total estimated direct labor cost, and is used to allocate factory overhead to specific jobs.

Predetermined overhead allocation rate (or predetermined overhead rate)

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: P4 Determine adjustments for overapplied and underapplied factory overhead.