# *Managerial Accounting 6th edition Wild Test Bank*

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# Chapter 2
# JOB ORDER COSTING AND ANALYSIS

## *True/False Questions*

1. Cost accounting systems accumulate manufacturing costs and then assign them to products and services.

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

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

Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

3. Cost accounting information is helpful to management for pricing decisions but has no effect on controlling costs.

Answer: False

*Blooms: Understand*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

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

Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

5. There are two basic types of cost accounting systems: job order costing and process costing.

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

6. A company that produces a large number of standardized units would normally use a job order costing system.

Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

7. A company that produces products individually designed to meet the needs of a specific customer would normally use a job order costing system.

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

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

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

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

Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

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10. A job order costing system would be appropriate for a manufacturer of automobile tires.

Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

11. Job order production 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.

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

12. When a job involves producing more than one unit of a custom product, it is often called a job lot.

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

13. A company's file of job cost sheets for jobs that are not yet completed equals the balance in the Finished Goods Inventory account.

Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

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14. A company's file of job cost sheets for jobs that are not yet completed equals the balance in the Work in Process Inventory account.

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

15. A company's file of job cost sheets for jobs that are completed but not yet sold equals the balance in the Finished Goods Inventory account.

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

16. A company's file of job cost sheets for jobs that are completed but not yet sold equals the balance in the Work in Process Inventory account.

Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

17. The direct materials section of a job cost sheet shows the materials costs assigned to a specific job, but the direct labor section only shows the total hours of labor allocated to the job.

Answer: False

*Blooms: Understand*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-C2*

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*Topic: Job cost sheet*

18. The collection of cost sheets for unfinished jobs makes up a subsidiary ledger controlled by the Work in Process Inventory account in the general ledger.

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

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

Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

20. 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.

Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

21. 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.

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C2*

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*Topic: Job cost sheet*

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

Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

23. Both direct and indirect labor costs are recorded on the individual job cost sheets.

Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

24. Job cost sheets include both product and period costs.

Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

25. Only product costs are recorded on job cost sheets.

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

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

Answer: False

*Blooms: Understand*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-A1*
*Topic: Pricing for Services*

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

Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-A1*
*Topic: Pricing for Services*

28. The cost of all direct materials issued to production is debited to Work in Process Inventory.

Answer: True

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

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

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

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

Answer: True

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

31. 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.

Answer: False

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

32. A receiving report serves as the source document for recording materials received in both a materials ledger card and in the general ledger.

Answer: True

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

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33. In nearly all job order cost systems, materials ledger cards are perpetual records that are updated each time materials are purchased or issued for use in production.

Answer: True

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

34. The journal entry to record the usage of Direct Materials includes a debit to Work in Process Inventory.

Answer: True

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

35. The journal entry to record the usage of Indirect Materials includes a debit to Work in Process Inventory.

Answer: False

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P1*
*Learning Objective: 02-P3*
*Topic: Materials Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*

36. The journal entry to record the purchase of materials includes a debit to Work in Process Inventory.

Answer: False

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

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

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*

38. 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.

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

39. A time ticket is a source document that an employee uses to report how much direct labor was performed for a job and is used to determine the amount of direct labor to charge to the job.

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

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40. A time ticket is a source document that an employee uses to report how much indirect labor was performed for a job and is used to determine the amount of direct labor to charge to the job.

Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

41. A time ticket is a source document used by an employee to record the total number of hours worked and serves as a source document for entries to record labor costs.

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

42. When time ticket information is entered into the accounting system, the journal entry is a debit to Factory Wages Payable and a credit to Work in Process Inventory.

Answer: False

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

43. The predetermined overhead rate is used to allocate overhead cost to jobs.

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

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

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

45. Predetermined overhead rates are calculated at the end of the accounting period once the actual amount of factory overhead is known.

Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic; Overhead Cost Flows and Documents*

46. Predetermined overhead rates are calculated before the start of the accounting period, and are therefore based on estimates.

Answer: True

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic; Overhead Cost Flows and Documents*

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

Answer: False

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

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

Answer: True

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

49. In a job order costing system, indirect labor costs are debited to the Factory Overhead account.

Answer: True

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P2*
*Topic: Overhead Cost Flows and Documents*

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

Answer: False

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

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

Answer: False

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

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52. Actual factory overhead incurred in a job costing system is debited to a Factory Overhead general ledger account and credited to various other accounts.

Answer: True

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1Easy*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

53. Direct materials and direct labor are examples of costs that are debited to the Factory Overhead account in a job costing system.

Answer: False

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1Easy*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

54. There should be a "cause and effect" relation between the overhead allocation base and overhead costs.

Answer: True

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1Easy*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

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

Answer: False

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

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56. Underapplied overhead is the amount by which actual overhead cost exceeds the overhead applied to products during the period.

Answer: True

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

57. When actual overhead cost exceeds the overhead applied, overhead is said to be underapplied.

Answer: True

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

58. When actual overhead cost exceeds the overhead applied, overhead is said to be overapplied.

Answer: False

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

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

Answer: True

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

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60. 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.

Answer: False

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

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

Answer: True

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

62. 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.

Answer: True

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

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

Answer: False

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

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64. Material amounts of under- or overapplied factory overhead are always closed entirely to Cost of Goods Sold at the end of an accounting period.

Answer: False

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

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

Answer: False

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

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

Answer: True

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

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

Answer: True

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

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68. If overhead is underapplied, it means that individual jobs have not been charged enough during the year and the cost of goods sold reported is too low.

Answer: True

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

69. If overhead is overapplied, it means that individual jobs have not been charged enough overhead during the year and the cost of goods sold reported is too low.

Answer: False

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

70. If overhead is overapplied, it means that individual jobs have been charged too much overhead during the year and the cost of goods sold reported is too high.

Answer: True

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic: Overhead  Cost Flows and Documents*

71. If overhead is underapplied, it means that individual jobs have been charged too much during the year and the cost of goods sold reported is too high.

Answer: False

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

72. The schedule of cost of goods manufactured for a job costing system includes total actual factory overhead.

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Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

73. Period costs for a manufacturing company, such as selling and administrative expenses, are recorded directly to Work in Process Inventory when they are incurred.

Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

74. Manufacturing costs incurred for jobs completed during an accounting period can bypass the inventory accounts on the balance sheet and be recorded directly in expense accounts.

Answer: False

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

## *Multiple Choice Questions*

75. 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.

Answer: B

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*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

76. A system of accounting for production 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.

Answer: D

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

77. Job order costing systems normally use:
A. Periodic inventory systems.
B. Perpetual inventory systems.
C. Real inventory systems.
D. General inventory systems.
E. Weighted average inventory systems.

Answer: B

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

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78. In comparison to a general accounting system, a cost accounting system for a manufacturing company places an emphasis on:
A. Periodic inventory counts.
B. Total costs.
C. Continually updating costs of materials, work in process, and finished goods inventories.
D. Products and average costs.
E. Large volume operations involving standardized products.

Answer: C

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

79. Features of a job costing system include all but which of the following:
A. Diversity of products produced.
B. Mass production.
C. Heterogeneity
D. Customization
E. Separate manufacturing from other products

Answer: B

*Blooms: Understand*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

80. The two basic types of cost accounting systems are:
A. Job order costing and perpetual costing.
B. Job order costing and customized product costing.
C. Job order costing and customized service costing.
D. Job order costing and process costing.
E. Job order costing and periodic costing.

Answer: D

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

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81. The production activities for a customized product represent a(n):
A. Operation.
B. Job.
C. Unit.
D. Pool.
E. Process.

Answer: B

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

82. A job order costing 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.

Answer: D

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

83. Job order production is also known as:
A. Mass production.
B. Process production.
C. Unit production.
D. Customized production.
E. Standard costing.

Answer: D

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

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84. Omega Contractors manufactures each house to customer specifications. It most likely would use:
A. Process costing.
B. A periodic inventory system.
C. Unique costing.
D. Job order costing.
E. Activity-based costing.

Answer: D

*Blooms: Remember*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

85. A type of production that yields customized products or services for each customer is called:
A. Customer orientation production.
B. Job order production.
C. Just-in-time production.
D. Job lot production.
E. Process production.

Answer: B

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

86. A company that makes which of the following types of products would best be suited for a job costing system?
A. Fruit juice
B. Bathing suits
C. Snack chips
D. Compact discs
E. Custom jewelry

Answer: E

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

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87. The target cost for a job using job costing is calculated as:
A. direct costs + desired profit
B. direct costs – desired profit
C. expected selling price – direct costs
D. expected selling price – desired profit
E. expected selling price + desired profit

Answer: D

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

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88. A job order production 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.

Answer: A

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

89. Large aircraft producers such as the Boeing Company normally use:
A. Job order costing.
B. Process costing.
C. Mixed costing.
D. Full costing.
E. Simple costing.

Answer: A

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

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90. A document in a job order costing 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.

Answer: A

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C2*
*Topic: Job Cost Sheet*

91. 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.

Answer: C

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

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92. The job order cost sheets used by Greene Company revealed the following:

| Job. No. | Bal., May 1 | May Production Costs |
|---|---|---|
| 134 | $1,700 | $0 |
| 135 | 1,200 | 300 |
| 136 | 0 | 900 |

Job No. 135 was completed during May and Jobs No. 134 and 135 were shipped to customers in May. What was the company's cost of goods sold for May and the Work 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.

Answer: A

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

*Feedback:*

*Cost of goods sold:*

| | |
|---|---|
| *Job 134:* | *$1,700* |
| *Job 135: ($1,200 + $300)* | *1,500* |
| | *$3,200* |

*Work in Process inventory:*

| | |
|---|---|
| *Job 136:* | *$ 900* |

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93. Job A3B was ordered by a customer on September 25. During the month of September, Jaycee Corporation requisitioned $2,500 of direct materials and used $4,000 of direct labor. The job was not finished by the end of the month, but needed an additional $3,000 of direct materials and additional direct labor of $6,500 to finish the job in October. The company applies overhead at the end of each month at a rate of 200% of the direct labor cost incurred. What is the balance in the Work in Process account at the end of September relative to Job A3B?

A. $5,500
B. $11,500
C. $6,500
D. $9,500
E. $14,500

Answer: E

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

*Feedback:*
*DM $2,500 + DL $4,000 + OH ($4,000 * 2) = WIP for Job A3B $14,500*
*Work in process contains the sum of the costs on job cost sheets for jobs that are not yet complete.*

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94. Job A3B was ordered by a customer on September 25. During the month of September, Jaycee Corporation requisitioned $2,500 of direct materials and used $4,000 of direct labor. The job was not finished by the end of the month, but needed an additional $3,000 of direct materials and additional direct labor of $6,500 to finish the job in October. The company applies overhead at the end of each month at a rate of 200% of the direct labor cost incurred. What is the total cost of the job when it is completed in October?

A. $16,000
B. $22,500
C. $37,000
D. $26,500
E. $32,000

Answer: C

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

*Feedback:*
*September job costs: RM $2,500 + DL $4,000 + OH ($4,000 * 2) = $14,500*
*October job costs: RM $3,000 + DL $6,500 + OH ($6,500 * 2) = $22,500*
*Total costs: September $14,500 + October $22,500 = $37,000*
*Work in process contains the sum of the costs on job cost sheets for jobs that are not yet complete.*

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95. Job A3B was ordered by a customer on September 25. During the month of September, Jaycee Corporation requisitioned $2,500 of direct materials and used $4,000 of direct labor. The job was not finished by the end of the month, but needed an additional $3,000 of direct materials in October and additional direct labor of $6,500 to finish the job. The company applies overhead at the end of each month at a rate of 200% of the direct labor cost. What is the amount of job costs added to Work in Process Inventory during October?
A. $16,000
B. $22,500
C. $37,000
D. $26,500
E. $32,000

Answer: B

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

*Feedback:*
*October job costs: RM $3,000 + DL $6,500 + OH ($6,500 * 2) = $22,500*
*Work in process contains the sum of the costs on job cost sheets for jobs that are not yet complete.*

96. A job cost sheet includes:
A. Direct materials, direct labor, operating costs.
B. Direct materials, estimated overhead, administrative costs.
C. Direct labor, actual overhead, selling costs.
D. Direct material, direct labor, applied overhead.
E. Direct materials, direct labor, selling costs.

Answer: D

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

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97. The balance in the Work in Process Inventory at any point in time is equal to:
A. The costs for jobs finished during the period but not yet sold.
B. The cost of jobs ordered but not yet started into production.
C. The sum of the costs for all jobs in process but not yet completed.
D. The costs of all jobs started during the period, completed or not.
E. The sum of the materials, labor and overhead costs paid during the period.

Answer: C

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

98. The Work in Process Inventory account of a manufacturing company that uses an overhead rate based on direct labor cost has a $3,200 debit balance after all posting is completed. The cost sheet of the one job still in process shows direct material cost of $1,400 and direct labor cost of $800. Therefore, the amount of the applied overhead is:
A. $1,800.
B. $2,200
C. $1,000
D. $800
E. $2,400

Answer: C

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback: WIP = DM + DL + OH*
*$3,200 = $1,400 + $800 + OH*
*OH = $3,200 – 1,400 – 800 = $1,000*

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99. The Work 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% of direct labor cost.
B. 50% of direct labor cost.
C. 80% of direct labor cost.
D. 200% of direct labor cost.
E. 300% of direct labor cost.

Answer: D

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback: WIP = DM + DL + OH*
*$4,400 = $2,000 + $800 + OH*
*OH = $1,600; OH rate = $1,600/$800 = 200%*

100. 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.

Answer: A

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

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101. A source document that production managers use to request materials for production 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.

Answer: C

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

102. A company that uses a job order costing system would make the following entry to record the flow of direct materials into production:
A. debit Work in Process Inventory, credit Cost of Goods Sold.
B. debit Work in Process Inventory, credit Raw Materials Inventory.
C. debit Work in Process Inventory, credit Factory Overhead.
D. debit Factory Overhead, credit Raw Materials Inventory.
E. debit Finished Goods Inventory, credit Raw Materials Inventory.

Answer: B

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

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103. The Work in Process Inventory account for DG Manufacturing follows. Compute the cost of jobs completed and transferred to Finished Goods Inventory.

| | Work in Process Inventory | |
|---|---|---|
| Beginning WIP | 4,500 | |
| Direct materials | 47,100 | |
| Direct labor | 29,600 | |
| Applied Overhead | 15,800 | |
| Total Manufacturing Costs | 97,000 | |
| To Finished Goods | | **?** |
| Ending WIP | 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

Answer: C

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*

*Feedback: $4,500 + $47,100 + $29,600 + $15,800 – FG = $8,900; FG = $88,100*

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

**Work in Process Inventory**

| | | |
|---|---|---|
| Beginning WIP | 100,800 | |
| Direct Materials | **?** | |
| Direct Labor | **?** | |
| Applied Overhead | **?** | |
| To Finished Goods | | **?** |
| Ending WIP | 131,040 | |

**Factory Overhead**

| | |
|---|---|
| 100,800 | 90,720 |

**Finished Goods Inventory**

| | | |
|---|---|---|
| Beginning FG | 118,200 | |
| | 324,800 | 301,000 |
| Ending FG | 142,000 | |

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

Answer: B

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*

*Feedback: DL = $90,720/.60 = $151,200*
*Beg Bal + DM + DL + OH – Tran to FG = End Bal*
*$100,800 + DM + $151,200 + $90,720 – $324,800 = $131,040; DM = $113,120*

*Feedback:* ***Work in Process Inventory***

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| | | |
|---|---|---|
| *Beginning WIP* | *100,800* | |
| *Direct Materials* | ***113,120*** | |
| *Direct Labor* | *151,200* | |
| *Applied Overhead* | *90,720* | |
| *To Finished Goods* | | *324,800* |
| *Ending WIP* | *131,040* | |

| ***Factory Overhead*** | |
|---|---|
| *100,800* | *90,720* |

| ***Finished Goods Inventory*** | | |
|---|---|---|
| *Beginning FG* | *118,200* | |
| | *324,800* | *301,000* |
| *Ending FG* | *142,000* | |

105. A company's overhead rate is 200% of direct labor cost. Using the following incomplete accounts, determine the cost of direct materials used.

| **Work in Process Inventory** | | |
|---|---|---|
| Beginning WIP | 50,000 | |
| Direct Materials | **?** | |
| Direct Labor | **?** | |
| Applied Overhead | **?** | |
| To Finished Goods | | **?** |
| Ending WIP | 60,000 | |

| **Factory Overhead** | |
|---|---|
| 138,000 | 140,000 |

| **Finished Goods Inventory** | | |
|---|---|---|
| Beginning FG | 40,000 | |
| | 265,000 | 270,000 |
| Ending FG | 35,000 | |

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A. $130,000.
B. $ 65,000.
C. $270,000.
D. $265,000.
E. $280,000.

Answer: B

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*

*Feedback: DL = $140,000/2 = $70,000*
*Beg Bal + DM + DL + OH – Tran to FG = End Bal*
*$50,000 + DM + $70,000 + $140,000 – $265,000 = $60,000; DM = $65,000*

*Feedback:*

***Work in Process Inventory***

| | | |
|---|---|---|
| *Beginning WIP* | *50,000* | |
| *Direct Materials* | ***65,000*** | |
| *Direct Labor* | *70,000* | |
| *Applied Overhead* | *140,000* | |
| *To Finished Goods* | | *265,000* |
| *Ending WIP* | *60,000* | |

***Factory Overhead***

| | |
|---|---|
| *138,000* | *140,000* |

***Finished Goods Inventory***

| | | |
|---|---|---|
| *Beginning FG* | *40,000* | |
| | *265,000* | *270,000* |
| *Ending FG* | *35,000* | |

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106. 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.

Answer: D

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

107. When factory wages payable costs for labor are allocated in a job cost accounting system:
A. Factory Wages Payable is debited and Work in Process Inventory is credited.
B. Work in Process Inventory and Factory Overhead are debited and Factory Wages Payable is credited.
C. Cost of Goods Manufactured is debited and Direct Labor is credited.
D. Direct Labor and Indirect Labor are debited and Factory Wages Payable is credited.
E. Work in Process Inventory is debited and Factory Overhead is credited.

Answer: B

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

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108. Oxford Company uses a job order costing system. In the last month, the system accumulated labor time tickets total $24,600 for direct labor and $4,300 for indirect labor. How are these costs recorded?
A. Debit Payroll Expense $28,900; credit Cash $28,900.
B. Debit Payroll Expense $24,600; debit Factory Overhead $4,300; credit Factory Wages Payable $28,900.
C. Debit Work in Process Inventory $24,600; Debit Factory Overhead $4,300; Credit Factory Wages Payable $28,900.
D. Debit Work in Process Inventory $24,600; credit Factory Wages Payable $28,900.
E. Debit Work in Process Inventory $28,900; credit Factory Wages Payable $28,900.

Answer: C

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

109. Labor costs in production can be:
A. Direct or indirect.
B. Indirect or sunk.
C. Direct or payroll.
D. Indirect or payroll.
E. Direct or sunk.

Answer: A

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

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110. An example of direct labor cost is:
A. Supervisor salary
B. Maintenance worker wages
C. Janitor wages
D. Product assembler wages
E. Accountant salary

Answer: D

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

111. 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.

Answer: C

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback: $20,000 * 1.25 = $25,000*

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112. The rate established prior to the beginning of a period that uses estimated overhead and an allocation factor such as estimated direct labor, and that is used to assign overhead cost to jobs, is the:
A. Predetermined overhead rate.
B. Overhead variance rate.
C. Estimated labor cost rate.
D. Chargeable overhead rate.
E. Miscellaneous overhead rate.

Answer: A

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

113. Kayak Company uses a job order costing system and allocates its overhead on the *basis of direct labor costs.* Kayak Company's production 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%.

Answer: C

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback: OH rate = OH applied/Direct Labor Costs = $6,000/$30,000 = 20%*

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114. Lowden Company has an overhead application rate of 160% and allocates overhead based on *direct material cost*. During the current period, direct labor cost is $50,000 and direct materials used cost $80,000. Determine the amount of overhead Lowden Company should record in the current period.
A. $ 31,250
B. $ 50,000
C. $ 80,000.
D. $ 128,000.
E. $ 208,000.

Answer: D

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback: $80,000 direct materials * 1.60 = $128,000*

115. 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. Work in Process Inventory.

Answer: E

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

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116. CWN Company uses a job order costing system and last period incurred $80,000 of actual overhead and $100,000 of direct labor. CWN estimates that its overhead next period will be $75,000. It also expects to incur $100,000 of direct labor. If CWN bases applied overhead on direct labor cost, its predetermined overhead rate for the next period should be:
A. 75%.
B. 80%.
C. 107%.
D. 125%.
E. 133%.

Answer: A

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback: OH rate = $75,000/$100,000 = 75%*

117. Cosi Company uses a job order costing system and allocates its overhead on the *basis of direct labor costs.* Cosi 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 Cosi Company's overhead application rate?
A. 6.25%.
B. 62.5%.
C. 160%.
D. 1600%.
E. 67%.

Answer: C

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback: Total DL Cost = 50,000 hours * $10/hr = $500,000*
*OH rate = $800,000/$500,000 = 160%*

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118. The B&T Company's production costs for May are: direct labor, $13,000; indirect labor, $6,500; direct materials, $15,000; property taxes on production facility, $800; factory heat, lights and power, $1,000; and insurance on plant and equipment, $200. B&T Company's factory overhead incurred for May is:

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

Answer: C

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback:*

| | |
|---|---|
| *Indirect labor* | *$ 6,500* |
| *Property Taxes* | *800* |
| *Heat, light and power* | *1,000* |
| *Insurance* | *200* |
| *Total OH* | *$ 8,500* |

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119. Mesa Corp. allocates overhead to production on the basis of direct labor costs. Mesa's total estimated overhead is $450,000 and estimated direct labor is $180,000. Determine the amount of overhead applied to a job which used $20,000 of direct labor.
A. $ 8,000.
B. $20,000.
C. $70,000.
D. $50,000.
E. $90,000.

Answer: D

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback: OH rate = $450,000/$180,000 = 250%*
*OH allocated = 250% * $20,000 = $50,000*

120. Dallas Company uses a job order costing 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 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.

Answer: B

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback: OH rate = $1,500,000/200,000 hours = $7.50/hour*

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

| Work in Process Inventory | | |
|---|---|---|
| Beginning WIP | 17,600 | |
| Direct Materials | 52,800 | |
| Direct Labor | **?** | |
| Applied Overhead | **?** | |
| To Finished Goods | | **?** |
| Ending WIP | 36,080 | |

| Finished Goods Inventory | | |
|---|---|---|
| Beginning FG | 5,200 | |
| | 201,520 | |
| Ending FG | | |

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

Answer: A

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback: $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*

*Feedback:*

| ***Work in Process Inventory*** | | |
|---|---|---|
| *Beginning WIP* | *17,600* | |
| *Direct Materials* | *52,800* | |
| *Direct Labor* | *88,000* | |
| *Applied Overhead* | ***79,200*** | |

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| | | |
|---|---|---|
| *To Finished Goods* | | *201,520* |
| *Ending WIP* | *36,080* | |

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122. If one unit of Product Z2 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.

Answer: D

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback:*

| | | | |
|---|---|---|---|
| *Cost:* | | | |
| *DM* | *$2.50* | *Selling Price* | *$8.00* |
| *DL* | *3.00* | *Cost* | *6.40* |
| *OH ($3 * 30%)* | *0.90* | *Gross Profit* | *$1.60* |
| *Total Cost* | *$6.40* | | |

123. 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.

Answer: B

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback: DM + DL + OH = Total cost*
*DM +($3,000/.75)+ $3,000 = $9,000*
*DM + $4,000 + $3,000 = $9,000; DM = $2,000*

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124. At the current year-end, Simply Company found that its overhead was underapplied by $2,500, and this amount was not considered material. Based on this information, Simply 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.

Answer: A

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

125. If overhead applied is less than actual overhead incurred, it is:
A. Fully applied.
B. Underapplied.
C. Overapplied.
D. Expected.
E. Normal.

Answer: B

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic: Underapplied or Overapplied Overhead*

126. 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.

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Answer: E

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic: Underapplied or Overapplied Overhead*

127. 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.

Answer: D

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic: Underapplied or Overapplied Overhead*

128. If a company applies overhead to production with a predetermined overhead 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 incurred was less than the overhead amount applied to production.
D. The overhead was underapplied for the period.
E. Actual overhead was greater than the overhead amount applied to production.

Answer: C

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

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129. Marshall Enterprises 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, Marshall Enterprise's Factory Overhead account has a credit balance of $5,000, which is not a material amount. What entry should Marshall make at year-end?

A. No entry is needed.
B. Debit Factory Overhead $5,000; credit Cost of Goods Sold $5,000.
C. Debit Cost of Goods Sold $5,000; credit Factory Overhead $5,000.
D. Debit Factory Overhead $5,000; credit Work in Process Inventory $5,000.
E. Debit Factory Overhead $5,000; credit Finished Goods Inventory $5,000.

Answer: B

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

130. Morris Company applies overhead based on direct labor costs. For the current year, Morris Company estimated total overhead costs to be $400,000, and direct labor costs to be $2,000,000. Actual overhead costs for the year totaled $380,000, and actual direct labor costs totaled $1,800,000. At year-end, the balance in the Factory Overhead account is a:

A. $380,000 Debit balance.
B. $360,000 Debit balance.
C. $20,000 Debit balance.
D. $400,000 Credit balance.
E. $20,000 Credit balance.

Answer: C

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

*Feedback: Predetermined overhead rate = $400,000 estimated overhead cost / $2,000,000 estimated direct labor cost = 20%*
*Overhead incurred, $380,000 – Overhead applied, $360,000*

| ***Factory Overhead*** | |
|---|---|
| *380,000* | *360,000* |
| *20,000* | |

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131. Morris Company applies overhead based on direct labor costs. For the current year, Morris Company estimated total overhead costs to be $400,000, and direct labor costs to be $2,000,000. Actual overhead costs for the year totaled $380,000, and actual direct labor costs totaled $1,800,000. At year-end, Factory Overhead is:
A. Overapplied by $20,000.
B. Overapplied by $190,000.
C. Underapplied by $20,000.
D. Overapplied by $40,000.
E. Neither overapplied nor underapplied.

Answer: C

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

*Feedback: Predetermined overhead rate = $400,000 estimated overhead cost / $2,000,000 estimated direct labor cost = 20%*
*Overhead applied = actual direct labor cost $1,800,000 x 20% = $360,000*
*Overhead incurred, $380,000 – Overhead applied, $360,000*

| ***Factory Overhead*** | |
|---|---|
| *380,000* | *360,000* |
| *20,000* | |

132. Mango Company applies overhead based on direct labor costs. For the current year, Mango Company estimated total overhead costs to be $300,000, and direct labor costs to be $150,000. Actual overhead costs for the year totaled $330,000, and actual direct labor costs totaled $170,000. At year-end, the balance in the Factory Overhead account is a:
A. $330,000 Debit balance.
B. $170,000 Debit balance.
C. $10,000 Credit balance.
D. $340,000 Credit balance.
E. $10,000 Debit balance.

Answer: C

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

*Feedback: Predetermined overhead rate = $300,000 estimated overhead cost / $150,000 estimated direct labor cost = 200%*
*Applied overhead = $170,000 actual direct labor cost x 200% = $340,000.*
*Overhead incurred, $330,000 – Overhead applied, $340,000*

| ***Factory Overhead*** | |
|---|---|
| *330,000* | *340,000* |
| | |

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| | |
|---|---|
| | *10.000* |

133. Mango Company applies overhead based on direct labor costs. For the current year, Mango Company estimated total overhead costs to be $300,000, and direct labor costs to be $150,000. Actual overhead costs for the year totaled $330,000, and actual direct labor costs totaled $170,000. At year-end, Factory Overhead account is:
A. Overapplied by $10,000.
B. Overapplied by $170,000.
C. Underapplied by $10,000.
D. Overapplied by $20,000.
E. Neither overapplied nor underapplied.

Answer: A

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

*Feedback: Predetermined overhead rate = $300,000 estimated overhead cost / $150,000 estimated direct labor cost = 200%*
*Applied overhead = $170,000 actual direct labor cost x 200% = $340,000.*
*Overhead incurred, $330,000 – Overhead applied, $340,000*

| ***Factory Overhead*** | |
|---|---|
| *330,000* | *340,000* |
| | *10.000* |

134. Clemmens Company applies overhead based on direct labor cost. 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 Work in Process Inventory for $600.
E. A credit to Cost of Goods Sold for $600.

Answer: E

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P4*

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*Topic: Underapplied or Overapplied Overhead*

*Feedback: OH = $112,500/$125,000 = 90% of DLC*

| | |
|---|---|
| *Actual Overhead* | *$107,400* |
| *Overhead applied (90% * $120,000)* | *108,000* |
| *Overapplied overhead* | *$ 600* |

135. If overapplied or underapplied overhead is material, it should be disposed of by allocating it to:
A. Cost of goods sold and finished goods inventory.
B. Finished goods inventory and work in process inventory.
C. Work in process inventory, finished goods inventory, and cost of goods sold.
D. Work in process inventory.
E. Raw materials inventory, work in process inventory, and finished goods inventory.

Answer: C

*Blooms: Understand*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

136. The Marina 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. Debit Cost of Goods Sold $5,600; credit Factory Overhead $5,600.
B. Debit Factory Overhead $5,600; credit Cost of Goods Sold $5,600.
C. Debit Factory Overhead $5,600; credit Work in Process Inventory $5,600.
D. Debit Work in Process Inventory $5,600; credit Factory Overhead $5,600.
E. No entry is needed.

Answer: B

*Blooms: Apply*

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*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

137. Andrew Industries purchased $165,000 of raw materials on account during the month of March. The beginning Raw Materials Inventory balance was $22,000, and the materials used to complete jobs during the month were $141,000 of direct materials and $13,000 of indirect materials. What is the ending Raw Materials Inventory balance for March?

A. $46,000
B. $11,000
C. $33,000
D. $24,000
E. $9,000

Answer: C

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

*Feedback: Beginning RM $22,000 + RM Purchased $165,000 – Direct RM used $141,000 – Indirect RM used $13,000 = $33,000 Ending RM Balance*

*Feedback:*

| | ***Raw Materials Inventory*** | |
|---|---|---|
| *Beginning RM* | *22,000* | |
| *Purchases* | *165,000* | |
| *Direct Materials Used* | | *141,000* |
| *Indirect Materials Used* | | *13,000* |
| *Ending RM* | *33,000* | |

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138. Andrew Industries purchased $165,000 of raw materials on account during the month of March. The beginning Raw Materials Inventory balance was $22,000, and the materials used to complete jobs during the month were $141,000 direct materials and $13,000 indirect materials. How should Andrews journalize the purchase of raw materials for March?
A. Debit Raw Materials Inventory $165,000; credit Accounts Payable $165,000
B. Debit Work in Process Inventory $165,000; credit Raw Materials Inventory $165,000
C. Debit Raw Materials Inventory $187,000; credit Cash $187,000
D. Debit Accounts Payable $165,000; credit Raw Materials Inventory $165,000
E. Debit Accounts Payable $187,000; credit Raw Materials Inventory $187,000

Answer: A

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

139. .Andrew Industries purchased $165,000 of raw materials on account during the month of March. The beginning Raw Materials Inventory balance was $22,000, and the materials used to complete jobs during the month were $141,000 of direct materials and $13,000 of indirect materials. What amount will Andrew debit to Work in Process Inventory for the month of March?
A. $165,000
B. $154,000
C. $13,000
D. $141,000
E. $33,000

Answer: D

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

*Feedback: Only direct materials used of $141,000 should be transferred to Work in Process Inventory for March*

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140. .Andrew Industries purchased $165,000 of raw materials on account during the month of March. The beginning Raw Materials Inventory balance was $22,000, and the materials used to complete jobs during the month were $141,000 of direct materials and $13,000 of indirect materials. What journal entry should Andrew use to account for direct materials used in March:

A. Debit Raw Materials Inventory $141,000; credit Accounts Payable $141,000.
B. Debit Work in Process Inventory $141,000; credit Raw Materials Inventory $141,000.
C. Debit Work in Process Inventory $141,000; credit Accounts Payable $141,000.
D. Debit Finished Goods Inventory $22,000; credit Raw Materials Inventory $22,000.
E. Debit Raw Materials Inventory $153,000; credit Work in Process Inventory $153,000.

Answer: B

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

141. Juarez Builders incurred $285,000 of labor costs for construction jobs completed during the month of August, of which $212,000 was direct and $73,000 was indirect supervisory costs. The correct journal entry to record the direct labor for the month is:

A. Debit Payroll Expense $212,000; credit Cash $212,000.
B. Debit Factory Wages Payable $285,000; credit Work in Process Inventory $212,000.
C. Debit Work in Process Inventory $212,000; credit Cash $285,000.
D. Debit Work in Process Inventory $285,000; credit Factory Wages Payable $285,000.
E. Debit Work in Process Inventory $212,000; credit Factory Wages Payable $212,000

Answer: E

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

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142. Juarez Builders incurred $285,000 of labor costs for construction jobs completed during the month of August, of which $212,000 was direct and $73,000 was indirect supervisory costs. The correct journal entry to record the $73,000 indirect labor for the month is:
A. Debit Supervisor Wage Expense; credit Factory Wages Payable.
B. Debit Factory Overhead; credit Factory Wages Payable.
C. Debit Supervisor Wage Expense; credit Factory Overhead.
D. Debit Factory Wages Payable; credit Factory Overhead.
E. Debit Factory Wage Expense; credit Cash.

Answer: B

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P4*
*Topic: Overhead Cost Flows and Documents*

143. Minstrel Manufacturing uses a job order costing system. During one month, Minstrel purchased $198,000 of raw materials on credit; issued materials to production of $195,000 of which $30,000 were indirect. Minstrel incurred a factory payroll of $150,000, of which $40,000 was indirect labor. Minstrel uses a predetermined overhead rate of 150% of direct labor cost. The journal entry to record the purchase of materials is:
A. Debit Raw Materials Inventory $198,000; credit Accounts Payable $198,000.
B. Debit Work in Process Inventory $198,000; credit Accounts Payable $198,000.
C. Debit Raw Materials Inventory $198,000; credit Work in Process Inventory $198,000.
D. Debit Work in Process Inventory $195,000; credit Raw Materials Inventory $195,000.
E. Debit Raw Materials Inventory $198,000; credit Finished Goods Inventory $198,000.

Answer: A

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

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144. Minstrel Manufacturing uses a job order costing system. During one month, Minstrel purchased $198,000 of raw materials on credit; issued materials to production of $195,000 of which $30,000 were indirect. Minstrel incurred a factory payroll of $150,000, of which $40,000 was indirect labor. Minstrel uses a predetermined overhead rate of 150% of direct labor cost. The journal entry to record the issuance of materials to production is:
A. Debit Raw Materials Inventory $195,000; credit Accounts Payable $195,000.
B. Debit Work in Process Inventory $195,000; credit Raw Materials Inventory $195,000.
C. Debit Raw Materials Inventory $195,000; credit Work in Process Inventory $195,000.
D. Debit Work in Process Inventory $165,000; debit Factory Overhead $30,000; credit Raw Materials Inventory $195,000.
E. Debit Finished Goods Inventory $195,000; credit Raw Materials Inventory $195,000.

Answer: D

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

145. Minstrel Manufacturing uses a job order costing system. During one month, Minstrel purchased $198,000 of raw materials on credit; issued materials to production of $195,000 of which $30,000 were indirect. Minstrel incurred a factory payroll of $150,000, of which $40,000 was indirect labor. Minstrel uses a predetermined overhead rate of 150% of direct labor cost. The journal entry to record the factory payroll is:
A. Debit Work in Process Inventory $150,000; debit Factory Overhead $40,000; credit Factory Wages Payable $190,000.
B. Debit Work in Process Inventory $150,000; credit Cash $150,000.
C. Debit Work in Process Inventory $110,000; debit Factory Overhead $40,000; credit Factory Wages Payable $150,000.
D. Debit Work in Process Inventory $150,000; credit Factory Overhead $40,000; credit Factory Wages Payable $110,000.
E. Debit Work in Process Inventory $110,000; credit Factory Overhead $40,000; credit Factory Wages Payable $150,000.

Answer: C

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

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146. Minstrel Manufacturing uses a job order costing system. During one month, Minstrel purchased $198,000 of raw materials on credit; issued materials to production of $195,000 of which $30,000 were indirect. Minstrel incurred a factory payroll of $150,000, of which $40,000 was indirect labor. Minstrel uses a predetermined overhead rate of 150% of direct labor cost. The journal entry to record the payment of the factory payroll is:
A. Debit Work in Process Inventory $150,000; credit Factory Wages Payable $150,000.
B. Debit Work in Process Inventory $150,000; credit Cash $150,000.
C. Debit Factory Wages Payable $150,000; credit Cash $150,000.
D. Debit Factory Overhead $40,000; credit Factory Wages Payable $40,000.
E. Debit Work in Process Inventory $110,000; credit Cash $150,000.

Answer: C

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

147. Minstrel Manufacturing uses a job order costing system. During one month Minstrel purchased $198,000 of raw materials on credit; issued materials to production of $195,000 of which $30,000 were indirect. Minstrel incurred a factory payroll of $150,000, of which $40,000 was indirect labor. Minstrel uses a predetermined overhead rate of 150% of direct labor cost. The journal entry to record the application of factory overhead to production is:
A. Debit Work in Process Inventory $225,000; credit Factory Overhead $225,000.
B. Debit Work in Process Inventory $165,000; credit Factory Overhead $165,000.
C. Debit Factory Payroll $150,000; credit Work in Process Inventory $150,000.
D. Debit Factory Overhead $165,000; credit Work in Process Inventory $165,000.
E. Debit Work in Process Inventory $165,000; credit Factory Payroll $165,000.

Answer: B

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*
*Feedback: $110,000 * 1.5 = $165,000*

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148. Minstrel Manufacturing uses a job order costing system. During one month, Minstrel purchased $198,000 of raw materials on credit; issued materials to production of $195,000 of which $30,000 were indirect. Minstrel incurred a factory payroll of $150,000, of which $40,000 was indirect labor. Minstrel uses a predetermined overhead rate of 150% of direct labor cost. The total manufacturing costs added during the period are:
A. $440,000.
B. $470,000.
C. $500,000.
D. $570,000.
E. $540,000.

Answer: A

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: P1*
*Learning Objective: P2*
*Learning Objective: 02-P3*
*Topic: Materials Cost Flows and Documents*

*Feedback: $165,000 + $110,000 + ($110,000 * 1.5) = $440,000*

149. Minstrel Manufacturing uses a job order costing system. During one month, Minstrel purchased $198,000 of raw materials on credit; issued materials to production of $195,000 of which $30,000 were indirect. Minstrel incurred a factory payroll of $150,000, of which $40,000 was indirect labor. Minstrel uses a predetermined overhead application rate of 150% of direct labor cost. If Minstrel incurred total overhead costs of $167,800 during the month, compute the amount of under- or overapplied overhead:
A. $2,800 overapplied.
B. $17,800 underapplied.
C. $2,800 underapplied.
D. $17,800 overapplied.
E. $57,200 overapplied.

Answer: C

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

*Feedback: $167,800 – ($110,000 * 1.5) = $2,800*

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150. Minstrel Manufacturing uses a job order costing system. During one month, Minstrel purchased $198,000 of raw materials on credit; issued materials to production of $195,000 of which $30,000 were indirect. Minstrel incurred a factory payroll of $150,000, of which $40,000 was indirect labor. Minstrel uses a predetermined overhead application rate of 150% of direct labor cost. Minstrel's beginning and ending Work in Process Inventory are $15,500 and $27,000 respectively. Compute the cost of product transferred to Finished Goods Inventory:
A. $558,500.
B. $440,000.
C. $413,000.
D. $428,500.
E. $415,000.

Answer: D

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback*: *$165,000 + $110,000 + ($110,000 * 1.5) + 15,500 – $27,000 = $428,500*

151. Finished goods inventory is $190,000. If overhead applied to these goods is $72,000, and the overhead rate is 120% of direct labor, how much direct materials cost was incurred in producing the inventory?
A. $31,600.
B. $58,000.
C. $56,000.
D. $60,000.
E. $86,400.

Answer: B

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback: DM + DL + OH = Total cost*
*DM +($72,000/1.20)+ $72,000 = $190,000*
*DM + $60,000 + $72,000 = $190,000; DM = $58,000*

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152. Adams Manufacturing allocates overhead to production on the basis of direct labor costs. At the beginning of the year, Adams estimated total overhead of $396,000; materials of $410,000 and direct labor of $220,000. During the year Adams incurred $418,000 in materials costs, $413,200 in overhead costs and $224,000 in direct labor costs. Compute the overhead application rate.
A. 180%.
B. 55.6%.
C. 186%.
D. 184%.
E. 96.6%.

Answer: A

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback: OH rate = $396,000/$220,000 = 180%*

153. Adams Manufacturing allocates overhead to production on the basis of direct labor costs. At the beginning of the year, Adams estimated total overhead of $396,000; materials of $410,000 and direct labor of $220,000. During the year Adams incurred $418,000 in materials costs, $413,200 in overhead costs and $224,000 in direct labor costs. Compute the amount of overhead applied to jobs during the year.
A. $396,000.
B. $424,450.
C. $413,190.
D. $413,200.
E. $403,200.

Answer: E

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback: OH rate = $396,000/$220,000 = 180%; Applied = $224,000 * 1.8 = $403,200*

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154. Adams Manufacturing allocates overhead to production on the basis of direct labor costs. At the beginning of the year, Adams estimated total overhead of $396,000; materials of $410,000 and direct labor of $220,000. During the year Adams incurred $418,000 in materials costs, $413,200 in overhead costs and $224,000 in direct labor costs. Compute the amount of under- or overapplied overhead for the year.

A. $10,000 overapplied.
B. $17,200 overapplied.
C. $10,000 underapplied.
D. $17,200 underapplied.
E. $4,800 underapplied.

Answer: C

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

*Feedback: OH rate = $396,000/$220,000 = 180%*
*Applied = $224,000 * 1.8 = $403,200; $413,200 – $403,200 = $10,000 underapplied*

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155. Using the following accounts and an overhead rate of 130% of direct labor cost, compute the amount of applied overhead.

| | Work in Process Inventory | |
|---|---|---|
| Beginning WIP | 35,200 | |
| Direct materials | 55,300 | |
| Direct labor | **?** | |
| Factory Overhead | **?** | |
| To Finished Goods | | 203,300 |
| Ending WIP | 25,200 | |

| | Finished Goods Inventory | |
|---|---|---|
| Beginning FG | 5,200 | |
| Cost of Goods Mfg'd | 203,300 | |

A. $ 78,000.
B. $ 60,000.
C. $138,000.
D. $ 71,890.
E. $ 90,500.

Answer: A

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback: $35,200 + 55,300 + DL + OH – 203,300 = $25,200*
*DL + OH = $25,200 – 35,200 – 55,300 + 203,300*
*DL + OH = $138,000; DL + 1.3DL = $138,000; 2.3DL = $138,000; DL = $60,000*
*$60,000 + OH = $138,000; OH = $78,000*

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156. Portside Watercraft uses a job order costing system. During one month Portside purchased $173,000 of raw materials on credit; issued materials to production of $164,000 of which $24,000 were indirect. Portside incurred a factory payroll of $95,000, of which $25,000 was indirect labor. Portside uses a predetermined overhead rate of 170% of direct labor cost. The journal entry to record the issuance of materials to production is:
A. Debit Raw Materials Inventory $153,000; credit Accounts Payable $153,000.
B. Debit Work in Process Inventory $140,000; debit Factory Overhead $24,000; credit Raw Materials Inventory $164,000.
C. Debit Raw Materials Inventory $195,000; credit Work in Process Inventory $195,000.
D. Debit Work in Process Inventory $140,000; debit Raw Materials Inventory $24,000; credit Materials Inventory $164,000.
E. Debit Finished Goods Inventory $140,000; credit Raw Materials Inventory $140,000.

Answer: B
*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

157. Portside Watercraft uses a job order costing system. During one month Portside purchased $173,000 of raw materials on credit; issued materials to production of $164,000 of which $24,000 were indirect. Portside incurred a factory payroll of $95,000, of which $25,000 was indirect labor. Portside uses a predetermined overhead rate of 170% of direct labor cost. The journal entry to record the allocation of factory wages to production is:
A. Debit Work in Process Inventory $95,000; credit Factory Wages Payable $95,000.
B. Debit Work in Process Inventory $95,000; credit Cash $95,000.
C. Debit Factory Wages Payable $95,000; credit Cash $95,000.
D. Debit Work in Process Inventory $70,000; debit Factory Overhead $25,000; credit Factory Wages Payable $95,000.
E. Debit Work in Process Inventory $70,000; debit Factory Overhead $25,000; credit Cash $95,000.

Answer: D

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

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158. Portside Watercraft uses a job order costing system. During one month Portside purchased $153,000 of raw materials on credit; issued materials to production of $164,000 of which $24,000 were indirect. Portside incurred a factory payroll of $95,000, of which $25,000 was indirect labor. Portside uses a predetermined overhead rate of 170% of direct labor cost. The journal entry to record the application of factory overhead to production is:
A. Debit Work in Process Inventory $55,800; credit Factory Overhead $55,800.
B. Debit Work in Process Inventory $161,500; credit Factory Overhead $161,500.
C. Debit Work in Process Inventory $119,000; credit Factory Overhead $119,000.
D. Debit Factory Overhead $119,000; credit Work in Process Inventory $119,000.
E. Debit Work in Process Inventory $95,000; credit Factory Payroll $95,000.

Answer: C

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

*Feedback: $70,000 * 1.7 = $119,000*

159. Copy Center pays an average wage of $12 per hour to employees for printing and copying jobs, and allocates $18 of overhead for each employee hour worked. Materials are assigned to each job according to actual cost. If Job M-47 used $350 of materials and took 20 hours of labor to complete, what is the total cost that should be assigned to the job?
A. $590
B. $600
C. $380
D. $950
E. $710

Answer: D

*Feedback: Direct materials $350 + Direct labor ($12 * 20) + Factory overhead ($18 * 20) = $350 + $240 + $360 = $950*

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-A1*
*Topic: Pricing for Services*

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160. Copy Center pays an average wage of $12 per hour to employees for printing and copying jobs, and allocates $18 of overhead for each employee hour worked. Materials are assigned to each job according to actual cost. Jobs are marked up 20% above cost to determine the selling price. If Job M-47 used $350 of materials and took 20 hours of labor to complete, what is the selling price of the job?

A. $852
B. $1,140
C. $456
D. $720
E. $708

Answer: B

*Feedback: Direct materials $350 + Direct labor ($12 * 20) + Factory overhead ($18 * 20) = $350 + $240 + $360 = $950 Total cost*
*$950 * 120% = $1,140*

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-A1*
*Topic: Pricing for services*

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## *Matching Questions*

161. Match the following terms to the appropriate definition.
A. Cost accounting system
B. Time ticket
C. Finished Goods Inventory
D. Materials requisition
E. Underapplied overhead
F. Work in Process Inventory
G. Overapplied overhead
H. Job cost sheet
I. Job order costing system
J. Predetermined overhead rate
K. Materials ledger card

_____ 1. The production of products in response to special orders; also called customized production.
_____ 2. Records manufacturing activities using a perpetual inventory system.
_____ 3. The amount by which the overhead applied to jobs in a period with the predetermined overhead rate exceeds the actual overhead incurred in a period.
_____ 4. An asset account where costs are accumulated while jobs are being produced.
_____ 5. 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. An asset account where costs of completed jobs reside until the jobs are delivered to customers.
_____ 7. A source document that production managers use to request materials needed for manufacturing and that is used to assign materials costs to specific jobs or to overhead.
_____ 8. A perpetual record that is updated each time units of raw material are purchased and issued for use in production.
_____ 9. A source document that is used to report how much time an employee spent working on a job or on overhead activities and the labor costs to assign to jobs or overhead.
_____10. The amount by which actual overhead incurred in a period exceeds the overhead applied to jobs with the predetermined overhead rate.
_____11. A separate record maintained for each job in a job order costing system; it shows the costs of direct materials, direct labor, and overhead for each job.

Answer:
1. I; 2. A; 3. G; 4. F; 5. J; 6. C; 7. D; 8. K; 9. B; 10. E; 11. H

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*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1Easy*
*Learning Objective: 02-C1*
*Learning Objective: 02-C2*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P4*
*Topic: Job Order Costing*
*Topic: Job Cost Sheet*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Underapplied or Overapplied Overhead*

## *Short Answer Questions*

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

Answer: A cost accounting system is an accounting system that uses a perpetual inventory system to continuously update records for costs of materials, work 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 costing.

*Blooms: Understand*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

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

Answer: 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.

*Blooms: Understand*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

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

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Answer: Since most jobs in a service firm such as an advertising agency have 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.

*Blooms: Understand*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Decision Making*
*Difficulty: 2 Medium*
*Learning Objective: 02-A1*
*Topic: Pricing for Services*

165. Describe how materials flow through a job order costing system, and identify the key documents in the system.

Answer: 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.

*Blooms: Understand*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

166. Describe the flow of the raw materials, both direct and indirect, through the inventory accounts from purchase to use.

Answer: When raw materials are purchased, the cost is debited to Raw Materials Inventory. When materials are requisitioned for use, the direct materials are moved from Raw Materials Inventory to Work in Process Inventory and the indirect materials are moved from Raw Materials Inventory to the Factory Overhead account.

*Blooms: Understand*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

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

Answer: Labor costs are classified as either direct or indirect. The flow of direct labor costs in a job order costing system begins by employee tracking their hours worked to specific jobs using *time tickets*. Employees who perform work classified as indirect labor also use time tickets, but their work is not assigned to individual jobs, but to overhead.

*Blooms: Understand*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

168. Describe the flow of the employee labor, both direct and indirect, through the inventory accounts.

Answer: Direct labor is assigned to jobs using time tickets and is recorded in Work in Process Inventory as it is incurred. The indirect labor that comes from time tickets or salary contracts is recorded in the Factory Overhead account.

*Blooms: Understand*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P2*
*Learning Objective 19-P3*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*

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

Answer: A predetermined overhead rate is used to apply factory overhead costs to jobs produced during the period. It is calculated by dividing estimated overhead costs for a period by 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.

*Blooms: Understand*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

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170. Explain why the Factory Overhead account for a company may have a difference between the amount debited and the amount credited, resulting in an end of period balance prior to adjustment.

Answer: If a company incurs more actual overhead than it applies to jobs during the period, the Factory Overhead will have an ending debit balance. If a company applies move overhead to jobs than it actually incurs, Factory Overhead will have an ending credit balance.

*Blooms: Understand*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

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

Answer: If overapplied or underapplied overhead is immaterial, the amount of under- or overapplied overhead is closed entirely to Cost of Goods Sold. If the amount is material, it is allocated between Cost of Goods Sold, Finished Goods Inventory, and Work in Process Inventory.

*Blooms: Understand*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

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## *Problems*

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

| Number | Total Cost Incurred | Status of Job |
|---|---|---|
| 544 | $15,050 | Finished and delivered |
| 545 | $22,400 | Finished and delivered |
| 546 | $ 7,500 | Finished and unsold |
| 547 | $ 4,300 | Finished and delivered |
| 548 | $33,000 | Unfinished |
| 549 | $62,000 | Finished and unsold |
| 550 | $14,600 | Unfinished |
| 551 | $22,200 | Finished and delivered |
| 552 | $ 3,600 | Finished and unsold |
| 553 | $ 1,000 | Unfinished |

(a) What is the cost of goods sold for the month of April?
(b) What is the cost of the Work in Process inventory on April 30?
(c) What is the cost of the finished goods inventory on April 30?

*Answer:*

*(a) Cost of goods sold for April:*

| *Number* | *Total Cost Incurred* | *Status of Job* |
|---|---|---|
| *544* | *$15,050* | *Finished and delivered* |
| *545* | *$22,400* | *Finished and delivered* |
| *547* | *$ 4,300* | *Finished and delivered* |
| *551* | *22,200* | *Finished and delivered* |
| *Total* | *$63,950* | |

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*(b) Cost of the Work in Process inventory on April 30:*

| *Number* | *Total Cost Incurred* | *Status of Job* |
|---|---|---|
| *548* | *33,000* | *Unfinished* |
| *550* | *$14,600* | *Unfinished* |
| *553* | *1,000* | *Unfinished* |
| *Total* | *$48,600* | |

*(c) Cost of the finished goods inventory on April 30:*

| *Number* | *Total Cost Incurred* | *Status of Job* |
|---|---|---|
| *546* | *$ 7,500* | *Finished and unsold* |
| *549* | *62,000* | *Finished and unsold* |
| *552* | *3,600* | *Finished and unsold* |
| *Total* | *$73,100* | |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-C2*
*Topic: Job Cost Sheet*

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

| Number | Total Cost Incurred | Status of Job |
|---|---|---|
| 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 delivered |
| 962 | $ 8,500 | Unfinished |
| 963 | $11,200 | Finished and unsold |

(a) What is the cost of the Work in Process inventory on September 30?
(b) What is the cost of the finished goods inventory on September 30?
(c) What is the cost of goods sold for the month of September?

*Answer:*
*(a) Cost of the Work in Process inventory on September 30:*

| *Number* | *Total Cost Incurred* | *Status of Job* |
|---|---|---|
| *952* | *$ 7,700* | *Unfinished* |
| *957* | *35,000* | *Unfinished* |
| *959* | *500* | *Unfinished* |
| *960* | *22,110* | *Unfinished* |
| *962* | *8,500* | *Unfinished* |
| *Total* | *$73,810* | |

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

| *Number* | *Total Cost Incurred* | *Status of Job* |
|---|---|---|
| *953* | *$ 9,300* | *Finished and unsold* |
| *955* | *3,000* | *Finished and unsold* |
| *963* | *11,200* | *Finished and unsold* |
| *Total* | *$23,500* | |

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*(c) Cost of goods sold for September:*

| *Number* | *Total Cost Incurred* | *Status of Job* |
|---|---|---|
| *951* | *$ 4,200* | *Finished and delivered* |
| *954* | *11,100* | *Finished and delivered* |
| *956* | *5,500* | *Finished and delivered* |
| *958* | *3,200* | *Finished and delivered* |
| *961* | *7,200* | *Finished and delivered* |
| *Total* | *$31,200* | |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-C2*
*Topic: Job Cost Sheet*

174. Chung Corporation uses a job order costing system. Five jobs were worked on during the current year. The predetermined overhead rate is 20% of direct labor costs. The following cost information is available (all materials and time ticket information applies to direct costs):

| Job | Materials Requisitions | Time Tickets |
|---|---|---|
| 101 | $66,000 | $32,000 |
| 102 | $63,000 | $74,000 |
| 103 | $39,000 | $50,000 |
| 104 | $32,000 | $36,000 |
| 105 | $53,000 | $68,000 |

Part 1–Complete the job cost sheets for each job.

| Job No. 101 | Job No. 102 | Job No. 103 |
|---|---|---|
| Materials | Materials | Materials |
| Labor | Labor | Labor |
| Overhead | Overhead | Overhead |
| Total Cost | Total Cost | Total Cost |
| Status *In Process* | Status *Sold* | Status *Finished* |

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| Job No. 104 | | Job No. 105 | |
|---|---|---|---|
| Materials | | Materials | |
| Labor | | Labor | |
| Overhead | | Overhead | |
| Total Cost | | Total Cost | |
| Status | *Sold* | Status | *Finished* |

Part 2–Identify the amounts of each of the following accounts at the end of the period

a. Work in Process_____
b. Finished Goods_____
c. Cost of Goods Sold_____

*Answer:*

*Part 1*

| *Job No. 101* | | *Job No. 102* | | *Job No. 103* | |
|---|---|---|---|---|---|
| *Materials* | *$ 66,000* | *Materials* | *$ 63,000* | *Materials* | *$ 39,000* |
| *Labor* | *$ 32,000* | *Labor* | *$ 74,000* | *Labor* | *$ 50,000* |
| *Overhead* | *$ 6,400* | *Overhead* | *$ 14,800* | *Overhead* | *$ 10,000* |
| *Total Cost* | *$104,400* | *Total Cost* | *$151,800* | *Total Cost* | *$ 99,000* |
| *Status* | *In Process* | *Status* | *Sold* | *Status* | *Finished* |

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| Job No. 104 | | Job No. 105 | |
|---|---|---|---|
| Materials | $32,000 | Materials | $53,000 |
| Labor | $36,000 | Labor | $68,000 |
| Overhead | $7,200 | Overhead | $13,600 |
| Total Cost | $75,200 | Total Cost | $134,600 |
| Status | Sold | Status | Finished |

*Part 2*
*a. Work in Process: $104,400 (Job 101)*
*b. Finished Goods: $233,600 (Job 103 & Job 105)*
*c. Cost of Goods Sold: $227,000 (Job 102 & Job 104)*

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-C2*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Topic: Job Cost Sheet*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*

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

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

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*Answer:*

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

** Overhead applied:*
*A: $12.00 * 60% = $7.20; B: $15.00 * 40% = $6.00; C: $10.00 * 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*

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-C2*
*Topic: Job Cost Sheet*

176. Southwick Company uses a job order costing system. On November 1, $15,000 of direct materials and $3,500 of indirect materials were requisitioned for production. Prepare the general journal entries to record this requisition.

*Answer:*

| | | | |
|---|---|---|---|
| *11/1* | *Work in Process Inventory ……* | *15,000* | |
| | *Raw Materials Inventory ……* | | *15,000* |
| | *Factory Overhead ……* | *3,500* | |
| | *Raw Materials Inventory ……* | | *3,500* |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

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177. A company that uses a job order costing 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.

*Answer:*

| | | | |
|---|---|---|---|
| *May 31* | *Work in Process Inventory ……* | *8,000* | |
| | *Factory Wages Payable ……* | | *8,000* |
| | *Factory Overhead ……* | *2,000* | |
| | *Factory Wages Payable ……* | | *2,000* |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

178. 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…… | 16,000 |
| Total direct labor…… | $52,700 |
| Indirect labor……... | 16,800 |
| Total labor cost……... | $69,500 |

Make the necessary journal entries to record factory payroll for direct and indirect labor.

| | | |
|---|---|---|
| *Work in Process ……..* | *52,700* | |
| *Factory Wages Payable ……* | | *52,700* |
| *Factory Overhead ……..* | *16,800* | |
| *Factory Wages Payable ……* | | *16,800* |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2-Medium*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

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179. Chumley Advertising Agency contracted with a company to prepare an ad campaign. Chumley uses a job order costing system. Chumley estimates that the job will take 140 designer hours at $90 per hour and 85 staff hours at $45 per hour. Chumley 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.

*Answer:*

| | | |
|---|---|---|
| *Direct labor:* | | |
| *Designers (140 hours @ $90 per hour)* | *$12,600* | |
| *Staff (85 hours @ $45 per hour)* | *3,825* | |
| *Total direct labor* | | *$16,425* |
| *Overhead:* | | |
| *Designer-related (140 hours @ $100 per hour)* | *$14,000* | |
| *Staff-related (85 hours @ $50 per hour)* | *4,250* | |
| *Total overhead* | | *18,250* |
| *Total estimated cost* | | *$34,675* |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-A1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Topic: Pricing Services in a Job Order Cost System*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*

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180. KL Company uses a job order costing system. During the month of July, 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) Assigned the factory payroll totaling $37,700, which includes $8,200 indirect labor, to jobs and overhead.
Make the necessary journal entries to record the above transactions and events.

*Answer:*

| | | | |
|---|---|---|---|
| *(a)* | *Raw Materials Inventory* | *32,000* | |
| | *Accounts Payable* | | *32,000* |
| *(b)* | *Work in Process Inventory* | *25,800* | |
| | *Raw Materials Inventory* | | *25,800* |
| | *Factory Overhead* | *10,500* | |
| | *Raw Materials Inventory* | | *10,500* |
| *(c)* | *Work in Process Inventory* | *29,500* | |
| | *Factory Wages Payable* | | *29,500* |
| | *Factory Overhead* | *8,200* | |
| | *Factory Wages Payable* | | *8,200* |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*

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181. EXP, 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 factory labor costs of $250,000; allocated the factory labor costs to production (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.

*Answer:*

| | | | |
|---|---|---|---|
| *(a)* | *Raw Materials Inventory* | *140,000* | |
| | *Accounts Payable* | | *140,000* |
| *(b)* | *Work in Process Inventory* | *104,000* | |
| | *Raw Materials Inventory* | | *104,000* |
| | *Factory Overhead* | *26,000* | |
| | *Raw Materials Inventory* | | *26,000* |
| *(c)* | | | |
| | *Work in Process Inventory* | *175,000* | |
| | *Factory Wages Payable* | | *175,000* |
| | *Factory Overhead* | *75,000* | |
| | *Factory Wages Payable* | | *75,000* |
| *(d)* | *Factory Overhead* | *20,000* | |
| | *Accounts Payable* | | *20,000* |
| *(e)* | *Work in Process Inventory* | *140,000* | |
| | *Factory Overhead* | | *140,000* |
| | *($175,000 * 80% = $140,000)* | | |
| *(f)* | *Factory Overhead* | *22,000* | |
| | *Accumulated Depreciation—Factory* | | *22,000* |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*

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182. Lock Production 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 Lock's Work 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.

*Answer:*

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

| | | |
|---|---|---|
| *Total cost of Work in Process inventory ……* | | *$28,000* |
| *Deduct: Direct labor ……..* | *$5,200* | |
| *Factory overhead ($5,200 * 150%) ……* | *7,800* | *13,000* |
| *Direct materials ……..* | | *$15,000* |

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

| | |
|---|---|
| *Total cost of finished goods inventory ……..* | *$34,300* |
| *Direct materials ……..* | *8,100* |
| *Direct labor and factory overhead costs ……* | *$26,200* |

*Direct labor + 1.5 (Direct Labor) =$26,200*
*Direct Labor = $10,480*

*OH = DL * 1.5*
*OH = $10,480 * 1.5*
*OH = $15,720*

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*

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183. Prepare journal entries to record the following transactions and events for April using a job order costing 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, 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.

*Answer:*

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

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*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*

184. A company's ending inventory of finished goods has a cost of $45,000 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?

*Answer:*

| | |
|---|---|
| *Factory overhead in finished goods inventory …….* | *$ 8,400* |
| *Direct labor in finished goods inventory ($8,400/0.60) .....* | *14,000* |
| *Total factory overhead and direct labor ……..* | *22,400* |
| | |
| *Total job cost ……..* | *$45,000* |
| *Factory overhead and direct labor ……..* | *22,400* |
| *Direct materials ……..* | *$22,600* |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*

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185. The production of one unit of Product BJM used $27.50 of direct materials and $21.00 of direct labor. The unit sold for $76.00 and was assigned overhead at a rate of 30% of labor costs. What is the gross profit per unit on its sale?

*Answer:*

| | | |
|---|---|---|
| *Selling price per unit* | | *$76.00* |
| *Direct materials* | *$27.50* | |
| *Direct labor* | *21.00* | |
| *Overhead applied ($21 *.3)* | *6.30* | |
| *Total job cost per unit* | | *54.80* |
| *Gross profit per unit* | | *$21.20* |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*

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186. A company uses a job order costing system and applies overhead on the basis of direct labor cost. A summary of the company's Work in Process Inventory account for December appears below.

| Work in Process | | | | | |
|---|---|---|---|---|---|
| Date | Explanation | PR | Debit | Credit | Balance |
| Dec. 1 | | | | | 73,800 |
| Dec. | Direct Materials | G-20 | 235,800 | | 309,600 |
| Dec. | Direct Labor | G-20 | 117,000 | | 426,600 |
| Dec. | Factory Overhead | G-20 | 187,200 | | 613,800 |
| Dec. | Job No. 5 completed | G-8 | | 90,900 | 522,900 |
| Dec. | Job No. 6 completed | G-10 | | 131,400 | 391,500 |
| Dec. | Job No. 7 completed | G-12 | | 73,800 | 317,700 |
| Dec. 31 | Job No. 8 completed | G-15 | | 168,300 | 149,400 |

Fill in the blanks for the following:

(1) The total cost of the direct materials, direct labor, and factory overhead applied in the December 31 Work 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.

*Answer:*
*(1) $149,400 (ending balance of account)*
*(2) ($187,200/$117,000) * 100% = 160%*
*(3) $26,550 * 160% = $42,480; $131,400 – $26,550 – $42,480 = $62,370*
*(4) $168,300 – $73,998 = $94,302 Direct labor + OH; $94,302/2.60 = $36,270*
*OH = $94,302 – $36,270 = $58,032*

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*

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187. Heintz Company's job order costing 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, $36,000. At year-end, the total cost of Work in Process is $38,000, which includes $12,000 of direct labor cost. What amount of direct material cost is included in the ending Work in Process inventory?

*Answer:*

| | |
|---|---|
| *Direct labor in Work in Process inventory …….* | *$12,000* |
| *Factory overhead in Work in Process inventory ($12,000 * . 25)* | *3,000* |
| *Total factory overhead and direct labor ……..* | *15,000* |
| | |
| *Total cost in Work in Process inventory ……..* | *$38,000* |
| *Factory overhead and direct labor ……..* | *15,000* |
| *Direct materials ……* | *$23,000* |

*Overhead rate = $36,000/$144,000 = .25%*

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*

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188. MOB Corp. maintains an internet-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 | | Work in Process Inventory | |
|---|---|---|---|
| DR | CR | DR | CR |
| Ba1.1/1 10,000 | | Bal 1/1 4,000 | f) |
| a) | b) | c) | |
| | | d) | |
| | | e) | |
| Bal 17,500 | | (Bal 1/31) g) | |

| Accounts Payable | | Finished Goods Inventory | |
|---|---|---|---|
| DR | CR | DR | C |
| 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 | |
|---|---|---|---|
| DR | CR | DR | CR |
| 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 is 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 rate is based on direct labor costs. Budgeted (expected) overhead for the year is $195,000 and budgeted (expected) direct labor is $390,000.

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

*Answer:*

| *Raw Materials Inventory* | | *Work in Process Inventory* | |
|---|---|---|---|
| *DR* | *CR* | *DR* | *CR* |
| *Bal 1/1 10,000* | | *Bal 1/1 4,000* | |
| *a) 49,000* | *b) 41,500* | *c) DM 41,500* | |

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| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | d) DL 32,500 | | | | | | |
| | | | | | e) OH 16,250 | | | | | | f) COGM 90,000 |
| Bal 1/31 17,500 | | | | | g) Bal 1/31 4,250 | | | | | | |

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

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

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Critical Thinking*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*

189. Chen 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 $24,000. Describe (without computations) the alternative procedure that Chen might perform assuming this difference is material.

*Answer:*

| | | | |
|---|---|---|---|
| *(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 Inventory and Work in Process Inventory.*

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

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190. Calwell Corp. uses a job order costing system. Four jobs were started during the current year. The following is a record of the costs incurred:

| Job # | Material Used | Direct Labor Used | Direct Labor Hours Used |
|---|---|---|---|
| 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 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 Calwell's first year of operations:

(a) Make the necessary journal entries to charge the costs to the jobs started and to record the completion and sale of finished jobs.
(b) Calculate the balance in the Work in Process Inventory, Finished Goods Inventory, and Factory Overhead accounts. Does the Factory Overhead account balance indicate an over- or underapplied overhead?

*Answer:*

| *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* | *26,000* | *40,000* | *12,000* | *78,000* |
| *Totals* | *$165,000* | *$219,000* | *$55,200* | *$439,200* |

*Job 1010: 8,000 hours * $2.40/hour = $19,200*
*Job 1011: 7,000 hours * $2.40/hour = $16,800*
*Job 1012: 3,000 hours * $2.40/hour = $7,200*
*Job 1013: 5,000 hours * $2.40/hour = $12,000*

| | | |
|---|---|---|
| *Work in Process Inventory …….* | *165,000* | |
| *Raw Materials Inventory …….* | | *165,000* |

| | | |
|---|---|---|
| *Work in Process Inventory …….* | *219,000* | |
| *Factory Wages Payable ……* | | *219,000* |

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| | | |
|---|---|---|
| *Work in Process Inventory ……..* | *55,200* | |
| *Factory Overhead ……..* | | *55,200* |
| *Finished Goods Inventory ……* | *286,400* | |
| *Work in Process Inventory ……* | | *286,400* |
| *($136,200 + $72,200 + $78,000) = $286,400* | | |
| *Cost of Goods Sold ……* | *214,200* | |
| *Finished Goods Inventory ……* | | *214,200* |
| *($136,200 + $78,000 = $214,200)* | | |
| *Accounts Receivable ……* | *387,000* | |
| *Sales ……* | | *387,000* |

| | | |
|---|---|---|
| *(b)* | *Work in Process Inventory: Job 1011* | *$152,800* |
| | *Finished Goods: Job 1012* | *$72,200* |
| | *Factory Overhead:* | |
| | *Applied* | *$55,200* |
| | *Actual* | *55,800* |
| | | *$ 600 debit balance (underapplied)* |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Learning Objective: 02-P4*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*
*Topic: Underapplied or Overapplied Overhead*

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191. The following information is available for the Annum 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 Work 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 |

Annum Company 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 Work in Process Inventory and Factory Overhead.
(c) Assignment of Factory Payroll to Work in Process Inventory and Factory Overhead.
(d) Recording of other factory overhead. Assume that all items other than depreciation are paid in cash.
(e) Assignment of Factory Overhead to Work in Process Inventory.
(f) Transfer of goods completed to Finished Goods Inventory.
(g) Recording cost of goods sold.
(h) Assignment of over- or underapplied overhead to Cost of Goods Sold.

*Answer:*

| | | | |
|---|---|---|---|
| *a.* | *Raw Materials Inventory …….* | *116,200* | |
| | *Accounts Payable …….* | | *116,200* |
| *b.* | *Work in Process Inventory ……..* | *114,800* | |
| | *Raw Materials Inventory……..* | | *114,800* |
| | *Factory Overhead ……..* | *7,000* | |
| | *Raw Materials Inventory……..* | | *7,000* |
| *c.* | *Work in Process Inventory ……..* | *64,750* | |

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| | | | |
|---|---|---|---|
| | *Factory Wages Payable ……..* | | *64,750* |
| | *Factory Overhead ……* | *8,400* | |
| | *Factory Wages Payable ……..* | | *8,400* |
| *d.* | *Factory Overhead ……* | *75,600* | |
| | *Accumulated Depreciation-Factory Equipment...* | | *25,200* |
| | *Cash ……* | | *50,400* |
| *e.* | *Work in Process Inventory ……..* | *97,125* | |
| | *Factory Overhead (64,750 * 150%) ……* | | *97,125* |
| *f.* | *Finished Goods Inventory ……* | *285,150* | |
| | *Work in Process Inventory ……* | | *285,150* |
| *g.* | *Cost of Goods Sold ……* | *292,000* | |
| | *Finished Goods Inventory ……* | | *292,000* |
| *h.* | *Factory Overhead ……* | *6,125* | |
| | *Cost of Goods Sold ……* | | *6,125* |

*Actual Overhead = $7,000 + 8,400 + 75,600 = $91,000*
*Overhead applied = $97,125*
*Overapplied overhead = $ 6,125*

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Learning Objective: 02-P4*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*
*Topic: Underapplied or Overapplied Overhead*

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

*Answer:*

*$60,000 * 130% = $78,000*

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

193. A company's predetermined overhead rate is applied at 150% of direct materials cost. How much overhead would be allocated to Job No. 325 if the total direct materials costs was $40,000?

*Answer:*

*$40,000 * 150% = $60,000*

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

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194. Selected information from the budget of the Singh 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 rate if the company uses the following as a basis:

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

*Answer:*

*(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*

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

195. A manufacturing company uses an overhead rate based on direct labor cost. The company's Work 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?

*Answer: ($15,000 – $6,600 – $3,000)/$3,000 = 180%*

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

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

*Answer:* $\dfrac{\$65,000}{\$100,000} = 65\%$

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

197. A company's job order costing system applies overhead based on direct labor cost. The company's estimated production costs for were: direct labor, $57,600; direct materials, $76,800; and factory overhead, $9,600. Calculate the company's overhead rate.

*Answer:*

$\dfrac{\$9,600}{\$57,600} = 16.7\%$

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

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198. The job cost sheet for Job number 83-421 includes the following information:

DIRECT MATERIALS:
7/12 Requisition R88-566: 20 units @ $ 3.50 per unit
7/13 Requisition R88-576: 18 units @ $ 5.00 per unit
7/13 Requisition R88-578: 4 units @ $25.00 per unit
7/14 Requisition R88-591: 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 83-421?

*Answer:*
*Total cost of job:*
*DIRECT MATERIALS:*

| | | |
|---|---|---|
| *7/12 Requisition R88-566: 20 units @ $ 3.50 per unit ...* | = | *$ 70* |
| *7/13 Requisition R88-576: 18 units @ $ 5.00 per unit ...* | = | *90* |
| *7/13 Requisition R88-578: 4 units @ $25.00 per unit ...* | = | *100* |
| *7/14 Requisition R88-591: 40 units @ $ 1.25 per unit ...* | = | *50* |
| *Total direct materials cost ……* | = | *$310* |

*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 ……* | = | *55* |
| *Total direct labor cost ……* | = | *$268* |

*FACTORY OVERHEAD*

| | | |
|---|---|---|
| *150% of direct labor cost (150% * $268) ……* | = | *$402* |

| | | |
|---|---|---|
| *TOTAL COST ASSIGNED TO THE JOB* | = | *$980* |

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*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-C2*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Topic: Job Cost Sheet*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*

199. The following calendar year information about the Tchulahota 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 |
| Work in Process | 17,250 |
| Finished goods | 35,600 |
| Inventories, December 31: | |
| Raw materials | 2,300 |
| Work 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.

*Answer: Factory overhead costs:*

| | |
|---|---|
| *Depreciation of factory equipment* | *$ 42,320* |
| *Factory utilities* | *35,650* |
| *Rent on factory building* | *41,400* |
| *Indirect labor* | *51,750* |
| *Total actual factory overhead costs* | *$171,120* |

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| | |
|---|---|
| *Factory overhead applied (142,600 * 125%) ...* | *$178,250* |
| *Overapplied overhead ……* | *$ 7,130* |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Learning Objective: 02-P4*
*Topic: Overheads Cost Flows and Documents*
*Topic: Underapplied or Overapplied Overhead*

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

| | |
|---|---|
| Direct materials…….. | $240,000 |
| Direct labor…….. | 410,000 |
| Indirect materials…… | 55,000 |
| Indirect labor…….. | 125,000 |
| Sales commissions…… | 55,000 |
| Factory depreciation…… | 170,000 |
| Property taxes, factory……... | 15,000 |
| Factory utilities…….. | 35,000 |
| Advertising……..... | 62,500 |
| Factory equipment rental…… | 110,000 |

(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.

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*Answer:*

*(a) Predetermined overhead rate = $500,000/$400,000 = 125% of direct labor cost*
*Overhead applied = $410,000 * 125% = $512,500*
*(b)*

| | | | |
|---|---|---|---|
| *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* | *110,000* | | |
| *Total actual overhead* | *$510,000* | | |
| *Overhead applied* | *512,500* | | |
| *Overapplied overhead* | *$ 2,500* | | |
| | | | |
| *Factory Overhead* | | *2,500* | |
| *Cost of Goods Sold* | | | *2,500* |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Learning Objective: 02-P4*
*Topic: Overhead Cost Flows and Documents*
*Topic: Underapplied or Overapplied Overhead*

201. 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?

*Answer:*

| | | | |
|---|---|---|---|
| *Dec. 31* | *Factory Overhead* | *9,000* | |
| | *Cost of Goods Sold* | | *9,000* |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

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202. Oddley Corp. uses a job order costing 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 during the year:
$103,000, which includes $38,000 direct labor costs.

Oddley Corp.'s predetermined overhead 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.

*Answer:*

| | | | |
|---|---|---|---|
| *(a)* | *Actual overhead cost ……..* | *$189,000* | |
| | *Applied overhead (60% * $275,000)* ……..* | *165,000* | |
| | *Underapplied overhead ……..* | *$24,000* | |
| *(b)* | *Cost of Goods Sold ……* | *$24,000* | |
| | *Factory Overhead ……* | | *$24,000* |

*$65,000 + $172,000 + $38,000 =$275,000*

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P4*
*Topic: Underapplied or Overapplied Overhead*

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203. Taylor Corp. uses a job order costing system and worked only on Job 101 during the current period. Job 101 was sold for $460,000. The following information pertains to costs incurred for Job 101.

| | |
|---|---|
| Direct Materials | $90,000 |
| Indirect Materials | $30,000 |
| Direct Labor | $130,000 |
| Indirect Labor | $75,000 |
| Depreciation of Machinery | $10,000 |
| Factory Supplies | $8,000 |
| Overhead Application Rate | 90% of direct labor |

After adjusting for the amount of over or underapplied overhead, determine the amount of gross profit earned on Job 101.

*Answer:*

| | |
|---|---|
| *Job Costs:* | |
| *Direct Materials* | *$ 90,000* |
| *Direct Labor* | *130,000* |
| *Overhead* | *117,000* |
| *Underapplied Overhead* | *6,000* (closed to cost of goods sold)* |
| *Total Cost of Goods Sold* | *$343,000* |
| | |
| *Gross Profit:* | |
| *Sales Price* | *$460,000* |
| *Less Cost of Goods Sold* | *343,000* |
| *Gross Profit* | *$117,000* |
| | |
| **Actual Overhead Incurred:* | |
| *Indirect Materials* | *$ 30,000* |
| *Indirect Labor* | *75,000* |
| *Depreciation of Machinery* | *10,000* |
| *Factory Supplies* | *8,000* |
| *Total Actual Overhead* | *$ 123,000* |
| *Applied Overhead* | *117,000* |
| *Underapplied Overhead* | *$ 6,000* |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Learning Objective: 02-P4*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*
*Topic: Underapplied or Overapplied Overhead*

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204. At the end of June, the job cost sheets for Kennedy Manufacturing show the following total costs accumulated on three custom jobs.

| | Job 203 | Job 204 | Job 205 |
|---|---|---|---|
| Direct materials | $32,000 | $47,000 | $43,000 |
| Direct labor | 18,000 | 22,000 | 25,000 |
| Overhead | 26,100 | 31,900 | 36,250 |

Job 203 was started in production in May and the following costs were assigned to it in May: direct materials, $12,000; direct labor, $6,000; and overhead $8,700. Jobs 204 and 205 are started in June. Overhead cost is applied with a predetermined rate based on direct labor cost. Jobs 203 and 204 are finished in June, and Job 205 will be finished in July. No raw materials are used indirectly in June. Using this information, answer the following questions assuming the company's predetermined overhead rate did not change.

a. What is the cost of the raw materials requisitioned in June for each of the three jobs?
b. How much direct labor cost is incurred during June for each of the three jobs?
c. What predetermined overhead rate is used during June?
d. How much total cost is transferred to finished goods during June?

*Answer:*

| | | | |
|---|---|---|---|
| *a.* | *Materials for Job 203* | *$32,000* | |
| | *Less prior costs* | *12,000* | *$20,000* |
| | *Job 204* | | *47,000* |
| | *Job 205* | | *43,000* |
| | *Total materials requisitioned* | | *$110,000* |

| | | | |
|---|---|---|---|
| *b.* | *Labor for Job 203* | *$18,000* | |
| | *Less prior costs* | *6,000* | *$12,000* |
| | *Job 204* | | *22,000* |
| | *Job 205* | | *25,000* |
| | *Total direct labor* | | *$59,000* |

| | | | |
|---|---|---|---|
| *c.* | | ***Job 204*** | ***Job 205*** |
| | *Overhead* | *$31,900* | *$36,250* |
| | *Direct labor* | *22,000* | *25,000* |
| | *Ratio* | *145%* | *145%* |

| | | | | |
|---|---|---|---|---|
| *d.* | | ***Job 203*** | ***Job 204*** | ***Total*** |
| | *Direct materials* | *$32,000* | *$47,000* | *$79,000* |
| | *Direct labor* | *18,000* | *22,000* | *40,000* |
| | *Overhead* | *26,100* | *31,900* | *58,000* |
| | | *$76,100* | *$100,900* | *$177,000* |

*Blooms: Apply*

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*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-C2*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Topic: Job Cost Sheet*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*

205. Booth Manufacturing uses a job order costing system that charges overhead to jobs on the basis of direct material cost. At year-end, the Work in Process Inventory account shows the following.

| Date | Explanation | Debit | Credit | Balance |
|---|---|---|---|---|
| Dec. 31 | Direct materials cost | 980,000 | | 980,000 |
| 31 | Direct labor cost | 320,000 | | 1,300,000 |
| 31 | Overhead costs | 637,000 | | 1,937,000 |
| 31 | To finished goods | | 1,818,000 | 119,000 |

a. Determine the overhead rate used (based on direct material cost).
b. Only one job remained in the Work in Process inventory at December 31. Its direct materials cost is $60,000. How much direct labor cost and overhead cost are assigned to it?

*Answer:*
*a. Rate = $637,000/$980,000 = 65%*

| | | | |
|---|---|---|---|
| *b.* | *Total cost of job in process* | *$119,000* | |
| | *Less materials costs of job in process* | *60,000* | *$59,000* |
| | *Less overhead applied ($60,000 * .65)* | | *39,000* |
| | *Direct labor cost* | | *$20,000* |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

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206. Franklin Manufacturing uses a job order costing system that charges overhead to jobs on the basis of direct labor cost. Franklin used the following cost predictions: overhead costs $1,285,750, and direct labor costs of $695,000. At year-end, the company's records show that actual overhead costs for the year are $1,278,800, and actual direct labor costs are $692,000.
a. Determine the predetermined overhead rate for the year.
b. Compute the amount of overapplied or underapplied overhead.
c. Prepare the adjusting entry to allocate the over- or underapplied overhead assuming the amount is immaterial.

*Answer:*

*a. $1,285,750/$695,000 = 185%*
*b. $1,278,800 – ($692,000 * 1.85) = -$1,400 overapplied*

| | | | |
|---|---|---|---|
| *c.* | *Factory Overhead* | *1,400* | |
| | *Cost of Goods Sold* | | *1,400* |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Learning Objective: 02-P4*
*Topic: Overhead Cost Flows and Documents*
*Topic: Underapplied or Overapplied Overhead*

207. Drop Anchor takes special orders to manufacture sail boats for high end customers. Complete the job cost sheets for Drop Anchor for September based on the following

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information. Prepare journal entries to record the transactions as well as post to the job cost sheets.

a. Purchased raw materials on credit, $145,000.
b. Materials requisitions: Job 240, $48,000; Job 241, $36,000; Job 242, $42,000; indirect materials were $12,000.
c. Time tickets used to charge labor to jobs: Job 240, $40,000; Job 241, $30,000; Job 242, $35,000, indirect labor is $25,000.
d. The company incurred the following additional overhead costs: depreciation of factory building, $70,000; depreciation of factory equipment, $60,000; expired factory insurance, $10,000; utilities and maintenance cost of $20,000 were paid in cash.
e. Applied overhead to all three jobs. The predetermined overhead rate is 190% of direct labor cost.
f. Transferred jobs 240 and 242 to Finished Goods Inventory.
g. Sold job 240 for $300,000 for cash.
h. Closed the under- or over-applied overhead account balance.

**Job Cost Sheets**

| | 240 | 241 | 242 | Total |
|---|---|---|---|---|
| For the current month | | | | |
| Direct materials | | | | |
| Direct labor | | | | |
| Applied overhead | | | | |
| | | | | |
| Total costs | | | | |

*Answer:*

| | | | |
|---|---|---|---|
| *a.* | *Raw Materials Inventory* | *145,000* | |
| | *Accounts Payable* | | *145,000* |
| *b.* | *Work in Process Inventory* | *126,000* | |
| | *Raw Materials Inventory* | | *126,000* |
| | *Factory Overhead* | *12,000* | |
| | *Raw Materials Inventory* | | *12,000* |
| *c.* | *Work in Process Inventory* | *105,000* | |
| | *Factory Wages Payable* | | *105,000* |
| | *Factory Overhead* | *25,000* | |
| | *Factory Wages Payable* | | *25,000* |
| *d.* | *Factory Overhead* | *160,000* | |
| | *Accumulated Depreciation—Factory Building* | | *70,000* |
| | *Accumulated Depreciation—Factory Equip.* | | *60,000* |

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| | | | |
|---|---|---|---|
| | *Prepaid Insurance* | | *10,000* |
| | *Cash* | | *20,000* |
| *e.* | *Work in Process Inventory* | *199,500* | |
| | *Factory Overhead ($105,000 * 190%)* | | *199,500* |
| *f.* | *Finished Goods Inventory ($164,000 + $143,500)* | *307,500* | |
| | *Work in Process Inventory* | | *307,500* |
| *g.* | *Cash* | *300,000* | |
| | *Sales* | | *300,000* |
| | *Cost of Goods Sold* | *164,000* | |
| | *Finished Goods Inventory* | | *164,000* |
| *h.* | *Factory Overhead* | *2,500* | |
| | *Cost of Goods Sold* | | *2,500* |

*Overhead = $12,000 + 25,000 + 160,000 = $197,000*
*Overhead applied = 199,500*
*Overapplied overhead = $ 2,500*

***Job Cost Sheets***

| | ***240*** | ***241*** | ***242*** | ***Total*** |
|---|---|---|---|---|
| *For the current month* | | | | |
| *Direct materials* | *48,000* | *36,000* | *42,000* | *126,000* |
| *Direct labor* | *40,000* | *30,000* | *35,000* | *105,000* |
| *Applied overhead* | *76,000* | *57,000* | *66,500* | *199,500* |
| *Total costs* | *164,000* | *123,000* | *143,500* | *430,500* |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P1*
*Learning Objective: 02-P2*
*Learning Objective: 02-P3*
*Learning Objective: 02-P4*
*Topic: Materials Cost Flows and Documents*
*Topic: Labor Cost Flows and Documents*
*Topic: Overhead Cost Flows and Documents*
*Topic: Underapplied or Overapplied Overhead*

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208. The predetermined overhead rate for Shilling Manufacturing is based on estimated direct labor costs of $350,000 and estimated factory overhead of $770,000. Actual costs incurred were:

| | |
|---|---|
| Direct materials | $475,000 |
| Direct labor | 347,000 |
| Indirect materials | 78,000 |
| Indirect labor | 143,500 |
| Sales commissions | 150,000 |
| Factory depreciation | 260,000 |
| Property taxes, factory | 35,000 |
| Factory utilities | 65,000 |
| Advertising | 62,500 |
| Factory supervision | 185,000 |

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.

*Answer:*

*a. Predetermined overhead rate = $770,000/$350,000 = 220% of direct labor cost*
*Overhead applied = $347,000 * 220% = $763,400*

*b.*

| | |
|---|---|
| *Actual overhead:* | |
| *Indirect materials* | *$ 78,000* |
| *Indirect labor* | *143,500* |
| *Factory depreciation* | *260,000* |
| *Property taxes, factory* | *35,000* |
| *Factory utilities* | *65,000* |
| *Factory supervision* | *185,000* |
| *Total actual overhead* | *$766,500* |
| *Overhead applied* | *763,400* |
| *Underapplied overhead* | *$ 3,100* |

| | | |
|---|---|---|
| *Cost of Goods Sold* | *3,100* | |
| *Factory Overhead* | | *3,100* |

*Blooms: Apply*
*AACSB: Analytic*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 3 Hard*
*Learning Objective: 02-P3*
*Learning Objective: 02-P4*
*Topic: Overhead Cost Flows and Documents*
*Topic: Underapplied or Overapplied Overhead*

## *Fill in the Blank Questions*

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209. A _____ accounting system records production activities using a perpetual inventory system.

Answer: cost

*Feedback: answers must appear in this order*

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

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

Answer: Job order production

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C1*
*Topic: Job Order Costing*

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

Answer: job cost sheet

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

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

Answer: Work in Process

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-C2*
*Topic: Job cost sheet*

213. In a job order costing system, raw materials requisitioned as direct materials are debited to _____; indirect materials are debited to _____.

Answer: Work in Process Inventory; Factory Overhead

*Feedback: answers must appear in this order*

*Blooms: Understand*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 2 Medium*
*Learning Objective: 02-P1*
*Topic: Materials Cost Flows and Documents*

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

Answer: Work in Process Inventory

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

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

Answer: Factory Overhead

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P2*
*Topic: Labor Cost Flows and Documents*

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216. 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.

Answer: predetermined overhead rate

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

217. When the actual overhead incurred during an accounting period is more than the overhead applied to jobs, the overhead is said to be _____.

Answer: underapplied

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P3*
*Topic: Overhead Cost Flows and Documents*

218. Immaterial amounts of overapplied overhead should be _____ to the _____ account when closed.

Answer: credited, Cost of Goods Sold

*Blooms: Remember*
*AACSB: Communication*
*AICPA BB: Industry*
*AICPA FN: Measurement*
*Difficulty: 1 Easy*
*Learning Objective: 02-P4*
*Topic: Underapplied and Overapplied Overhead*

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