Chapter 2

Job Order Costing and Analysis

QUESTIONS

1. Factory overhead is not identified with specific units (jobs) or batches (job lots). Therefore, to assign costs, estimates of the relation between factory overhead cost and job or job lot are necessary. Also, since job order cost accounting is a perpetual system, we need to estimate a predetermined overhead rate to compute (perpetual) inventory costs. This estimated amount also helps job order companies determine prices on a timely basis.
2. Several other factors (allocation bases) are possible and reasonable. These common factors often include direct materials or machine hours.
3. The job order cost sheet captures information on cost and quantity of direct material and direct labor, and on the amount of factory overhead applied to the respective job or job lot. Management and employees use this information to monitor costs during production and to estimate total cost of production.

4. **Each job is assigned a subsidiary ledger account. This account serves as the "posting account" (accumulates all increases and decreases) during production for direct material, direct labor, and applied factory overhead. The collection of job cost sheets for all of the jobs in process make up a subsidiary ledger controlled by the Goods in Process Inventory account in the general ledger.**

   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 awaiting delivery to customers. This latter file acts as a subsidiary ledger controlled by the Finished Goods Inventory account. In this way, management and employees can obtain the costs, direct and indirect, associated with any job or job lot at any time.

5. **A debit (increase) to Goods in Process Inventory for direct materials, a debit (increase) to Factory Overhead for indirect materials, and a credit (decrease) to Raw Materials Inventory.**

6. **The materials requisition slip is designed to track the movement of materials from raw materials to production. It also serves as an internal control document because without the slip the inventory department should not release inventory to production.**

7. **The clock card is used to record the number of hours each employee works and is used to compute total payroll. The time ticket is used to record how much time an employee spends on each job. Time tickets are also used to determine the amount of overhead to charge to jobs when overhead is based on direct labor.**

8. Debits (increases) to factory overhead are the recording of actual overhead costs, such as indirect materials, indirect labor, factory rent, and factory insurance. Credits (decreases) represent the allocation of factory overhead to jobs or job lots.

9. Assuming that the overapplied or underapplied overhead is immaterial, it is closed to the Cost of Goods Sold account. However, if the amount is material—meaning it would change business decisions that rely on the information—then the amount of overapplied or underapplied overhead is allocated to goods in process, finished goods, and cost of goods sold (using an allocation base such as direct labor).

10. This production run should be accounted for as a job lot (batch). Although individual snowmobile helmets could be viewed as individual jobs, the costs of tracking this detailed information would outweigh the benefits. Determining the cost of the batch should provide management and employees with sufficient information about this product for all decision making purposes.

11. A predetermined factory overhead rate must be calculated for at least two reasons: (1) Not all costs are known in advance, yet the costs must be applied to products during the current period. (2) A predetermined rate is used to spread indirect costs to products and/or services throughout an accounting period, where overhead costs are not incurred uniformly throughout the period and production may not be uniform throughout the period. For instance, property taxes on the factory building of $20,000 may be paid in July, but some of that $20,000 must be allocated to all items produced during the year, January through December. A *predetermined* rate is necessary, because we must estimate the rate at the beginning of the year, based on estimated costs and activity, before the period begins.

12. Each patient in a hospital can be viewed as a "job." In this case, a job order cost sheet would be used to capture cost of direct materials (supplies, medicine, and so forth), direct labor, and hospital overhead.

13. Each of the 30 luxury motorcycles will likely be accounted for as an individual job. Although similar in many respects, each would have custom features that would impact costs. As the luxury motorcycles are shipped to dealers each will have a separate invoice detailing the cost associated with producing that motorcycle. Also, the price of a custom-made motorcycle is probably large enough (in the area of $20,000 to $50,000) that each would be accounted for individually.

14. Sprint employees can use job cost sheets to accumulate the costs (e.g. labor and materials) used on each job. Managers can use this job cost information to monitor whether Sprint is meetings its target costs and producing reasonable profits. This information can be used to adjust the prices of certain services and/or cease providing certain services if the costs cannot be controlled to yield a reasonable profit.

QUICK STUDIES

Quick Study 2-1 (5 minutes)

Manufactured as a job: 3, 4, 6

Manufactured as a job lot: 1, 2, 5

Quick Study 2-2 (5 minutes)

Direct materials, direct labor, and factory overhead are the three types of costs typically recorded on a job cost sheet. Managers can use job cost sheets to monitor costs incurred to date and to predict and control costs for each job.

Quick Study 2-3 (10 minutes)

Finished Goods Inventory	**10,500**	
Goods in Process Inventory		**10,500**
To transfer cost of completed job to Fin. Goods.		
Cost of Goods Sold	**10,500**	
Finished Goods Inventory		**10,500**
To transfer cost of delivered job to COGS.		
Cash	**14,900**	
Sales		**14,900**
To record sales price of delivered job.		

Quick Study 2-4 (15 minutes)

Raw Materials Inventory	50,000	
Cash		50,000
To record raw material purchases.		
Factory Overhead	12,000	
Raw Materials Inventory		12,000
To record raw materials used in production.		
Goods in Process Inventory	32,000	
Raw Materials Inventory		32,000
To record raw materials used in production.		

Quick Study 2-5 (10 minutes)

Factory Payroll	180,000	
Cash		180,000
To record factory payroll.		
Goods in Process Inventory	140,000	
Factory Overhead	40,000	
Factory Payroll		180,000
To record direct and indirect labor.		

Quick Study 2-6 (10 minutes)

Goods in Process Inventory (Job lot)	117,900	
Factory Overhead		117,900
To apply overhead to job lot [($175,000–$44,000) x 90%].		

Quick Study 2-7 (10 minutes)

1. Factory overhead, $117,000 / Direct labor, $468,000 = 25%
2. Factory overhead, $117,000 / Direct materials, $354,500 = 33%*

*Rounded to nearest whole percent

Quick Study 2-8 (5 minutes)

Factory Overhead	22,000	
Cost of Goods Sold*.....		22,000

To assign overapplied overhead.

*Computation of over- or underapplied overhead

Actual overhead (total debits)	$624,000
Applied overhead (total credits).....	646,000
Overapplied overhead.....	$(22,000)

Quick Study 2-9 (15 minutes)

Cost of Goods Sold	50,000	
Factory Overhead*.....		50,000

To assign underapplied overhead.

*Computation of over- or underapplied overhead

Actual overhead.....	$950,000
Overhead applied ($600,000 x 150%)	900,000
Underapplied overhead.....	$ 50,000

Quick Study 2-10 (10 minutes)

$$\text{Rate} = \frac{\text{Estimated overhead costs}}{\text{Estimated direct materials}} = \frac{\$1{,}170{,}000}{\$900{,}000} = 130\%$$

Quick Study 2-11 (10 minutes)

JOB COST SHEET	
Direct labor ($50 x 200)	$10,000
Overhead ($65 x 200)	13,000
Total cost.....	$23,000

Quick Study 2-12 (5 minutes)

Since each car is custom-ordered, Porsche produces in jobs rather in job lots (production of more than one unit of a custom product).

EXERCISES

Exercise 2-1 (10 minutes)

1.	C	3.	B	5.	A
2.	D	4.	F	6.	E

Exercise 2-2 (15 minutes)

JOB COST SHEET: Job 9-1005		
Direct materials cost		
Q-4698	$1,250	
Q-4725	1,000	$2,250
Direct labor cost		
W-3393	600	
W-3479	450	
W-3559	300	1,350
Overhead ($1,350 X 110%)		1,485
Total cost		$5,085

Exercise 2-3 (10 minutes)

1.	A	3.	C	5.	D	7.	B
2.	F	4.	E	6.	G		

Exercise 2-4 (25 minutes)

1. **The cost of direct materials requisitioned in the month equals the total direct materials costs accumulated on the three jobs less the amount of direct materials cost assigned to Job 102 in May:**

Job 102	$15,000	
Less prior costs	(6,000)	$ 9,000
Job 103		33,000
Job 104		27,000
Total materials used (requisitioned)		$69,000

2. **Direct labor cost incurred in the month equals the total direct labor costs accumulated on the three jobs less the amount of direct labor cost assigned to Job 102 in May:**

Job 102	$8,000	
Less prior costs	(1,800)	$ 6,200
Job 103		14,200
Job 104		21,000
Total direct labor		$41,400

3. **The predetermined overhead rate equals the ratio of the amount of overhead assigned to jobs divided by the amount of direct labor cost assigned to them. Since the same rate is used for all jobs started and completed within a month, the ratio for any one job equals the rate that was applied. This table shows the ratio for jobs 102 and 104:**

	Job 102	Job 104
Overhead	$ 4,000	$10,500
Direct labor	8,000	21,000
Ratio	50%	50%

4. **The cost transferred to finished goods in June equals the total costs of the two completed jobs for the month, which are Jobs 102 and 103:**

	Job 102	Job 103	Total
Direct materials	$15,000	$33,000	$48,000
Direct labor	8,000	14,200	22,200
Overhead	4,000	7,100	11,100
Total transferred cost	$27,000	$54,300	$81,300

Exercise 2-5 (15 minutes)

1.

$$\text{Rate} = \frac{\text{Estimated overhead costs}}{\text{Estimated direct labor}} = \frac{\$747,500}{\$575,000} = 130\%$$

2.

Direct materials	$15,350
Direct labor	3,200
Overhead ($3,200 x 130%)	4,160
Total cost of Job No. 13-56	$22,710

Exercise 2-6 (20 minutes)

1.

$$\text{Rate} = \frac{\text{Overhead costs}}{\text{Direct material costs}} = \frac{\$600,000}{\$1,500,000} = 40\%$$

2.

Total cost of job in process (given)	$ 50,000
Less materials cost of job in process (given)	(30,000)
Less overhead applied (30,000 x 40%)	(12,000)
Direct labor cost	$ 8,000

Exercise 2-7 (30 minutes)

1. Cost of direct materials used

Beginning raw materials inventory	$ 43,000
Plus purchases	210,000
Raw materials available	253,000
Less ending raw materials inventory	(52,000)
Total raw materials used	201,000
Less indirect materials used	(15,000)
Cost of direct materials used	$ 186,000

2. Cost of direct labor used

Total factory payroll	$ 345,000
Less indirect labor	(80,000)
Cost of direct labor used	$ 265,000

3. Cost of goods manufactured

Beginning goods in process inventory	$ 10,200
Plus direct materials	186,000
Plus direct labor	265,000
Plus overhead applied (70% of direct labor cost)	185,500
Total cost of goods in process	646,700
Less ending goods in process inventory	(21,300)
Cost of goods manufactured	$ 625,400

4. Cost of goods sold

Beginning finished goods inventory	$ 63,000
Plus cost of goods manufactured	625,400
Less ending finished goods inventory	(35,600)
Cost of goods sold	$ 652,800

5. Gross profit

Sales	$1,400,000
Cost of goods sold	(652,800)
Gross profit	$ 747,200

6. Actual overhead incurred

Indirect materials	$ 15,000
Indirect labor	80,000
Other overhead costs	120,000
Total actual overhead incurred	215,000
Overhead applied	185,500
Underapplied overhead	$ 29,500

Exercise 2-8 (10 minutes)

1.	**Raw Materials Inventory**	**210,000**	
	Cash		**210,000**
	To record materials purchases.		
2.	**Goods in Process Inventory**	**186,000**	
	Raw Materials Inventory		**186,000**
	To assign direct materials to jobs.		
3.	**Factory Overhead**	**15,000**	
	Raw Materials Inventory		**15,000**
	To record indirect materials.		

Exercise 2-9 (10 minutes)

1.	**Factory Payroll**	**345,000**	
	Cash		**345,000**
	To record factory payroll.		
2.	**Goods in Process Inventory**	**265,000**	
	Factory Payroll		**265,000**
	To assign direct labor to jobs.		
3.	**Factory Overhead**	**80,000**	
	Factory Payroll		**80,000**
	To record indirect labor.		

Exercise 2-10 (10 minutes)

1.	**Factory Overhead**	**120,000**	
	Other Accounts		**120,000**
	To record other factory overhead.		
2.	**Goods in Process Inventory**	**185,500**	
	Factory Overhead		**185,500**
	To apply overhead to jobs.		
	Computed as: 70% Predetermined overhead rate x Direct labor of $265,000		

Exercise 2-11 (10 minutes)

Cost of Goods Sold	**29,500**	
Factory Overhead		**29,500**

To allocate (close) underapplied overhead to cost of goods sold. ***Applied overhead equals $265,000 x 70% = $185,500. Actual overhead = $215,000, computed as $15,000 + $80,000 + $120,000.***

Exercise 2-12 (15 minutes)

Factory Overhead	**3,200**	
Cost of Goods Sold		**3,200**
To close overapplied overhead for Marsh.		
Cost of Goods Sold	**800**	
Factory Overhead		**800**
To close underapplied overhead for Ellis.		

Exercise 2-13 (25 minutes)

a.	**Raw Materials Inventory**	**90,000**	
	Accounts Payable		**90,000**
	To record materials purchases.		
b.	**Goods in Process Inventory**	**36,500**	
	Raw Materials Inventory		**36,500**
	To assign costs of direct materials used.		
	Factory Overhead	**19,200**	
	Raw Materials Inventory		**19,200**
	To record indirect materials.		
c.	**Factory Payroll**	**50,000**	
	Cash		**50,000**
	To record payroll costs paid.		
	Goods in Process Inventory	**38,000**	
	Factory Payroll		**38,000**
	To assign costs of direct labor used.		

Exercise 2-13 *(Continued)*

[continued from prior page]

c.

Factory Overhead	12,000	
Factory Payroll		12,000
To record indirect labor costs as overhead.		

d.

Factory Overhead	11,475	
Cash		11,475
T*o record other factory overhead paid.*		

e.

Goods in Process Inventory	47,500	
Factory Overhead		47,500
To apply overhead to jobs at the rate of 125% of direct labor cost.		

f.

Finished Goods Inventory	56,800	
Goods in Process Inventory		56,800
To record jobs completed.		

g.

Cost of Goods Sold	56,800	
Finished Goods Inventory		56,800
To record cost of sale of job.		

Accounts Receivable	82,000	
Sales		82,000
To record sale of job.		

h.

Factory Overhead*	3,000	
Cost of Goods Sold		3,000
To close overapplied overhead.		

*Overhead applied to jobs		$47,500
Overhead incurred		
Indirect materials	$19,200	
Indirect labor	12,000	
Other actual overhead paid	11,475	42,675
Overapplied overhead		$ 4,325

Exercise 2-14 (25 minutes)

1. Predetermined overhead rate

Estimated overhead costs	$1,680,000
Estimated direct labor costs	$ 480,000
Rate ($1,680,000/$480,000)	350%

2. & 3.

Overhead			
Incurred	1,652,000	Applied*	1,662,500
		Overapplied	10,500

*Overhead applied to jobs = 350% x $475,000 = $1,662,500

4.

Dec. 31	Factory Overhead	10,500	
	Cost of Goods Sold		10,500
	To close overapplied overhead.		

Exercise 2-15 (35 minutes)

1. Predetermined overhead rate

Estimated overhead costs	$750,000
Estimated direct labor costs	$625,000
Rate (Overhead/Direct labor)	120%

2. & 3.

Factory Overhead			
Incurred	830,000	Applied*	822,000
Underapplied	8,000		

*Overhead applied to jobs = 120% x $685,000 = $822,000

4.

Dec. 31	Cost of Goods Sold	8,000	
	Factory Overhead		8,000
	To allocate underapplied overhead.		

Exercise 2-16 (30 minutes)

1. Overhead rate = Total overhead costs / Total direct labor costs

= $1,800,000 / $3,000,000 = 60%

2.

Total cost of goods in process inventory	**$ 71,000**
Deduct: Direct labor	**(20,000)**
Deduct: Factory overhead ($20,000 x 60%)	**(12,000)**
Direct materials	**$ 39,000**

3.

Total cost of finished goods inventory	**$490,000**
Deduct: Direct materials	**(250,000)**
Direct labor and factory overhead costs	**$240,000**

We also know that the total of direct labor costs (*X*) and factory overhead costs (0.6*X*) equals $240,000. Thus, to get the individual amounts we need to solve: [*X* + 0.6*X* = $240,000]. The solution is:

Direct labor costs = $150,000

Factory overhead costs = $150,000 x 0.6 = $90,000

Exercise 2-17 (35 minutes)

1. Overhead rate = Total estimated overhead cost / Total estimated direct labor cost
= $375,000 / $300,000 = 125%

2. Cost of the two ending inventories

	Goods in Process			Finished Goods		
	Cost per Unit	Units	Total Cost	Cost per Unit	Units	Total Cost
Direct materials.....	$10.00	5,000	$ 50,000	$12.00	12,000	$144,000
Direct labor.....	7.00	5,000	35,000	9.00	12,000	108,000
Overhead*.....	8.75	5,000	43,750	11.25	12,000	135,000
Total	$25.75		$128,750	$32.25		$387,000

*125% of labor

3.

Step 1

Cost of goods manufactured	
Direct materials cost.....	$ 535,000
Direct labor cost.....	290,000
Factory overhead cost applied	362,500
Total manufacturing cost	1,187,500
Add beginning goods in process	0
Total cost of goods in process.....	1,187,500
Less ending goods in process	(128,750)
Cost of goods manufactured	$1,058,750

Step 2

Cost of goods sold	
Beginning finished goods.....	$ 0
Add cost of goods manufactured.....	1,058,750
Goods available for sale	1,058,750
Less ending finished goods.....	(387,000)
Cost of goods sold.....	$ 671,750

Exercise 2-18 (35 minutes)

1. Estimated cost of the architectural job

Labor type	Estimated hours	Hourly rate	Total cost
Architects	150	$300	$ 45,000
Staff	300	75	22,500
Clerical	500	20	10,000
Total labor cost			77,500
Overhead @ 175% of direct labor cost			135,625
Total estimated cost			$213,125

2. Frey should first determine an estimated selling price, based on its cost and desired profit for this job.

Total estimated cost	$213,125
Desired profit	80,000
Estimated selling price	$293,125

This $293,125 price may or may not be its bid. It must consider past experiences and competition. It might make the bid at the low end of what it believes the competition will bid. By bidding at about $285,000, the profit on the job will only be $71,875 ($285,000 – $213,125). While this may allow Frey to get the job, it must consider several other factors. Among them:

a. How accurate are its estimates of costs? If costs are understated, the bid may be too low. This will cause profits to be lower than anticipated. If costs are overestimated, it may bid too high and lose the job.

b. How accurate is the estimate of the competition's probable bidding range? If it has underestimated the low end, it may be unnecessarily underbidding. If it has overestimated the low end, it may lose the job.

c. Is it willing to meet the expected low bid of the competition? In the example above, would it be acceptable to earn only $71,875 on this job (about a 25% gross profit ratio), rather than the normal $80,000 (about a 27% gross profit ratio)? Can it earn a better profit on another job?

There is no exact answer to these questions, but Frey must consider these and other factors before it submits the bid.

Exercise 2-19 (15 minutes)

(1)	**Raw Materials Inventory .....**	**3,108**	
	Accounts Payable.....		**3,108**
	To record raw material purchases.		
	Goods in Process Inventory*	**3,106**	
	Raw Materials Inventory		**3,106**
	To record raw materials used in production.		

*** The amount of raw materials used in production is computed from the Raw Materials Inventory account. Beginning balance plus purchases minus ending balance equals raw materials used in production, or (in millions), €83 + €3,108 - €85 = €3,106.**

(2) The amount of materials purchased is almost equal to the amount of materials used in production. This means the company holds very little inventory of raw materials, consistent with lean manufacturing.

PROBLEM SET A

Problem 2-1A (80 minutes)

Part 1 Total manufacturing costs and the costs assigned to each job

	306	307	308	April Total
From March				
Direct materials	$ 29,000	$ 35,000		
Direct labor	20,000	18,000		
Applied overhead*	10,000	9,000		
Beginning goods in process	59,000	62,000		$ 121,000
For April				
Direct materials	135,000	220,000	$100,000	455,000
Direct labor	85,000	150,000	105,000	340,000
Applied overhead*	42,500	75,000	52,500	170,000
Total costs added in April	262,500	445,000	257,500	965,000
Total costs	$321,500	$507,000	$257,500	$1,086,000

*Equals 50% of direct labor cost.

Part 2 Journal entries for April

a.	Raw Materials Inventory	500,000	
	Accounts Payable		500,000
	To record materials purchases.		
	Factory Payroll	363,000	
	Cash		363,000
	To record factory payroll.		
	Factory Overhead	50,000	
	Raw Materials Inventory		50,000
	To record indirect materials.		
	Factory Overhead	23,000	
	Factory Payroll		23,000
	To record indirect labor.		
	Factory Overhead	32,000	
	Cash		32,000
	To record factory rent.		

Problem 2-1A *(Continued)*

a. **[continued from prior page]**

	Factory Overhead	19,000	
	Cash		19,000
	To record factory utilities.		
	Factory Overhead	51,000	
	Accumulated Depreciation—Factory Equip ..		51,000
	To record other factory overhead.		
b.	Goods in Process Inventory	455,000	
	Raw Materials Inventory		455,000
	To assign direct materials to jobs.		
	Goods in Process Inventory	340,000	
	Factory Payroll		340,000
	To assign direct labor to jobs.		
	Goods in Process Inventory	170,000	
	Factory Overhead		170,000
	To apply overhead to jobs.		
c.	Finished Goods Inventory (306 & 307)	828,500	
	Goods in Process Inventory		828,500
	To record jobs completed ($321,500 + $507,000).		
d.	Cost of Goods Sold (306)	321,500	
	Finished Goods Inventory		321,500
	To record cost of sale of job.		
e.	Cash	635,000	
	Sales		635,000
	To record sale of job.		
f.	Cost of Goods Sold	5,000	
	Factory Overhead*		5,000
	To assign underapplied overhead.		

*Overhead applied to jobs		$170,000
Overhead incurred		
Indirect materials.....	$50,000	
Indirect labor	23,000	
Factory rent	32,000	
Factory utilities.....	19,000	
Factory equip. depreciation. .	51,000	175,000
Underapplied overhead		$ 5,000

Problem 2-1A *(Continued)*

Part 3

CIOLINO COMPANY Manufacturing Statement For Month Ended April 30		
Direct materials used		$ 455,000
Direct labor used		340,000
Factory overhead		
Indirect materials	$50,000	
Indirect labor	23,000	
Factory rent	32,000	
Factory utilities	19,000	
Depreciation of equipment	51,000	175,000
Total manufacturing costs		970,000
Add goods in process March 31 (Jobs 306 & 307)		121,000
Total cost of goods in process		1,091,000
Deduct goods in process, April 30 (Job 308)		(257,500)
Deduct underapplied overhead*		(5,000)
Cost of goods manufactured		$ 828,500

***Alternatively, the underapplied overhead can be listed among factory overhead items.**

Part 4

Gross profit on the income statement for the month ended April 30

Sales	$ 635,000
Cost of goods sold ($321,500 + $5,000)	(326,500)
Gross profit	$ 308,500

Presentation of inventories on the April 30 balance sheet

Inventories	
Raw materials	$ 75,000*
Goods in process (Job 308)	257,500
Finished goods (Job 307)	507,000
Total inventories	$ 839,500

* Beginning raw materials inventory	$ 80,000
Purchases	500,000
Direct materials used	(455,000)
Indirect materials used	(50,000)
Ending raw materials inventory	$ 75,000

Part 5

Overhead is underapplied by $5,000, meaning that individual jobs or batches of jobs are under-costed. Thus, profits at the job (and batch) level are overstated.

Problem 2-2A (75 minutes)

Part 1

a.

Dec. 31	**Goods in Process Inventory**	**28,800**	
	Raw Materials Inventory		**28,800**
	To record direct materials costs for Jobs 402 and 404 ($10,200 + 18,600).		

b.

Dec. 31	**Goods in Process Inventory**	**59,800**	
	Factory Payroll		**59,800**
	To record direct labor costs for Jobs 402 and 404 ($36,000 + $23,800).		

c.

Dec. 31	**Goods in Process Inventory**	**119,600**	
	Factory Overhead		**119,600**
	To allocate overhead to Jobs 402 and 404 at 200% of direct labor cost assigned.		

d.

Dec. 31	**Factory Overhead**	**5,600**	
	Raw Materials Inventory		**5,600**
	To add cost of indirect materials to actual factory overhead.		

e.

Dec. 31	**Factory Overhead**	**8,200**	
	Factory Payroll		**8,200**
	To add cost of indirect labor to actual factory overhead.		

Part 2

Revised Factory Overhead account		
Ending balance from trial balance	**$115,000**	**debit**
Applied to Jobs 402 and 404	**(119,600)**	**credit**
Additional indirect materials	**5,600**	**debit**
Additional indirect labor	**8,200**	**debit**
Underapplied overhead	**$ 9,200**	**debit**

Dec. 31	**Cost of Goods Sold**	**9,200**	
	Factory Overhead		**9,200**
	To close underapplied overhead.		

Problem 2-2A (*continued*)

Part 3

FARINA BAY COMPANY
Trial Balance December 31, 2013

	Debit	Credit
Cash	$102,000	
Accounts receivable	75,000	
Raw materials inventory *	45,600	
Goods in process inventory **	208,200	
Finished goods inventory	15,000	
Prepaid rent	3,000	
Accounts payable		$ 17,000
Notes payable		25,000
Common stock		50,000
Retained earnings		271,000
Sales		373,000
Cost of goods sold ($218,000 + $9,200)	227,200	
Factory payroll	0	
Factory overhead	0	
Operating expenses	60,000	
Totals	$736,000	$736,000

*** Raw materials inventory**

Balance per trial balance	$80,000
Less: Amounts recorded for Jobs 402 and 404	(28,800)
Less: Indirect materials	(5,600)
Ending balance	$45,600

**** Goods in process inventory**

	Job 402	Job 404	Total
Direct materials	$ 10,200	$18,600	$ 28,800
Direct labor	36,000	23,800	59,800
Overhead	72,000	47,600	119,600
Total cost	$118,200	$90,000	$208,200

Problem 2-2A (*continued*)

Part 4

FARINA BAY COMPANY Income Statement For Year Ended December 31, 2013	
Sales	$373,000
Cost of goods sold	(227,200)
Gross profit	145,800
Operating expenses	(60,000)
Net income	$ 85,800

FARINA BAY COMPANY		
Assets		
Cash		$102,000
Accounts receivable		75,000
Inventories		
Raw materials inventory	$ 45,600	
Goods in process inventory	208,200	
Finished goods inventory	15,000	268,800
Prepaid rent		3,000
Total assets		$448,800
Liabilities and equity		
Accounts payable		$ 17,000
Notes payable		25,000
Total liabilities		42,000
Common stock		50,000
Retained earnings ($271,000 + $85,800)		356,800
Total stockholders' equity		406,800
Total liabilities and equity		$448,800

Problem 2-2A (*concluded*)

Part 5

This $5,600 error would cause the costs for Job 404 to be understated. Since Job 404 is in process at the end of the period, goods in process inventory and total assets would both be understated on the balance sheet. In addition, the over- or underapplied overhead would change by $5,600. That is, if overhead is underapplied by, say, $9,200, this amount would decrease by $5,600 when the error is corrected. Since underapplied overhead is charged directly to cost of goods sold, then cost of goods sold would decrease by $5,600 and net income would increase by $5,600—
yielding a $5,600 increase in retained earnings on the balance sheet.

Problem 2-3A (70 minutes)

Part 1

JOB COST SHEETS

Job No. 136	
Materials.....	$ 48,000
Labor	12,000
Overhead.....	24,000
Total cost	$ 84,000

Job No. 138	
Materials.....	$ 19,200
Labor	37,500
Overhead.....	75,000
Total cost	$131,700

Job No. 137	
Materials.....	$ 32,000
Labor	10,500
Overhead.....	21,000
Total cost	$ 63,500

Job No. 139	
Materials.....	$ 22,400
Labor	39,000
Overhead.....	78,000
Total cost	$139,400

Job No. 140	
Materials.....	$ 6,400
Labor	3,000
Overhead.....	6,000
Total cost	$ 15,400

Part 2

a.	Raw Materials Inventory	200,000	
	Accounts Payable		200,000
	To record materials purchases.		
b.	Factory Payroll	126,000	
	Cash.....		126,000
	To record factory payroll.		
c.	Factory Overhead.....	15,000	
	Cash.....		15,000
	To record other factory overhead.		
d.	Goods in Process Inventory.....	128,000	
	Factory Overhead.....	19,500	
	Raw Materials Inventory		147,500
	To record direct & indirect materials.		

Problem 2-3A *(Continued)*

[continued from prior page]

e.

Goods in Process Inventory	102,000	
Factory Overhead	24,000	
Factory Payroll		126,000
To record direct & indirect labor.		

f.

Goods in Process Inventory	177,000	
Factory Overhead		177,000
To apply overhead to jobs [($12,000 + $37,500 + $39,000) x 200%].		

g.

Finished Goods Inventory	355,100	
Goods in Process Inventory		355,100
To record completion of jobs ($84,000 + $131,700 + $139,400).		

h.

Accounts Receivable	525,000	
Sales		525,000
To record sales on account.		
Cost of Goods Sold	215,700	
Finished Goods Inventory		215,700
To record cost of sales ($84,000 + $131,700).		

i.

Factory Overhead	149,500	
Accum. Depreciation—Factory Building		68,000
Accum. Depreciation—Factory Equipment		36,500
Prepaid Insurance		10,000
Property Taxes Payable		35,000
To record other factory overhead.		

j.

Goods in Process Inventory	27,000	
Factory Overhead		27,000
To apply overhead to jobs [($10,500 + $3,000) x 200%].		

Problem 2-3A *(Continued)*

Part 3

GENERAL LEDGER ACCOUNTS

Raw Materials Inventory

(a)	200,000	(d)	147,500
Bal.	52,500		

Factory Payroll

(b)	126,000	(e)	126,000
Bal.	0		

Goods in Process Inventory

(d)	128,000	(g)	355,100
(e)	102,000		
(f)	177,000		
(j)	27,000		
Bal.	78,900		

Factory Overhead

(c)	15,000	(f)	177,000
(d)	19,500	(j)	27,000
(e)	24,000		
(i)	149,500		
Bal.	4,000		

Finished Goods Inventory

(g)	355,100	(h)	215,700
Bal.	139,400		

Cost of Goods Sold

(h)	215,700		
Bal.	215,700		

Part 4

Reports of Job Costs

Goods in Process Inventory

Job 137	$ 63,500
Job 140	15,400
Balance	$ 78,900

Finished Goods Inventory

Job 139	$139,400
Balance	$139,400

Cost of Goods Sold

Job 136	$ 84,000
Job 138	131,700
Balance	$215,700

***Individual totals reconcile with account balances in part 3.**

Problem 2-4A (35 minutes)

Part 1

a. Predetermined overhead rate

$$\frac{\text{Estimated overhead costs}}{\text{Estimated direct labor cost}} = \frac{\$1,500,000}{[50 \times 2,000 \times \$25]} = \frac{\$1,500,000}{\$2,500,000} = 60\%$$

b. Overhead costs charged to jobs

Job No.	Direct Labor	Applied Overhead (60%)
201	$ 604,000	$ 362,400
202	563,000	337,800
203	298,000	178,800
204	716,000	429,600
205	314,000	188,400
206	17,000	10,200
Total	$2,512,000	$1,507,200

c. Overapplied or underapplied overhead determination

Actual overhead cost	$1,520,000
Less applied overhead cost	1,507,200
Underapplied overhead	$ 12,800

Part 2

Dec. 31	Cost of Goods Sold	12,800	
	Factory Overhead		12,800
	To assign underapplied overhead.		

Problem 2-5A (80 minutes)

JOB COST

Customer's Name Worldwide Company **Job No.** ___

	Direct Materials		Direct Labor		Overhead Costs Applied		
Date	Requisition Number	Amount	Time Ticket Number	Amount	Date	Rate	Amount
	#35	33,750	#1-10	90,000	May ---	80%	72,000
	#36	12,960					
	Total	46,710	Total	90,000			

SUMMARY OF COSTS

Dir. Materials	46,710
Dir. Labor	90,000
Overhead	72,000
Total cost of Job	208,710

FINISHED

JOB COST

Customer's Name Reuben Company **Job No.** ___

	Direct Materials		Direct Labor		Overhead Costs Applied		
Date	Requisition Number	Amount	Time Ticket Number	Amount	Date	Rate	Amount
	#37	17,500	#11-30	65,000	May ---	80%	52,000
	#38	6,840					
	Total		Total				

SUMMARY OF COSTS

Dir. Materials	
Dir. Labor	
Overhead	
Total cost of Job	

Problem 2-5A *(Continued)*

MATERIALS LEDGER CARD

Item _____ Material M

	Received				Issued				Balance		
Date	Receiving Report	Units	Unit Price	Total Price	Requi-sition	Units	Unit Price	Total Price	Units	Unit Price	Total Price
May 1									200	250	50,000
	#426	250	250	62,500					450	250	112,500
					#35	135	250	33,750	315	250	78,750
					#37	70	250	17,500	245	250	61,250

MATER

Item _____ Material R

	Received				Issued				Balance		
Date	Receiving Report	Units	Unit Price	Total Price	Requi-sition	Units	Unit Price	Total Price	Units	Unit Price	Total Price
May 1									95	180	17,100
	#427	90	180	16,200					185	180	33,300
					#36	72	180	12,960	113	180	20,340
					#38	38	180	6,840	75	180	13,500

MATERIALS LEDGER CARD

Item _____ Paint

	Received				Issued				Balance		
Date	Receiving Report	Units	Unit Price	Total Price	Requi-sition	Units	Unit Price	Total Price	Units	Unit Price	Total Price
May 1									55	75	4,125
					#39	15	75	1,125	40	75	3,000

Problem 2-5A *(Continued)*

	GENERAL JOURNAL		
a.	**Raw Materials Inventory**	**78,700**	
	Accounts Payable		**78,700**
	To record materials purchases ($62,500+$16,200).		
d.	**Factory Payroll**	**174,250**	
	Cash		**174,250**
	To record factory payroll.		
	Factory Overhead	**102,000**	
	Cash		**102,000**
	To record other factory overhead.		
e.	**Finished Goods Inventory**	**208,710**	
	Goods in Process		**208,710**
	To record completion of jobs.		
f.	**Accounts Receivable**	**400,000**	
	Sales		**400,000**
	To record sales on account.		
	Cost of Goods Sold	**208,710**	
	Finished Goods Inventory		**208,710**
	To record cost of sales.		
h.	**Goods in Process Inventory***	**71,050**	
	Factory Overhead	**1,125**	
	Raw Materials Inventory		**72,175**
	To record direct & indirect materials.		
	****($33,750 + $12,960 + $17,500 + $6,840)***		
i.	**Goods in Process Inventory***	**155,000**	
	Factory Overhead	**19,250**	
	Factory Payroll		**174,250**
	To record direct & indirect labor.		
	****($90,000 + 65,000)***		
j.	**Goods in Process Inventory**	**124,000**	
	Factory Overhead		**124,000**
	To apply overhead ($72,000 + 52,000).		

Problem 2-5A *(Continued)*

k. The ending balance in the Factory Overhead account is computed as:

Actual Factory Overhead	
Miscellaneous overhead	**$102,000**
Indirect materials	**1,125**
Indirect labor	**19,250**
Total actual factory overhead	**122,375**
Factory overhead applied	**124,000**
Overapplied overhead	**$ (1,625)**

PROBLEM SET B

Problem 2-1B (80 minutes)

Part 1

Total manufacturing costs and the costs assigned to each job

	114	115	116	Sept. Total
From August				
Direct materials	$ 14,000	$ 18,000		
Direct labor	18,000	16,000		
Applied overhead*	9,000	8,000		
Beginning goods				
In process	41,000	42,000		$ 83,000
For September				
Direct materials	100,000	170,000	$ 80,000	350,000
Direct labor	30,000	68,000	120,000	218,000
Applied overhead*	15,000	34,000	60,000	109,000
Total costs added in				
September	145,000	272,000	260,000	677,000
Total costs	$186,000	$314,000	$260,000	$760,000

*Equals 50% of direct labor cost.

Part 2 Journal entries for September

a.	Raw Materials Inventory	400,000	
	Accounts Payable		400,000
	To record materials purchases.		
	Factory Payroll	232,000	
	Cash		232,000
	To record factory payroll.		
	Factory Overhead	30,000	
	Raw Materials Inventory		30,000
	To record indirect materials.		
	Factory Overhead	14,000	
	Factory Payroll		14,000
	To record indirect labor.		
	Factory Overhead	20,000	
	Cash		20,000
	To record other factory overhead (rent).		

Problem 2-1B *(Continued)*

a.	**[continued from prior page]**		
	Factory Overhead	**12,000**	
	Cash		**12,000**
	To record other factory overhead (utilities).		
	Factory Overhead	**30,000**	
	Accum. Depreciation—Factory Equip		**30,000**
	T*o record other factory overhead (depreciation).*		
b.	**Goods in Process Inventory**	**350,000**	
	Raw Materials Inventory		**350,000**
	To assign direct materials to jobs.		
	Goods in Process Inventory	**218,000**	
	Factory Payroll		**218,000**
	To assign direct labor to jobs.		
	Goods in Process Inventory	**109,000**	
	Factory Overhead		**109,000**
	To apply overhead to jobs.		
c.	**Finished Goods Inventory**	**500,000**	
	Goods in Process Inventory		**500,000**
	To record jobs completed ($186,000 + $314,000).		
d.	**Cost of Goods Sold**	**186,000**	
	Finished Goods Inventory		**186,000**
	To record cost of sale of job.		
e.	**Cash**	**380,000**	
	Sales		**380,000**
	To record sale of job.		
f.	**Factory Overhead***	**3,000**	
	Cost of Goods Sold		**3,000**
	To assign overapplied overhead.		

***Overhead applied to jobs**		**$109,000**
Overhead incurred		
Indirect materials	**$30,000**	
Indirect labor	**14,000**	
Factory rent	**20,000**	
Factory utilities	**12,000**	
Factory equip. depreciation	**30,000**	**106,000**
Overapplied overhead		**$ 3,000**

Problem 2-1B *(Continued)*

Part 3

TAVELLA COMPANY Manufacturing Statement For Month Ended September 30		
Direct materials used		$350,000
Direct labor used		218,000
Factory overhead		
Indirect materials	$ 30,000	
Indirect labor	14,000	
Factory rent	20,000	
Factory utilities	12,000	
Depreciation of equipment	30,000	106,000
Total manufacturing costs		674,000
Add goods in process August 31 (Jobs 114 & 115)		83,000
Total cost of goods in process		757,000
Deduct goods in process, September 30 (Job 116)		(260,000)
Add overapplied overhead*		3,000
Cost of goods manufactured		$500,000

***Alternatively, overapplied overhead can be listed among the overhead items.**

Part 4

Gross profit on the income statement for the month ended September 30

Sales	$380,000
Cost of goods sold ($186,000 - $3,000)	(183,000)
Gross profit	$197,000

Presentation of inventories on the September 30 balance sheet

Inventories	
Raw materials	$170,000*
Goods in process (Job 116)	260,000
Finished goods (Job 115)	314,000
Total inventories	$744,000

* Beginning raw materials inventory	$150,000
Purchases	400,000
Direct materials used	(350,000)
Indirect materials used	(30,000)
Ending raw materials inventory	$170,000

Problem 2-1B *(Concluded)*

Part 5

Overhead is overapplied by $3,000, meaning that individual jobs or batches are over-costed. Thus, profits at the job (and batch) level are understated.

Problem 2-2B (75 minutes)

Part 1

a.

Dec. 31	**Goods in Process Inventory**	**12,200**	
	Raw Materials Inventory		**12,200**
	To record direct materials costs for Jobs 603 and 604 ($4,600 + $7,600).		

b.

Dec. 31	**Goods in Process Inventory**	**13,000**	
	Factory Payroll		**13,000**
	To record direct labor costs for Jobs 603 and 604 ($5,000 + $8,000).		

c.

Dec. 31	**Goods in Process Inventory**	**26,000**	
	Factory Overhead		**26,000**
	To allocate overhead to Jobs 603 and 604 at 200% of direct labor cost assigned to them.		

d.

Dec. 31	**Factory Overhead**	**2,100**	
	Raw Materials Inventory		**2,100**
	To add cost of indirect materials to actual factory overhead.		

e.

Dec. 31	**Factory Overhead**	**3,000**	
	Factory Payroll		**3,000**
	To add cost of indirect labor to actual factory overhead.		

Problem 2-2B (*Continued)*

Part 2

Revised Factory Overhead account		
Ending balance from trial balance	$27,000	Debit
Applied to Jobs 603 and 604	(26,000)	Credit
Additional indirect materials	2,100	Debit
Additional indirect labor	3,000	Debit
Underapplied overhead	$ 6,100	Debit

Dec. 31	Cost of Goods Sold	6,100	
	Factory Overhead		6,100
	To remove $6,100 of underapplied overhead from the Factory Overhead account and add it to cost of goods sold.		

Part 3

SWISHER COMPANY
Trial Balance
December 31, 2013

	Debit	Credit
Cash	$ 48,000	
Accounts receivable	42,000	
Raw materials inventory*	11,700	
Goods in process inventory**	51,200	
Finished goods inventory	9,000	
Prepaid rent	3,000	
Accounts payable		$ 10,500
Notes payable		13,500
Common stock		30,000
Retained earnings		87,000
Sales		180,000
Cost of goods sold***	111,100	
Factory payroll	0	
Factory overhead	0	
Operating expenses	45,000	
Totals	$321,000	$321,000

Problem 2-2B *(Continued)*

Part 3* (*Concluded)

*** Raw materials inventory**

Balance per trial balance	$26,000
Less: Amounts recorded for Jobs 603 and 604	(12,200)
Less: Indirect materials	(2,100)
Ending balance	$11,700

**** Goods in process inventory**

	Job 603	Job 604	Total
Direct materials	$ 4,600	$ 7,600	$12,200
Direct labor	5,000	8,000	13,000
Overhead	10,000	16,000	26,000
Total cost	$19,600	$31,600	$51,200

***** $105,000 + $6,100 = $111,100**

Part 4

SWISHER COMPANY
Income Statement
For Year Ended December 31, 2013

Sales	$ 180,000
Cost of goods sold	(111,100)
Gross profit	68,900
Operating expenses	(45,000)
Net income	$ 23,900

Problem 2-2B *(Concluded)*

Part 4 (Concluded)

SWISHER COMPANY Balance Sheet December 31, 2013		
Assets		
Cash		**$ 48,000**
Accounts receivable		**42,000**
Inventories		
Raw materials inventory	**$11,700**	
Goods in process inventory	**51,200**	
Finished goods inventory	**9,000**	**71,900**
Prepaid rent		**3,000**
Total assets		**$164,900**
Liabilities and equity		
Accounts payable		**$ 10,500**
Notes payable		**13,500**
Total liabilities		**24,000**
Common stock		**30,000**
Retained earnings ($87,000 + $23,900)		**110,900**
Total stockholders' equity		**140,900**
Total liabilities and equity		**$164,900**

Part 5

The $2,100 error would cause the costs for Job 604 to be understated. Since Job 604 is in process at the end of the period, goods in process inventory and total assets would both be understated on the balance sheet. In addition the over- or underapplied overhead would change by $2,100. That is, if overhead is underapplied by, say, $6,100, that amount would decrease by $2,100, yielding $4,000 in underapplied overhead. Any under- or overapplied overhead is charged directly to cost of goods sold, so correcting the error would cause cost of goods sold to decrease and net income to increase by $2,100—yielding a $2,100 increase in retained earnings.

Problem 2-3B (70 minutes)

Part 1

JOB COST SHEETS

Job No. 487	
Materials.....	$30,000
Labor	8,000
Overhead.....	16,000
Total cost	$54,000

Materials.....	$20,000
Labor	7,000
Overhead.....	14,000
Total cost	$41,000

Materials.....	$12,000
Labor	25,000
Overhead.....	50,000
Total cost	$87,000

Materials.....	$14,000
Labor	26,000
Overhead.....	52,000
Total cost	$92,000

Materials.....	$ 4,000
Labor	2,000
Overhead.....	4,000
Total cost	$10,000

Problem 2-3B (*Concluded*)

Part 2

a.	**Raw Materials Inventory**	**125,000**	
	Accounts Payable		**125,000**
	To record materials purchases.		
b.	**Factory Payroll**	**84,000**	
	Cash		**84,000**
	To record factory payroll.		
c.	**Factory Overhead**	**11,000**	
	Cash		**11,000**
	To record other factory overhead.		
d.	**Goods in Process Inventory**	**80,000**	
	Factory Overhead	**12,000**	
	Raw Materials Inventory		**92,000**
	To record direct & indirect materials.		
e.	**Goods in Process Inventory**	**68,000**	
	Factory Overhead	**16,000**	
	Factory Payroll		**84,000**
	To record direct & indirect labor.		

Problem 2-3B *(Continued)*

[continued from prior page]

f.	**Goods in Process Inventory**	**118,000**	
	Factory Overhead		**118,000**
	To apply overhead to jobs		
	[($8,000 + $25,000 + $26,000) x 200%].		
g.	**Finished Goods Inventory**	**233,000**	
	Goods in Process Inventory		**233,000**
	To record completion of jobs		
	($54,000 + $87,000 + $92,000).		
h.	**Accounts Receivable**	**340,000**	
	Sales		**340,000**
	To record sales on account.		
	Cost of Goods Sold	**141,000**	
	Finished Goods Inventory		**141,000**
	To record cost of sales ($54,000 + $87,000).		
i.	**Factory Overhead**	**96,000**	
	Accum. Depreciation—Factory Building		**37,000**
	Accum. Depreciation—Factory Equipment		**21,000**
	Prepaid Insurance		**7,000**
	Property Taxes Payable		**31,000**
	To record other factory overhead.		
j.	**Goods in Process Inventory**	**18,000**	
	Factory Overhead		**18,000**
	To apply overhead to jobs		
	[($7,000 + $2,000) x 200%].		

Problem 2-3B *(Continued)*

Part 3

GENERAL LEDGER ACCOUNTS

Raw Materials Inventory

(a)	125,000	(d)	92,000
Bal.	33,000		

Factory Payroll

(b)	84,000	(e)	84,000
Bal.	0		

Goods in Process Inventory

(d)	80,000	(g)	233,000
(e)	68,000		
(f)	118,000		
(j)	18,000		
Bal.	51,000		

Factory Overhead

(c)	11,000	(f)	118,000
(d)	12,000	(j)	18,000
(e)	16,000		
(i)	96,000		
		Bal.	1,000

Finished Goods Inventory

(g)	233,000	(h)	141,000
Bal.	92,000		

Cost of Goods Sold

(h)	141,000		
Bal.	141,000		

Part 4

Reports of Job Costs*

Goods in Process Inventory

Job 488	$ 41,000
Job 491	10,000
Balance	$ 51,000

Finished Goods Inventory

Job 490	$ 92,000
Balance	$ 92,000

Cost of Goods Sold

Job 487	$ 54,000
Job 489	87,000
Balance	$141,000

***Individual totals reconcile with account balances shown in part 3.**

Problem 2-4B (35 minutes)

Part 1

a. Predetermined overhead rate

$$\frac{\text{Estimated overhead costs}}{\text{Estimated direct labor cost}} = \frac{\$750{,}000}{[50 \times 2{,}000 \times \$15]} = \frac{\$750{,}000}{\$1{,}500{,}000} = 50\%$$

b. Overhead costs charged to jobs

Job No.	Direct Labor	Applied Overhead (50%)
625	$ 354,000	$177,000
626	330,000	165,000
627	175,000	87,500
628	420,000	210,000
629	184,000	92,000
630	10,000	5,000
Total	$1,473,000	$736,500

c. Overapplied or underapplied overhead determination

Actual overhead cost	$725,000
Less applied overhead cost	736,500
Overapplied overhead	$ (11,500)

Part 2

Dec. 31	Factory Overhead	11,500	
	Cost of Goods Sold		11,500
	To assign overapplied overhead.		

Problem 2-5B (90 minutes)

JOB COST

Customer's Name Encinita Company **Job No.** 450

	Direct Materials		Direct Labor		Overhead Costs Applied		
Date	Requisition Number	Amount	Time Ticket Number	Amount	Date	Rate	Amount
	#223	16,000	#1-10	40,000	June --	70%	28,000
	#224	9,600					
	Total	25,600	Total	40,000			

SUMMARY OF COSTS

Dir. Materials	25,600
Dir. Labor.....	40,000
Overhead	28,000
Total Cost of Job ..	93,600

FINISHED

JOB COST

Customer's Name Fargo, Inc. **Job No.**

	Direct Materials		Direct Labor		Overhead Costs Applied		
Date	Requisition Number	Amount	Time Ticket Number	Amount	Date	Rate	Amount
	#225	8,000	#11-20	32,000	June--	70%	22,400
	#226	4,800					
	Total		Total				

SUMMARY OF COSTS

Dir. Materials	
Dir. Labor.....	
Overhead	
Total cost of Job	

Problem 2-5B *(Continued)*

MATERIALS LEDGER CARD

Item _____ Material M

	Received				Issued				Balance		
Date	Receiving Report	Units	Unit Price	Total Price	Requi-sition	Units	Unit Price	Total Price	Units	Unit Price	Total Price
June 1									120	200	24,000
	#20	150	200	30,000					270	200	54,000
					#223	80	200	16,000	190	200	38,000
					#225	40	200	8,000	150	200	30,000

MATERIALS LEDGER CARD

Item _____ Material R

	Received				Issued				Balance		
Date	Receiving Report	Units	Unit Price	Total Price	Requi-sition	Units	Unit Price	Total Price	Units	Unit Price	Total Price
June 1									80	160	12,800
	#21	70	160	11,200					150	160	24,000
					#224	60	160	9,600	90	160	14,400
					#226	30	160	4,800	60	160	9,600

MATERIALS LEDGER CARD

Item _____ Paint

	Received				Issued				Balance		
Date	Receiving Report	Units	Unit Price	Total Price	Requi-sition	Units	Unit Price	Total Price	Units	Unit Price	Total Price
June 1									44	72	3,168
					#227	12	72	864	32	72	2,304

Problem 2-5B *(Continued)*

	GENERAL JOURNAL		
a.	**Raw Materials Inventory**	**41,200**	
	Accounts Payable		**41,200**
	To record materials purchases ($30,000+$11,200).		
d.	**Factory Payroll**	**84,000**	
	Cash		**84,000**
	To record factory payroll.		
	Factory Overhead	**36,800**	
	Cash		**36,800**
	To record other factory overhead.		
e.	**Finished Goods Inventory**	**93,600**	
	Goods in Process		**93,600**
	To record completion of jobs.		
f.	**Accounts Receivable**	**290,000**	
	Sales		**290,000**
	To record sales on account.		
	Cost of Goods Sold	**93,600**	
	Finished Goods Inventory		**93,600**
	To record cost of sales.		
h.	**Goods in Process Inventory***	**38,400**	
	Factory Overhead	**864**	
	Raw Materials Inventory		**39,264**
	To record direct & indirect materials.		
	****($16,000 + $8,000 + $9,600 + $4,800)***		
i.	**Goods in Process Inventory***	**72,000**	
	Factory Overhead	**12,000**	
	Factory Payroll		**84,000**
	To record direct & indirect labor.		
	****($40,000 + $32,000)***		
j.	**Goods in Process Inventory**	**50,400**	
	Factory Overhead		**50,400**
	To apply overhead ($28,000 + $22,400).		

Problem 2-5B *(Continued)*

k. The ending balance in Factory Overhead is computed as:

Actual Factory Overhead	
Miscellaneous overhead	**$36,800**
Indirect materials	**864**
Indirect labor	**12,000**
Total actual factory overhead	**49,664**
Factory overhead applied	**50,400**
Overapplied overhead	**$ (736)**

SERIAL PROBLEM– SP 2

Serial Problem—SP 2, Success Systems (40 minutes)

1. The cost of direct materials requisitioned in the month equals the total direct materials costs accumulated on the three jobs less the amount of direct materials cost assigned to Job 6.02 in May:

Job 6.02	$1,500	
Less prior costs	(600)	$ 900
Job 6.03		3,300
Job 6.04		2,700
Total materials used (requisitioned)		$6,900

2. Direct labor cost incurred in the month equals the total direct labor costs accumulated on the three jobs less the amount of direct labor cost assigned to Job 6.02 in May:

Job 6.02	$ 800	
Less prior costs	(180)	$ 620
Job 6.03		1,420
Job 6.04		2,100
Total direct labor		$4,140

3. The predetermined overhead rate equals the ratio between the amount of overhead assigned to the jobs divided by the amount of direct labor cost assigned to them. Since the rate is assumed constant during the year in this problem, and the same rate is used for all jobs within a month, the ratio for any one of them equals the rate that was applied. This table shows the ratio for jobs 6.02 and 6.04:

	Job 6.02	Job 6.04
Overhead	$ 400	$1,050
Direct labor	800	2,100
Predetermined overhead rate	50%	50%

4. The cost transferred to finished goods in June equals the total costs of the two completed jobs for the month, which are Jobs 6.02 and 6.03:

	Job 6.02	Job 6.03	Total
Direct materials	$1,500	$3,300	$4,800
Direct labor	800	1,420	2,220
Overhead	400	710	1,110
Total transferred cost	$2,700	$5,430	$8,130

Reporting in Action — BTN 2-1

1. **We would anticipate that at least two types of costs will increase as a percent of sales with Polaris's growth in domestic sales. The first type is broadly classed into variable costs. Variable costs are the usual operating costs including selling, and administrative costs. Simply stated, it will cost Polaris to expand and operate in more markets. The second type of costs relates to fixed costs that occur with growth beyond Polaris's current productive capacity. Specifically, increasing amounts of property and equipment assets are likely to be required with growth in domestic markets. This is because Polaris would expand its ability to meet increasing sales through expanding the number of stores and its inventory.**

2. **Both types of costs identified in part 1 are likely to increase as Polaris expands into more markets. Examples of specific items include communication, advertising, training, travel, and management costs. In addition, if growth is sufficiently large to push Polaris's sales beyond its current capacity, additional costs will be incurred in expanding property and equipment assets.**

   Achieving success with the first type of costs can be examined by looking at the relation between operating costs and sales growth. Success with the second type of costs can be indirectly examined by looking at Polaris's gross margin ratio as sales increase. If Polaris does not expand and add capacity, this percent should increase as sales increase—this would be due to "economies of scale." Success could also be assessed using asset turnover ratios and return on asset ratios.

3. **Solution depends on the annual report information obtained.**

Comparative Analysis — BTN 2-2

1. Actual inventory changes and operating cash flow effects as found on the cash flow statement (amounts are in $thousands)

Polaris	Current Year	One Year Prior	Two Years Prior
Inventory change	Increase	Increase	Decrease
Operating cash flow effect from inventory change	Decrease of $49,973	Decrease of $56,612	Increase of $42,997

Arctic Cat	Current Year	One Year Prior	Two Years Prior
Inventory change	Decrease	Decrease	Decrease
Operating cash flow effect from inventory change	Increase of $20,587	Increase of $40,003	Increase of $2,798

2. A successful JIT system should reduce inventory levels. This reduction in inventory should increase operating cash flows. In the solution of part 1, notice that decreases in inventory yield increases in operating cash flow, while increases in inventory yield decreases in operating cash flow. The decreases in inventory from a JIT system should free up additional resources that could be directed toward paying off debt or expanding operations for even greater returns. This should increase operating income. In addition, losses from obsolete or damaged inventory should decline, also increasing operating income.

3. This is a one-time occurrence of a release of cash. However, this one-time adjustment can yield a recurring impact on returns if such freed up resources are directed into productive assets. Moreover, this adjustment should not reverse provided the JIT inventory system can maintain the reduced inventory levels.

Ethics Challenge — BTN 2-3

Instructor note: This problem is designed to illustrate why the accounting professional must be aware of management's and employees' biases when working with and relying on accounting estimates and data.

MEMORANDUM

TO:
FROM:
DATE:
SUBJECT:

Suggested content outline

The obvious concern is that management is allocating more overhead to government jobs compared to open market bid contracts. There is no obvious reason for such behavior other than a profit motive.

Specifically, by allocating more overhead to government jobs, profits on government jobs will increase in relation to cost. Conversely, private market jobs will show greater profits because more overhead is allocated to government jobs and less to private jobs.

This type of abuse in overhead allocation is a real problem in practice. This is why we hear of "$500 hammers" sold to the U.S. Government.

Communicating in Practice — BTN 2-4

Student notes should include but not be limited to the following points:

1. **You recommend replacing the general accounting (periodic inventory) system with a cost accounting (perpetual inventory) system— specifically a job order cost accounting system. Cost accounting systems provide product cost information as products are manufactured whereas the current system does not. The new system would yield more timely information for pricing goods for sale. A job order system is particularly appropriate for the kinds of goods this business produces—goods made-to-order or stock items produced at varying points in time. A job order system is also appropriate for this type of discontinuous production of goods. Finally, the new system has the potential to reduce inventory levels—with possible implementation of a JIT system—that will free up funds to be devoted elsewhere.**

2. **This new system would require use of many different documents to control the acquisition, use, and availability of materials. It also requires documents for allocation of labor and overhead costs, and for finished goods that are sold and unsold. The chapter illustrates many of these source documents for a cost accounting system. You might also suggest that these documents could/should be implemented in an "online" (paperless) manner to further facilitate information and inventory management.**

3. **The focal point of the new system is the job cost sheet, which is used to accumulate and tally costs of goods as produced for each specific job order and job lot. You could prepare a sample and explain and illustrate how the system determines unit costs as production is completed.**

Taking It to the Net — BTN 2-5

Instructor note: There is no single solution to this assignment.

The Website [amsi.com] provides details about what its job costing software can provide to users. After careful examination, students can write a report to the CEO, which may include the following points:

- **Features of the software (including the tools it offers)**
- **Reports that can be generated using the software**
- **Benefits of the software—pricing, cost control, inventory management, general ledger package, accounts payable and receivable, etc.**

Teamwork in Action — BTN 2-6

1. **A medical clinic can be considered as appropriate for a job order cost accounting system. This is because each patient is unique in many ways, such as the type/location of the illness (skin, heart, lung, etc.), health condition (some may have diabetes or high blood pressure whereas others may be free of such conditions), and other personal characteristics (age, gender, weight, etc.). Also, different patients have different emotional frames of mind that impact diagnosis and treatment.**

2. **In light of the differences identified in part 1, the doctors will consider the individual characteristics of every patient in determining the type and extent of treatment to be provided, the extent of counseling required, and so forth. Each individual patient will therefore "consume" resources in varying quantities resulting in different costs. This would suggest a job order cost accounting system as an appropriate monitoring and control system.**

Entrepreneurial Decision — BTN 2-7

1. **A job cost sheet for a service company would likely not have any costs for direct materials. A manufacturing company like Astor and Black converts raw materials into finished goods, thus its job cost sheet would accumulate and track costs of raw materials for each job.**

2. **Examples of direct labor and overhead costs for Astor and Black include:**

   Direct Labor: Wages/salaries of tailors.

   Overhead: Allocated portions of general administrative costs such as supervisors' salaries, depreciation on equipment used, and indirect materials such as thread and needles.

Hitting the Road — BTN 2-8

1. **The framework for the job cost sheet should follow that in the second exhibit in the chapter. This includes the descriptions for: company name, date, quantity, etc. In addition, the direct costs should include subcontract work, such as electrical and plumbing. The response for overhead will likely vary. The key is that any overhead allocation pattern be logical. In the building business, square footage, lot size, labor time, cost of materials, a straight average, or a combination may be utilized to allocate overhead.**

2. **Results of the comparison of job cost sheets to a builder's actual job cost sheets depend on the builder chosen and the format used.**

   Instructors often find it useful to have students/teams report findings to the class.

Global Decision — BTN 2-9

1. Actual inventory amounts and changes. KTM's amounts are in Australian dollars (thousands) and Piaggio's amounts are in euros (thousands).

KTM ($ '000's)	Balance, Current Year	Balance, Prior Year	Change in Inventory
Inventory.....	$113,979	$108,910	$5,069 Increase
Operating cash flow effect from inventory change			Decrease of $5,069

Piaggio (€ '000's)	Balance, Current Year	Balance, Prior Year	Change in Inventory
Inventory.....	€236,998	€240,066	€3,068 Decrease
Operating cash flow effect from inventory change			Increase of €3,068

2. A successful JIT system should reduce inventory levels. This reduction in inventory should increase operating cash flows. In the solution of part 1, notice that decreases in inventory yield increases in operating cash flow, while increases in inventory yield decreases in operating cash flow. The decreases in inventory from a JIT system should free up additional resources that could be directed toward paying off debt or expanding operations for even greater returns. This should also increase operating income. In addition, losses from obsolete or damaged inventory should decline, also increasing operating income.

3. We cannot definitively determine which company of the two would benefit the most from JIT implementation. The benefit of JIT would depend on the efficiencies gained from the implementation, which might vary by company. Also, we cannot directly compare changes expressed in euros with those expressed in Australian dollars. We would have to translate euros into Australian dollars (or vice versa) to be able to determine which company has experienced the largest changes in inventory over the past few years.