**CHAPTER 4--Job Order Costing**

**TRUE/FALSE**

1. A company that produces sugar will use a job order costing system to track production costs.

ANS: F

2. A company that produces sugar will use a process costing system to track production costs.

ANS: T

3. A company that manufactures custom bridal gowns will use a job order costing system to track production costs

ANS: T

4. A company that manufactures custom bridal gowns will use a process costing system to track costs.

ANS: F

5. A company that manufactures small quantities of identifiable products will use a job order costing system

ANS: T

6. A company that manufactures small quantities of identifiable products will use a process costing system

ANS: F

7. A company that manufactures large quantities of homogenous goods will use a process costing system.

ANS: T

8. In an actual job order costing system, factory overhead is assigned to a job on a periodic basis.

ANS: T

9. A company that manufactures large quantities of homogenous goods will use a job order costing system.

ANS: F

10. Cost flows and physical flows of units are identical.

ANS: F

11. In an actual job-order costing system, factory overhead is assigned to a job continuously during the production process.

ANS: F

12. In a normal job order costing system, actual factory overhead is applied at the end of the period

ANS: F

13. In a normal job order costing system, factory overhead is applied using actual rates times actual input

ANS: F

14. In a normal job order costing system, factory overhead is applied using predetermined rates times actual input.

ANS: T

15. In a normal job order costing system, factory overhead is applied using predetermined rates times standard input

ANS: F

16. In a standard job order costing system, factory overhead is applied using predetermined rates times standard input.

ANS: T

17. In a standard job order costing system, factory overhead is applied using actual rates times standard input.

ANS: F

18. In a standard job order costing system, factory overhead is applied using predetermined rates times actual input.

ANS: F

19. In a job order costing system, costs are accumulated for each individual job

ANS: T

20. When raw materials are placed into production, the materials inventory account is debited

ANS: F

21. When manufacturing overhead is charged to a job, the work in process account is debited.

ANS: T

22. When manufacturing overhead is charged to a job, the manufacturing overhead account is debited.

ANS: F

23. When manufacturing overhead is charged to a job, the work in process account is credited.

ANS: F

24. When indirect labor is applied to a job in process, the manufacturing overhead account is debited.

ANS: F

25. When indirect labor is recorded for a job in process, the work in process account is debited.

ANS: F

26. Standards can be computed for materials, labor, and overhead.

ANS: T

27. Standards can be used in a job order costing system if the products manufactured are similar in nature.

ANS: T

28. Overapplied factory overhead that is material in amount is closed to cost of good sold at year end.

ANS: F

29. Overapplied factory overhead that is immaterial in amount is closed to cost of good sold at year end.

ANS: T

30. Overapplied overhead that is material in amount is allocated between Finished Goods Inventory, Work in Process, and Cost of Goods Sold at year end

ANS: T

31. Standards can be used in a job order costing system if the products manufactured are varied in nature.

ANS: F

32. If a normal loss is anticipated on a specific job, the overhead application rate should include an amount for the cost of defective units less disposal value.

ANS: T

33. If a normal loss is anticipated on all jobs, the overhead application rate should include an amount for the cost of defective units less disposal value.

ANS: F

34. Normal spoilage is considered a period cost

ANS: F

35. Abnormal spoilage is considered a period cost

ANS: T

36. The journal entry to record normal spoilage specifically identified with a particular job includes a debit to Work in Process

ANS: F

37. The journal entry to record normal spoilage specifically identified with a particular job includes a credit to Work in Process

ANS: T

38. Spoilage occurring on specific jobs should be considered in computing predetermined factory overhead rates

ANS: F

**COMPLETION**

1. A company that manufactures sugar will use a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ costing system to track production costs

ANS: process

2. A company that manufactures custom bridal gowns will use a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ costing system to track production costs

ANS: job-order

3. A company that manufactures large quantities of homogeneous goods will normally use a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ costing system.

ANS: process

4. A company that manufactures small quantities of identifiable products will use a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ costing system.

ANS: job order

5. Three methods of job-cost valuation are normal, standard, and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: actual

6. In a normal job order costing system, factory overhead is applied using \_\_\_\_\_\_\_\_\_\_\_ rates times \_\_\_\_\_\_\_\_ input.

ANS: predetermined;actual

7. In a standard job order costing system, factory overhead is applied using \_\_\_\_\_\_\_\_\_\_\_\_ rates times \_\_\_\_\_\_\_ input.

ANS: predetermined;standard

8. When a job is begun, the first document in the job order process is the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: materials requisition

9. When raw materials are placed into production, the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ account is debited

ANS: Work in process

10. When indirect materials are added to a job, the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ account is debited.

ANS: manufacturing overhead

11. When manufacturing overhead is applied to a job in process, the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is debited

ANS: work in process

12. When manufacturing overhead is applied to a job in process, the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ account is credited.

ANS: manufacturing overhead

13. The document that contains all information about the costs of a specific job is a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: job order cost sheet

14. When indirect labor is recorded for a job in process, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is debited.

ANS: manufacturing overhead

15. When production is completed on a job, finished goods are transferred to the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ account.

ANS: Finished Goods Inventory

16. The difference between a standard and an actual quantity, price, or rate is a(n)\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: variance

17. If a substandard product can be reworked, it is known as a \_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: defect

18. If a substandard product cannot be reworked, it is known as \_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: spoilage

19. Underapplied factory overhead that is immaterial in amount is closed to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ at year end.

ANS: Cost of Goods Sold

20. Underapplied factory overhead that is material in amount is closed to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_, and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ at year end.

ANS: Work in Process, Finished Goods Inventory,Cost of Goods Sold

**MULTIPLE CHOICE**

1. Which of the following organizations would be **most likely** to use a job order costing system?

|  |  |
| --- | --- |
| a. | the loan department of a bank |
| b. | the check clearing department of a bank |
| c. | a manufacturer of processed cheese food |
| d. | a manufacturer of video cassette tapes |

ANS: A

2. When job order costing is used, the primary focal point of cost accumulation is the

|  |  |
| --- | --- |
| a. | department. |
| b. | supervisor. |
| c. | item. |
| d. | job. |

ANS: D

3. In a job order costing system,

|  |  |
| --- | --- |
| a. | standards cannot be used. |
| b. | an average cost per unit within a job cannot be computed. |
| c. | costs are accumulated by departments and averaged among all jobs. |
| d. | overhead is typically assigned to jobs on the basis of some cost driver. |

ANS: D

4. What is the best cost accumulation procedure to use when many batches, each differing as to product specifications, are produced?

|  |  |
| --- | --- |
| a. | job order |
| b. | process |
| c. | actual |
| d. | standard |

ANS: A

5. Which of the following could **not** be used in job order costing?

|  |  |
| --- | --- |
| a. | standards |
| b. | an average cost per unit for all jobs |
| c. | normal costing |
| d. | overhead allocation based on the job's direct labor hours |

ANS: B

6. Which of the following costing methods of valuation are acceptable in a job order costing system?

|  |  |  |  |
| --- | --- | --- | --- |
| Actual  Material  Cost | Standard  Material  Cost | Actual  Labor  Cost | Predetermined  Overhead  Cost |

|  |  |
| --- | --- |
| a. | yes yes no yes |
| b. | yes no yes no |
| c. | no yes yes yes |
| d. | yes yes yes yes |

ANS: D

7. Which of the following costing systems allows management to quickly recognize materials, labor, and overhead variances and take measures to correct them?

|  |  |
| --- | --- |
| Actual Cost System | Normal Cost System |

|  |  |
| --- | --- |
| a. | yes yes |
| b. | yes no |
| c. | no yes |
| d. | no no |

ANS: D

8. In a normal cost system, a debit to Work in Process Inventory would **not** be made for

|  |  |
| --- | --- |
| a. | actual overhead. |
| b. | applied overhead. |
| c. | actual direct material. |
| d. | actual direct labor. |

ANS: A

9. Which of the following are drawbacks to applying actual overhead to production?

|  |  |
| --- | --- |
| a. | A delay occurs in assigning costs to jobs or products. |
| b. | Fluctuations in quantities produced during a period could cause varying per-unit charges for fixed overhead. |
| c. | Seasonality of overhead costs may cause distortions in job or product costs. |
| d. | all answers are correct. |

ANS: D

10. Job order costing and process costing have which of the following characteristics?

|  |  |
| --- | --- |
| Job Order Costing | Process Costing |

|  |  |
| --- | --- |
| a. | homogeneous products heterogeneous products  and large quantities and small quantities |
| b. | homogeneous products heterogeneous products  and small quantities and large quantities |
| c. | heterogeneous products homogeneous products  and large quantities and small quantities |
| d. | heterogeneous products homogeneous products  and small quantities and large quantities |

ANS: D

11. A credit to Work in Process Inventory represents

|  |  |
| --- | --- |
| a. | work still in process. |
| b. | raw material put into production. |
| c. | the application of overhead to production. |
| d. | the transfer of completed items to Finished Goods Inventory. |

ANS: D

12. In a job order costing system, the dollar amount of the entry that debits Finished Goods Inventory and credits Work in Process Inventory is the sum of the costs charged to all jobs

|  |  |
| --- | --- |
| a. | started in process during the period. |
| b. | in process during the period. |
| c. | completed and sold during the period. |
| d. | completed during the period. |

ANS: D

13. Total manufacturing costs for the year plus beginning Work in Process Inventory cost equals

|  |  |
| --- | --- |
| a. | cost of goods manufactured in the year. |
| b. | ending Work in Process Inventory. |
| c. | total manufacturing costs to account for. |
| d. | cost of goods available for sale. |

ANS: C

14. Which of the following would be **least** likely to be supported by subsidiary accounts or ledgers in a company that employs a job order costing system?

|  |  |
| --- | --- |
| a. | Work in Process Inventory |
| b. | Raw Material Inventory |
| c. | Accounts Payable |
| d. | Supplies Inventory |

ANS: D

15. A journal entry includes a debit to Work in Process Inventory and a credit to Raw Material Inventory. The explanation for this would be that

|  |  |
| --- | --- |
| a. | indirect material was placed into production. |
| b. | raw material was purchased on account. |
| c. | direct material was placed into production. |
| d. | direct labor was used for production. |

ANS: C

16. The source document that records the amount of raw material that has been requested by production is the

|  |  |
| --- | --- |
| a. | job order cost sheet. |
| b. | bill of lading. |
| c. | interoffice memo. |
| d. | material requisition. |

ANS: D

17. A material requisition form should show all of the following information **except**

|  |  |
| --- | --- |
| a. | job number. |
| b. | quantity required. |
| c. | unit cost. |
| d. | purchase order number. |

ANS: D

18. Which of the following statements about job order cost sheets is **true**?

|  |  |
| --- | --- |
| a. | All job order cost sheets serve as the general ledger control account for Work in Process Inventory. |
| b. | Job order cost sheets can serve as subsidiary ledger information for both Work in Process Inventory and Finished Goods Inventory. |
| c. | If material requisition forms are used, job order cost sheets do not need to be maintained. |
| d. | Job order cost sheets show costs for direct material and direct labor, but not for manufacturing overhead since it is an applied amount. |

ANS: B

19. The primary accounting document in a job order costing system is a(n)

|  |  |
| --- | --- |
| a. | bill of materials. |
| b. | job order cost sheet. |
| c. | employee time sheet. |
| d. | materials requisition. |

ANS: B

20. The cost sheets for incomplete jobs at the end of the period comprise the subsidiary ledger for

|  |  |
| --- | --- |
| a. | Finished Goods Inventory. |
| b. | Raw Material Inventory. |
| c. | Work in Process Inventory. |
| d. | Supplies Inventory. |

ANS: C

21. The \_\_\_\_\_\_\_\_\_\_ provides management with a historical summation of total costs for a given product.

|  |  |
| --- | --- |
| a. | job order cost sheet |
| b. | employee time sheet |
| c. | material requisition form |
| d. | bill of lading |

ANS: A

22. The source document that records the amount of time an employee worked on a job and his/her pay rate is the

|  |  |
| --- | --- |
| a. | job order cost sheet. |
| b. | employee time sheet. |
| c. | interoffice memo. |
| d. | labor requisition form. |

ANS: B

23. Which of the following journal entries records the accrual of the cost of indirect labor used in production?

|  |  |
| --- | --- |
| a. | debit Work in Process Inventory, credit Wages Payable |
| b. | debit Work in Process Inventory, credit Manufacturing Overhead |
| c. | debit Manufacturing Overhead, credit Work in Process Inventory |
| d. | debit Manufacturing Overhead, credit Wages Payable |

ANS: D

24. In job order costing, payroll taxes paid by the employer for factory employees are commonly accounted for as

|  |  |
| --- | --- |
| a. | direct labor cost. |
| b. | manufacturing overhead cost. |
| c. | indirect labor cost. |
| d. | administrative cost. |

ANS: B

25. The logical explanation for an entry that includes a debit to Manufacturing Overhead control and a credit to Prepaid Insurance is

|  |  |
| --- | --- |
| a. | the insurance company sent the company a refund of its policy premium. |
| b. | overhead for insurance was applied to production. |
| c. | insurance for production equipment expired. |
| d. | insurance was paid on production equipment. |

ANS: C

26. The journal entry to apply overhead to production includes a credit to Manufacturing Overhead control and a debit to

|  |  |
| --- | --- |
| a. | Finished Goods Inventory. |
| b. | Work in Process Inventory. |
| c. | Cost of Goods Sold. |
| d. | Raw Material Inventory. |

ANS: B

27. Production overhead does **not** include the costs of

|  |  |
| --- | --- |
| a. | factory depreciation and supplies. |
| b. | factory employees' cafeteria departments. |
| c. | production line labor. |
| d. | the maintenance department for the factory. |

ANS: C

28. In a job order costing system, the use of indirect material would usually be reflected in the general ledger as an increase in

|  |  |
| --- | --- |
| a. | stores control. |
| b. | work in process control. |
| c. | manufacturing overhead applied. |
| d. | manufacturing overhead control. |

ANS: D

29. A credit to the Manufacturing Overhead control account represents the

|  |  |
| --- | --- |
| a. | actual cost of overhead incurred. |
| b. | actual cost of overhead paid this period. |
| c. | amount of overhead applied to production. |
| d. | amount of indirect material and labor used during the period. |

ANS: C

30. The journal entry to record the incurrence and payment of overhead costs for factory insurance requires a debit to

|  |  |
| --- | --- |
| a. | Cash and a credit to Manufacturing Overhead. |
| b. | Manufacturing Overhead and a credit to Accounts Payable. |
| c. | Manufacturing Overhead and a credit to Cash. |
| d. | Work in Process Inventory and a credit to Cash. |

ANS: C

31. Overhead is applied to jobs in a job order costing system

|  |  |
| --- | --- |
| a. | at the end of a period. |
| b. | as jobs are completed. |
| c. | at the end of a period or as jobs are completed, whichever is earlier. |
| d. | at the end of a period or as jobs are completed, whichever is later. |

ANS: C

32. In a job order costing system, the subsidiary ledger for Finished Goods Inventory is comprised of

|  |  |
| --- | --- |
| a. | all job order cost sheets. |
| b. | job order cost sheets for all uncompleted jobs. |
| c. | job order cost sheets for all completed jobs not yet sold. |
| d. | job order cost sheets for all ordered, uncompleted, and completed jobs. |

ANS: C

33. Underapplied overhead resulting from unanticipated and immaterial price increases for overhead items should be written off by

|  |  |
| --- | --- |
| a. | decreasing Cost of Goods Sold. |
| b. | increasing Cost of Goods Sold. |
| c. | decreasing Cost of Goods Sold, Work in Process Inventory, and Finished Goods Inventory. |
| d. | increasing Cost of Goods Sold, Work in Process Inventory, and Finished Goods Inventory. |

ANS: B

34. Overapplied overhead would result if

|  |  |
| --- | --- |
| a. | the plant were operated at less than normal capacity. |
| b. | overhead costs incurred were less than costs charged to production. |
| c. | overhead costs incurred were unreasonably small in relation to units produced. |
| d. | overhead costs incurred were greater than costs charged to production. |

ANS: B

35. Debits to Cost of Goods Sold typically represent the

|  |  |
| --- | --- |
| a. | transfer of completed items to Finished Goods Inventory. |
| b. | costs of items sold. |
| c. | selling price of items sold. |
| d. | the cost of goods manufactured. |

ANS: B

36. In a perpetual inventory system, a transaction that requires two journal entries (or one compound entry) is needed when

|  |  |
| --- | --- |
| a. | raw materials are purchased on account. |
| b. | goods are sold for either cash or on account. |
| c. | goods are finished and transferred out of Work in Process Inventory. |
| d. | overhead is applied to Work in Process Inventory. |

ANS: B

37. Which of the following statements is **false**?

|  |  |
| --- | --- |
| a. | While the use of standard costing is acceptable for job order costing systems, actual cost records should still be maintained. |
| b. | It is normally more time-consuming for a company to use standard costs in a job order costing system. |
| c. | Standards can be used in a job order costing system, if the company usually produces items that are similar in nature. |
| d. | Standard costs may be used for material, labor, or both material and labor in a job order costing environment. |

ANS: B

38. The trend in job order costing is to

|  |  |
| --- | --- |
| a. | eliminate the data entry function for the accounting system. |
| b. | automate the data collection and data entry functions. |
| c. | use accounting software to change the focal point of the job order system. |
| d. | create an Intranet to share information between competitors. |

ANS: B

39. As data input functions are automated, Intranet data becomes more

|  |  |
| --- | --- |
| a. | complicated to access. |
| b. | manufacturing, but not accounting, oriented. |
| c. | real-time accessible. |
| d. | expensive to install, but easier to use. |

ANS: C

40. The use of standard material or labor costs in job order costing

|  |  |
| --- | --- |
| a. | is similar to the use of predetermined overhead rates in a normal costing system. |
| b. | will keep actual costs of jobs from fluctuating due to changes in component costs. |
| c. | is appropriate for any company making a units to customer specification. |
| d. | all answers are correct. |

ANS: A

41. After the completion of production, standard and actual costs are compared to determine the \_\_\_\_\_\_ of the production process.

|  |  |
| --- | --- |
| a. | effectiveness |
| b. | complexity |
| c. | homogeneity |
| d. | efficiency |

ANS: D

42. A company producing which of the following would be **most** likely to use a price standard for material?

|  |  |
| --- | --- |
| a. | furniture |
| b. | NFL-logo jackets |
| c. | picture frames |
| d. | none of the above |

ANS: B

43. A company producing which of the following would be **most** likely to use a time standard for labor?

|  |  |
| --- | --- |
| a. | mattresses |
| b. | picture frames |
| c. | floral arrangements |
| d. | stained-glass windows |

ANS: A

44. A service organization would be most likely to use a predetermined overhead rate based on

|  |  |
| --- | --- |
| a. | machine hours. |
| b. | standard material cost. |
| c. | direct labor. |
| d. | number of complaints. |

ANS: C

45. Knowing specific job costs enables managers to effectively perform which of the following tasks?

|  |  |
| --- | --- |
| a. | estimate costs of future jobs. |
| b. | establish realistic job selling prices. |
| c. | evaluate job performance. |
| d. | all answers are correct. |

ANS: D

46. A job order costing system is likely to provide better

|  |  |
| --- | --- |
| (1) | inventory valuations for financial statements. |
| (2) | control over inventory. |
| (3) | information about ability to accept additional production work. |

|  |  |  |
| --- | --- | --- |
| (1) | (2) | (3) |

|  |  |
| --- | --- |
| a. | yes no no |
| b. | no yes yes |
| c. | no no no |
| d. | yes yes yes |

ANS: D DIF: Difficult

47. In a production environment that manufactures goods to customer specifications, a job order costing system

|  |  |
| --- | --- |
| a. | can be used only if standard costs are used for materials and labor. |
| b. | will provide reasonable product cost information only when all jobs utilize approximately the same quantities of material and labor. |
| c. | may be maintained using either actual or predetermined overhead rates. |
| d. | emphasizes that large customers create the most costs even though they also provide the most revenues. |

ANS: C DIF: Difficult

48. A unit that is rejected at a quality control inspection point, but that can be reworked and sold, is referred to as a

|  |  |
| --- | --- |
| a. | spoiled unit. |
| b. | scrap unit. |
| c. | abnormal unit. |
| d. | defective unit. |

ANS: D

49. The cost of abnormal losses (net of disposal costs) should be written off as

|  |  |
| --- | --- |
| Product cost | Period cost |

|  |  |
| --- | --- |
| a. | yes no |
| b. | yes yes |
| c. | no yes |
| d. | no no |

ANS: C

50. In a job order costing system, the net cost of normal spoilage is equal to

|  |  |
| --- | --- |
| a. | estimated disposal value plus the cost of spoiled work. |
| b. | the cost of spoiled work minus estimated spoilage cost. |
| c. | the units of spoiled work times the predetermined overhead rate. |
| d. | the cost of spoiled work minus the estimated disposal value. |

ANS: D

51. If abnormal spoilage occurs in a job order costing system, has a material dollar value, and is related to a specific job, the recovery value of the spoiled goods should be

|  |  |
| --- | --- |
| debited to | credited to |

|  |  |
| --- | --- |
| a. | a scrap inventory account the specific job in process |
| b. | the specific job in process overhead |
| c. | a loss account the specific job in process |
| d. | factory overhead sales |

ANS: A

52. In a job order costing system, the net cost of normal spoilage is equal to

|  |  |
| --- | --- |
| a. | estimated disposal value plus the cost of spoiled work. |
| b. | the cost of spoiled work minus estimated spoilage cost. |
| c. | the units of spoiled work times the predetermined overhead rate. |
| d. | the cost of spoiled work minus the estimated disposal value. |

ANS: D

53. Shrinkage should be treated as

|  |  |
| --- | --- |
| a. | defective units. |
| b. | spoiled units. |
| c. | miscellaneous expense. |
| d. | a reduction of overhead. |

ANS: B

54. Spoiled units are

|  |  |
| --- | --- |
| a. | units that cannot be economically reworked to bring them up to standard. |
| b. | units that can be economically reworked to bring them up to standard. |
| c. | the same as defective units. |
| d. | considered abnormal losses. |

ANS: A

55. Abnormal spoilage is

|  |  |
| --- | --- |
| a. | spoilage that is forecasted or planned. |
| b. | spoilage that is in excess of planned. |
| c. | accounted for as a product cost. |
| d. | debited to Cost of Goods Sold. |

ANS: B

56. Normal spoilage is defined as unacceptable production that

|  |  |
| --- | --- |
| a. | arises because of a special job or process. |
| b. | occurs in on-going operations. |
| c. | is caused specifically by human error. |
| d. | is in excess of that which is expected. |

ANS: B

57. Which of the following would fall within the range of tolerance for a production cycle?

|  |  |
| --- | --- |
| Abnormal loss | Normal loss |

|  |  |
| --- | --- |
| a. | yes yes |
| b. | yes no |
| c. | no no |
| d. | no yes |

ANS: D

58. The net cost of normal spoilage in a job order costing system in which spoilage is common to all jobs should be

|  |  |
| --- | --- |
| a. | assigned directly to the jobs that caused the spoilage. |
| b. | charged to manufacturing overhead during the period of the spoilage. |
| c. | charged to a loss account during the period of the spoilage. |
| d. | allocated only to jobs that are completed during the period. |

ANS: B

59. Cajun Company. uses a job order costing system. During April 20X6, the following costs appeared in the Work in Process Inventory account:

|  |  |
| --- | --- |
| Beginning balance | $ 24,000 |
| Direct material used | 70,000 |
| Direct labor incurred | 60,000 |
| Applied overhead | 48,000 |
| Cost of goods manufactured | 185,000 |

Cajun Company applies overhead on the basis of direct labor cost. There was only one job left in Work in Process at the end of April which contained $5,600 of overhead. What amount of direct material was included in this job?

|  |  |
| --- | --- |
| a. | $4,400 |
| b. | $4,480 |
| c. | $6,920 |
| d. | $8,000 |

ANS: A

|  |  |  |
| --- | --- | --- |
| Total Costs Incurred |  | 202,000 |
| Less: Cost of Goods Manufactured |  | (185,000) |
| Costs remaining in WIP |  | 17,000 |
| Overhead | 5,600 |  |
| Direct Labor (5,600/.80) | 7,000 | (12,600) |
| Direct Materials |  | 4,400 |

60. Quest Co. is a print shop that produces jobs to customer specifications. During January 20X6, Job #3051 was worked on and the following information is available:

|  |  |
| --- | --- |
| Direct material used | $2,500 |
| Direct labor hours worked | 15 |
| Machine time used | 6 |
| Direct labor rate per hour | $7 |
| Overhead application rate per hour of machine time | $18 |

What was the total cost of Job #3051 for January?

|  |  |
| --- | --- |
| a. | $2,713 |
| b. | $2,770 |
| c. | $2,812 |
| d. | $3,052 |

ANS: A

|  |  |  |
| --- | --- | --- |
| Direct Materials |  | $ 2,500 |
| Direct Labor (15 hours \* $7/hour) |  | 105 |
| Factory Overhead (6 hrs machine time \* |  |  |
| \* $18/mach hr) |  | 108 |
|  |  | $ 2,713 |

**Alpha Company**

Alpha Co. uses a job order costing system. At the beginning of January, the company had two jobs in process with the following costs:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Direct Material | Direct Labor | Overhead |
| Job #456 | $3,400 | $510 | $255 |
| Job #461 | 1,100 | 289 | ? |

Alpha pays its workers $8.50 per hour and applies overhead on a direct labor hour basis.

61. Refer to Alpha Company. What is the overhead application rate per direct labor hour?

|  |  |
| --- | --- |
| a. | $ 0.50 |
| b. | $ 2.00 |
| c. | $ 4.25 |
| d. | $30.00 |

ANS: C

|  |  |  |
| --- | --- | --- |
| Direct Labor Hours: $510/$8.50 |  | 60 hrs |
| Overhead Application Rate: |  |  |
| $255 / 60 hrs |  | $ 4.25 |

62. Refer to Alpha Company. How much overhead was included in the cost of Job #461 at the beginning of January?

|  |  |
| --- | --- |
| a. | $ 144.50 |
| b. | $ 153.00 |
| c. | $2,200.00 |
| d. | $2,456.50 |

ANS: A

|  |  |  |
| --- | --- | --- |
| Direct Labor Hours: $289/$8.50 |  | 34 hrs |
| Overhead Application Rate: |  |  |
| $255 / 60 hrs |  | $ 4.25 |
| 34 hrs \* $4.25/hr |  | $ 144.50 |

63. Refer to Alpha Company. During January, Alpha’s employees worked on Job #649. At the end of the month, $714 of overhead had been applied to this job. Total Work in Process at the end of the month was $6,800 and all other jobs had a total cost of $3,981. What amount of direct material is included in Job #649?

|  |  |
| --- | --- |
| a. | $ 677.00 |
| b. | $1,391.00 |
| c. | $2,142.00 |
| d. | $4,658.00 |

ANS: A

|  |  |  |
| --- | --- | --- |
| Direct Materials--Job 649 |  |  |
| Total Work in Process |  | $ 6,800 |
| Other Work in Process |  | (3,981) |
| Costs remaining in WIP |  | 2,819 |
| Overhead | 714 |  |
| Direct Labor (OH x 2) $714 \* 2 | 1,428 | (2,142) |
| Direct Materials |  | $ 677 |

DIF: Difficult

64. Brown Corporation manufactures products on a job order basis. The job cost sheet for Job #656 shows the following for March:

|  |  |
| --- | --- |
| Direct material | $5,000 |
| Direct labor (100 hours @ $7.25) | $725 |
| Machine hours incurred | 40 |
| Predetermined overhead rate per machine hour | $26 |

At the end of March, what total cost appears on the job cost sheet for Job #656?

|  |  |
| --- | --- |
| a. | $5,725 |
| b. | $5,765 |
| c. | $6,765 |
| d. | $8,325 |

ANS: C

|  |  |  |
| --- | --- | --- |
| Direct Materials |  | $ 5,000 |
| Direct Labor (15 hours \* $7/hour) |  | 725 |
| Factory Overhead (26 hrs machine time \* |  |  |
| \* $40/mach hr) |  | 1,040 |
|  |  | $ 6,765 |

65. Products at Redd Manufacturing are sent through two production departments: Fabricating and Finishing. Overhead is applied to products in the Fabricating Department based on 150 percent of direct labor cost and $18 per machine hour in Finishing. The following information is available about Job #297:

|  |  |  |
| --- | --- | --- |
|  | Fabricating | Finishing |
| Direct material | $1,590 | $580 |
| Direct labor cost | ? | 48 |
| Direct labor hours | 22 | 6 |
| Machine hours | 5 | 15 |
| Overhead applied | 429 | ? |

What is the total cost of Job #297?

|  |  |
| --- | --- |
| a. | $2,647 |
| b. | $3,005 |
| c. | $3,093 |
| d. | $3,203 |

ANS: D

|  |  |  |  |
| --- | --- | --- | --- |
| Direct Labor Fabricating $429/1.50 = $286 |  |  |  |
| Applied Overhead Finishing 15 hrs \* $18 = $270 |  |  |  |
|  | Fabricating | Finishing |  |
| Direct material | $ 1,590 | $ 580 |  |
| Direct labor cost | **286** | 48 |  |
| Overhead applied | 429 | **270** |  |
| Total Costs | 2,305 | 898 | **$ 3,203** |

66. Virginia Company applies overhead to jobs at the rate of 40 percent of direct labor cost. Direct material of $1,250 and direct labor of $1,400 were expended on Job #145 during June. On May 31, the balance of Job #145 was $2,800. The balance on June 30 is:

|  |  |
| --- | --- |
| a. | $3,210. |
| b. | $4,760. |
| c. | $5,450. |
| d. | $6,010. |

ANS: D

|  |  |  |
| --- | --- | --- |
| Beginning WIP |  | $ 2,800 |
| Direct Materials |  | 1,250 |
| Direct Labor |  | 1,400 |
| Factory Overhead ($1400 \* 40%) |  | 560 |
| Ending WIP |  | $ 6,010 |

**Jackson Company.**

Jackson Company uses a job order costing system and the following information is available from its records. The company has three jobs in process: #6, #9, and #13.

|  |  |
| --- | --- |
| Raw material used | $120,000 |
| Direct labor per hour | $8.50 |
| Overhead applied based on direct labor cost | 120% |

Direct material was requisitioned as follows for each job respectively: 30 percent, 25 percent, and 25 percent; the balance of the requisitions was considered indirect. Direct labor hours per job are 2,500; 3,100; and 4,200; respectively. Indirect labor is $33,000. Other actual overhead costs totaled $36,000.

67. Refer to Jackson Company. What is the prime cost of Job #6?

|  |  |
| --- | --- |
| a. | $42,250 |
| b. | $57,250 |
| c. | $73,250 |
| d. | $82,750 |

ANS: B

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Direct Materials (120,000 \* 30%) |  | $ 36,000 |
| Direct Labor (2500 \* $8.50) |  | 21,250 |
|  |  |  |
| Total Prime Costs |  | $ 57,250 |

68. Refer to Jackson Company. What is the total amount of overhead applied to Job #9?

|  |  |
| --- | --- |
| a. | $18,250 |
| b. | $26,350 |
| c. | $30,000 |
| d. | $31,620 |

ANS: D

|  |  |  |  |
| --- | --- | --- | --- |
| Direct Labor Hours | Direct Labor Rate | OH Application Rate | Total |
| 3100 | $8.50 | 120% | $31,620 |

69. Refer to Jackson Company. What is the total amount of actual overhead?

|  |  |
| --- | --- |
| a. | $36,000 |
| b. | $69,000 |
| c. | $93,000 |
| d. | $99,960 |

ANS: C

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Indirect Materials ($120,000 \* 20%) |  | $ 24,000 |
| Indirect Labor |  | 33,000 |
| Other Overhead Costs |  | 36,000 |
| Total Prime Costs |  | $ 93,000 |

70. Refer to Jackson Company. How much overhead is applied to Work in Process?

|  |  |
| --- | --- |
| a. | $ 69,000 |
| b. | $ 99,960 |
| c. | $132,960 |
| d. | $144,000 |

ANS: B

|  |  |  |  |
| --- | --- | --- | --- |
| Direct Labor Hours | 6 | 2500 |  |
|  | 9 | 3100 |  |
|  | 13 | 4200 | 9,800 |
| Direct Labor Rate |  |  | $ 8.50 |
| Overhead Application Rate |  |  | 120% |
| Total Overhead Applied |  |  | $ 99,960 |

71. Refer to Jackson Company. If Job #13 is completed and transferred, what is the balance in Work in Process Inventory at the end of the period if overhead is applied at the end of the period?

|  |  |
| --- | --- |
| a. | $ 96,700 |
| b. | $ 99,020 |
| c. | $139,540 |
| d. | $170,720 |

ANS: D

|  |  |  |  |
| --- | --- | --- | --- |
| Step 1: Determine Total Cost of Job 13 |  |  |  |
| DM: $120,000 \* .25 |  | $ 30,000 |  |
| DL: 4,200 \* 8.50 |  | 35,700 |  |
| FOH: 35,700 \* 120% |  | 42,840 | 108,540 |
|  |  |  |  |
| Step 2: Compute Total Cost of Job 6 |  |  |  |
| DM: $120,000 \* .30 |  | $ 36,000 |  |
| DL: 2,500 \* 8.50 |  | 21,250 |  |
| FOH: 21,250 \* 120% |  | 25,500 | 82,750 |
| Step 2: Compute Total Cost of Job 9 |  |  |  |
| DM: $120,000 \* .25 |  | $ 30,000 |  |
| DL: 3,100 \* 8.50 |  | 26,350 |  |
| FOH: 26,350 \* 120% |  | 31,620 |  |
|  |  |  | 87,970 |
| **Total Costs of Jobs 6 and 9** |  |  | **170,720** |

DIF: Difficult

72. Refer to Jackson Company. Assume the balance in Work in Process Inventory was $18,500 on June 1 and $25,297 on June 30. The balance on June 30 represents one job that contains direct material of $11,250. How many direct labor hours have been worked on this job (rounded to the nearest hour)?

|  |  |
| --- | --- |
| a. | 751 |
| b. | 1,324 |
| c. | 1,653 |
| d. | 2,976 |

ANS: A

|  |  |  |  |
| --- | --- | --- | --- |
| Step 1: Determine DL and FOH |  |  |  |
| WIP at June 30: |  | $ 25,297 |  |
| Less DM in WIP |  | 11,250 | 14,047 |
|  |  |  |  |
| Step 2: Separate DL and FOH |  |  |  |
| Let x = DL; 1.2x = FOH |  |  |  |
| x + 1.2x = 14,047 |  |  |  |
| 2.2x = 14,047 |  |  |  |
| x = $6,385 |  |  |  |
|  |  |  |  |
| Step 3: Compute DL Hours |  |  |  |
| $6,385 ÷ 8.50 |  | **751** | **hours** |

**Beta Company**

The following information pertains to Beta Company for September 20X4.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Direct Material | Direct Labor | Overhead |
| Job #323 | $3,200 | $4,500 | ? |
| Job #325 | ? | 5,000 | ? |
| Job #401 | 5,670 | ? | $5,550 |

Beta Company applies overhead for Job #323 at 140 percent of direct labor cost and at 150 percent of direct labor cost for Jobs #325 and #401. The total cost of Jobs #323 and #325 is identical.

73. Refer to Beta Co. What amount of overhead is applied to Job #323?

|  |  |
| --- | --- |
| a. | $4,800 |
| b. | $5,550 |
| c. | $6,300 |
| d. | $7,500 |

ANS: C

|  |  |  |
| --- | --- | --- |
| Direct Labor | Application Rate | Total Overhead |
| $4,500 | 140% | $6,300 |

74. Refer to Beta Co. What amount of overhead is applied to Job #325?

|  |  |
| --- | --- |
| a. | $8,325 |
| b. | $7,500 |
| c. | $7,000 |
| d. | $5,000 |

ANS: B

|  |  |  |
| --- | --- | --- |
| Direct Labor | Application Rate | Total Overhead |
| $5,000 | 150% | $7,500 |

75. Refer to Beta Co. What is the amount of direct materials for Job #325?

|  |  |
| --- | --- |
| a. | $1,950 |
| b. | $1,500 |
| c. | $3,700 |
| d. | $7,500 |

ANS: B

|  |  |  |  |
| --- | --- | --- | --- |
| Step 1: Determine OH for Jobs 323 and 325 |  |  |  |
|  | 323 | $ 6,300 |  |
|  | 325 | 7,500 |  |
|  |  |  |  |
| Step 2: Compute Total Cost of Job 323 | DM | $ 3,200 |  |
|  | DL | 4,500 |  |
|  | FOH | 6,300 | 14,000 |
| Step 3: Compute Direct Materials for Job 325 |  |  |  |
| (14,000 - (5,000 + 7,500) |  |  | **$ 1,500** |
|  |  |  |  |

76. Refer to Beta Co. Assume that Jobs #323 and #401 are incomplete at the end of September. What is the balance in Work in Process Inventory at that time?

|  |  |
| --- | --- |
| a. | $18,920 |
| b. | $22,620 |
| c. | $28,920 |
| d. | $30,120 |

ANS: C

|  |  |  |  |
| --- | --- | --- | --- |
| Step 1: Determine DL for Job 401 |  |  |  |
| $5,550 ÷ 150% |  |  | 3,700 |
|  |  |  |  |
|  |  |  |  |
| Step 2: Compute Total Cost of Job 401 | DM | $ 5,670 |  |
|  | DL | 3,700 |  |
|  | FOH | 5,550 | 14,920 |
| Step 2: Compute Total Cost of Job 323 | DM | $ 3,200 |  |
|  | DL | 4,500 |  |
|  | FOH | 6,300 | 14,000 |
|  |  |  |  |
| Total Costs of Jobs 323 and 401 |  |  | **28,920** |

**Camden Company**

Camden Company has two departments (Processing and Packaging) and uses a job order costing system. Baker applies overhead in Processing based on machine hours and on direct labor cost in Packaging. The following information is available for July:

|  |  |  |
| --- | --- | --- |
|  | Processing | Packaging |
| Machine hours | 2,500 | 1,000 |
| Direct labor cost | $44,500 | $23,000 |
| Applied overhead | $55,000 | $51,750 |

77. Refer to Camden Company. What is the overhead application rate per machine hour for Processing?

|  |  |
| --- | --- |
| a. | $ 0.81 |
| b. | $ 1.24 |
| c. | $17.80 |
| d. | $22.00 |

ANS: D

|  |  |  |
| --- | --- | --- |
| Total Applied Overhead | Machine Hours | Rate per Hour |
| $55,000 | 2,500 | $22.00 |

78. Refer to Camden Co. What is the overhead application rate for Packaging?

|  |  |
| --- | --- |
| a. | $ 0.44 |
| b. | $ 2.25 |
| c. | $23.00 |
| d. | $51.75 |

ANS: B

|  |  |  |
| --- | --- | --- |
| Total Applied Overhead | Total Direct Labor | Rate per Hour |
| $51,750 | $23,000 | $2.25 |

**Tiger Company**

Tiger Company has a job order costing system and an overhead application rate of 120 percent of direct labor cost. Job #63 is charged with direct material of $12,000 and overhead of $7,200. Job #64 has direct material of $2,000 and direct labor of $9,000.

79. Refer to Tiger Co. What amount of direct labor cost has been charged to Job #63?

|  |  |
| --- | --- |
| a. | $ 6,000 |
| b. | $ 7,200 |
| c. | $ 8,640 |
| d. | $14,400 |

ANS: A

|  |  |  |
| --- | --- | --- |
| Total Applied Overhead | Overhead Application Rate | Direct Labor Charged |
| $7,200 | 120% | $6,000 |

80. Refer to Tiger Company. What is the total cost of Job #64?

|  |  |
| --- | --- |
| a. | $10,800 |
| b. | $11,000 |
| c. | $21,800 |
| d. | $30,200 |

ANS: C

|  |  |  |  |
| --- | --- | --- | --- |
| Direct Materials |  |  | 2,000 |
| Direct Labor |  |  | 9,000 |
| Factory Overhead ($9,000 \* 120%) |  |  | 10,800 |
| Total Cost of Job 64 |  |  | 21,800 |

**Bradley Company**

Bradley Company uses a job order costing system. Assume that Job #504 is the only one in process. The following information is available:

|  |  |  |  |
| --- | --- | --- | --- |
| Budgeted direct labor hours | 65,000 | Budgeted machine hours | 9,000 |
| Budgeted overhead | $350,000 | Direct material | $110,500 |
| Direct labor cost | $70,000 |  |  |

81. Refer to Bradley Company. What is the overhead application rate if Bradley uses a predetermined overhead application rate based on direct labor hours (rounded to the nearest whole dollar)?

|  |  |
| --- | --- |
| a. | $ 0.20 |
| b. | $ 5.00 |
| c. | $ 5.38 |
| d. | $38.89 |

ANS: C

|  |  |  |
| --- | --- | --- |
| Budgeted Overhead | Budgeted Direct Labor Hours | Overhead Application Rate |
| $350,000 | 65,000 | $5.38 |

82. Refer to Bradley Company. What is the total cost of Job #504 assuming that overhead is applied at the rate of 135% of direct labor cost (rounded to the nearest whole dollar)?

|  |  |
| --- | --- |
| a. | $192,650 |
| b. | $268,250 |
| c. | $275,000 |
| d. | $329,675 |

ANS: C

|  |  |  |  |
| --- | --- | --- | --- |
| Direct Materials |  |  | 110,500 |
| Direct Labor |  |  | 70,000 |
| Factory Overhead ($70,000 \* 135%) |  |  | 94,500 |
| Total Cost of Job #504 |  |  | 275,000 |

83. At the end of the last fiscal year, Roberts Company had the following account balances:

|  |  |
| --- | --- |
| Overapplied overhead | $ 6,000 |
| Cost of Goods Sold | $980,000 |
| Work in Process Inventory | $ 38,000 |
| Finished Goods Inventory | $ 82,000 |

If the most common treatment of assigning overapplied overhead were used, the final balance in Cost of Goods Sold is:

|  |  |
| --- | --- |
| a. | $974,000. |
| b. | $974,660. |
| c. | $985,340. |
| d. | $986,000. |

ANS: A

|  |  |  |
| --- | --- | --- |
| Unadjusted COGS | less: Overapplied OH | Adjusted COGS |
| $980,000 | $6,000 | $974,000 |

84. Strong Products has no Work in Process or Finished Goods inventories at the close of business on December 31, 20X4. The balances of Strong Products’ accounts as of December 31, 20X4, are as follows:

|  |  |
| --- | --- |
| Cost of goods sold--unadjusted | $2,040,000 |
| Selling & administrative expenses | 900,000 |
| Sales | 3,600,000 |
| Manufacturing overhead control | 700,000 |
| Manufacturing overhead applied | 648,000 |

Pretax income for 20X4 is:

|  |  |
| --- | --- |
| a. | $608,000. |
| b. | $660,000. |
| c. | $712,000. |
| d. | undeterminable from the information given. |

ANS: A

|  |  |  |  |
| --- | --- | --- | --- |
| Sales |  |  | $ 3,600,000 |
| Cost of Goods Sold |  | 2,040,000 |  |
| Factory Overhead Underapplied (700,000-648,000) |  | 52,000 | (2,092,000) |
| Selling, General and Administrative Expenses |  |  | (900,000) |
| Pretax Income |  |  | $ 608,000 |

**Wilson Manufacturing Company**

Wilson Manufacturing Company produces beach chairs. Chair frames are all the same size, but can be made from plastic, wood, or aluminum. Regardless of frame choice, the same sailcloth is used for the seat on all chairs. Wilson has set a standard for sailcloth of $9.90 per square yard and each chair requires 1 square yard of material. Wilson produced 500 plastic chairs, 100 wooden chairs, and 250 aluminum chairs during June. The total cost for 1,000 square yards of sailcloth during the month was $10,000. At the end of the month, 50 square yards of sailcloth remained in inventory.

85. Refer to Wilson Manufacturing Company. The unfavorable material price variance for sailcloth purchases for the month was

|  |  |
| --- | --- |
| a. | $ 100. |
| b. | $ 495. |
| c. | $1,090. |
| d. | $1,585. |

ANS: A

|  |  |
| --- | --- |
|  |  |
| $10,000 ÷ 1,000 | $10.00 per yard |
| $(9.90 - 10.00) \* 1,000 yards | **$100** |

86. Refer to Wilson Manufacturing Company. Assuming that there was no sailcloth in inventory at the beginning of June, the unfavorable material quantity variance for the month was

|  |  |
| --- | --- |
| a. | $ 495. |
| b. | $ 500. |
| c. | $ 990. |
| d. | $1,000. |

ANS: C

|  |  |  |  |
| --- | --- | --- | --- |
| 850 chairs \* 1 yard per chair |  | 850 yards |  |
| Actual usage (1,000 - 50) |  | 950 yards |  |
| Unfavorable usage variance |  | 100 yards |  |
|  |  | 9.90/yard |  |
|  |  |  | $ 990 |

87. Refer to Wilson Manufacturing Company. Wilson could set a standard cost for which of the following?

|  |  |  |
| --- | --- | --- |
| Frame  cost | Predetermined  OH rate | Labor  rate |

|  |  |
| --- | --- |
| a. | yes yes yes |
| b. | no no no |
| c. | yes no no |
| d. | no yes yes |

ANS: D DIF: Difficult

**SHORT ANSWER**

1. Compare and contrast job order and process costing systems.

ANS:

Job order costing is characterized by the production of small quantities of heterogeneous distinct or unique items. Items are produced according to customer specifications and, at a minimum, direct material and direct labor costs can be traced to specific jobs. Process costing is characterized by the production of large quantities of homogeneous (alike or similar in nature) items. Specific items cannot be identified with specific costs during the production process.

2. Discuss actual costing, normal costing, and standard costing.

ANS:

Actual costing, normal costing, or standard costing may be used in either a job order costing or process costing system. Actual costing assigns the actual cost of all direct material, direct labor, and overhead to the units produced. Normal costing uses actual direct material and direct labor cost and a predetermined overhead application rate to cost products. Standard costing establishes "norms" for direct material and direct labor quantities and/or costs and uses a predetermined (standard) overhead rate for the application of overhead to determine product cost.

3. What is a "job" as defined in a job order costing system?

ANS:

A job is a single unit or a group of like items that is produced to customer specifications. A job is separately identifiable from other jobs. Each job is treated as a cost object, and costs (typically actual direct material, actual direct labor, and overhead applied using a predetermined rate) are attached to each job as it flows through the production process.

4. What information should be contained in a subsidiary ledger for Work in Process Inventory in a job order costing system?

ANS:

The Work in Process Inventory subsidiary ledger should contain information on all incomplete jobs. This information will include the amount of direct material and direct labor costs in production, as well as the amount of overhead applied to each job. The subsidiary ledger for Work in Process Inventory is composed of all job cost sheets for uncompleted jobs and substantiates the balance in the general ledger Work in Process Inventory control account.

5. Discuss the basic forms used in a job order costing system.

ANS:

The forms used in a job order costing system include (1) a job order cost sheet which records all the financial and significant production data (actual or standard, and possibly budgeted) relating to a particular job; (2) a material requisition form which records the costs and quantities of material that has been requisitioned for a particular job; and (3) an employee time sheet which records the jobs worked on by an employee and the amount of time spent on each job.

6. Can standard costing be used in job order costing? If so, what conditions must exist? If not, explain why.

ANS:

Yes. Firms that use job order costing can also base their costs on standards. Each job must be fairly similar to each other job. Standards may be used for the prices of material and labor if the jobs use basically the same kind of material and labor. If jobs are homogeneous enough, standards can also be used for materials and labor quantities. Some companies may choose to only use price standards, others only quantity standards, and others may use both price and quantity standards.

7. Discuss the accounting treatment of spoilage in a job order costing system.

ANS:

If the spoilage is common to all jobs, is normal, and can be estimated, the net cost is applied to production using a predetermined overhead rate that was set by including the spoilage estimate in estimated overhead. If spoilage pertains to a particular job and is normal, the disposal value of the spoiled goods should be removed from that particular job. If the spoilage is abnormal, the net cost should be charged to a loss account and credited to the particular Work in Process job that created the spoilage.

**PROBLEM**

1. Prepare the necessary journal entries from the following information for Anderson Company, which uses a perpetual inventory system.

|  |  |
| --- | --- |
| a. | Purchased raw material on account, $56,700. |
| b. | Requisitioned raw material for production as follows: direct material-80 percent of purchases; indirect material-15 percent of purchases. |
| c. | Direct labor wages of $33,100 are accrued as are indirect labor wages of $12,500. |
| d. | Overhead incurred and paid for is $66,900. |
| e. | Overhead is applied to production based on 110 percent of direct labor cost. |
| f. | Goods costing $97,600 were completed during the period. |
| g. | Goods costing $51,320 were sold on account for $77,600. |

ANS:

|  |  |  |  |
| --- | --- | --- | --- |
| a. | Raw Material Inventory | 56,700 |  |
|  | Accounts Payable |  | 56,700 |
| b. | Work in Process Inventory | 45,360 |  |
|  | Manufacturing Overhead | 8,505 |  |
|  | Raw Material Inventory |  | 53,865 |
| c. | Work in Process Inventory | 33,100 |  |
|  | Manufacturing Overhead | 12,500 |  |
|  | Wages Payable |  | 45,600 |
| d. | Manufacturing Overhead | 66,900 |  |
|  | Cash |  | 66,900 |
| e. | Work in Process Inventory | 36,410 |  |
|  | Manufacturing Overhead |  | 36,410 |
| f. | Finished Goods Inventory | 97,600 |  |
|  | Work in Process Inventory |  | 97,600 |
| g. | Cost of Goods Sold | 51,320 |  |
|  | Finished Goods Inventory |  | 51,320 |
|  | Accounts Receivable | 77,600 |  |
|  | Sales |  | 77,600 |

2. Richards Company employs a job order costing system. Only three jobs-Job #205, Job #206, and Job #207-were worked on during January and February. Job #205 was completed February 10; the other two jobs were still in production on February 28, the end of the company's operating year. Job cost sheets on the three jobs follow:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Job Cost Sheet | | | |
|  | Job #205 | Job #206 | Job #207 |
| January costs incurred: |  |  |  |
| Direct material | $16,500 | $ 9,300 | $ — |
| Direct labor | 13,000 | 7,000 | — |
| Manufacturing overhead | 20,800 | 11,200 | — |
|  |  |  |  |
| February costs incurred: |  |  |  |
| Direct materials | — | 8,200 | 21,300 |
| Direct labor | 4,000 | 6,000 | 10,000 |
| Manufacturing overhead | ? | ? | ? |

The following additional information is available:

|  |  |
| --- | --- |
| a. | Manufacturing overhead is assigned to jobs on the basis of direct labor cost. |

|  |  |
| --- | --- |
| b. | Balances in the inventory accounts at January 31 were as follows: |

|  |  |
| --- | --- |
| Raw Material | $40,000 |
| Work in Process | ? |
| Finished Goods | 85,000 |

**Required:**

|  |  |
| --- | --- |
| a. | Prepare T-accounts for Raw Material, Work in Process Inventory, Finished Goods Inventory, and Manufacturing Overhead Control. Enter the January 31 inventory balances given previously; in the case of Work in Process Inventory, compute the January 31 balance and enter it into the Work in Process Inventory T-account. |

|  |  |
| --- | --- |
| b. | Prepare journal entries for **February** as follows: |

|  |  |
| --- | --- |
| 1. | Prepare an entry to record the issue of materials into production and post the entry to appropriate T-accounts. (In the case of direct material, it is not necessary to make a separate entry for each job.) Indirect materials used during February totaled $4,000. |
| 2. | Prepare an entry to record the incurrence of labor cost and post the entry to appropriate T-accounts. (In the case of direct labor, it is not necessary to make a separate entry for each job.) Indirect labor cost totaled $8,000 for February. |
| 3. | Prepare an entry to record the incurrence of $19,000 in various actual manufacturing overhead costs for February (credit Accounts Payable). |

|  |  |
| --- | --- |
| c. | What apparent predetermined overhead rate does the company use to assign overhead cost to jobs? Using this rate, prepare a journal entry to record the application of overhead cost to jobs for February (it is not necessary to make a separate entry for each job). Post this entry to appropriate T-accounts. |

|  |  |
| --- | --- |
| d. | As stated earlier, Job #205 was completed during February. Prepare a journal entry to show the transfer of this job off of the production line and into the finished good warehouse. Post the entry to appropriate T-accounts. |

|  |  |
| --- | --- |
| e. | Determine the balance at February 28 in the Work in Process inventory account. How much of this balance consists of the cost of Job #206? Job #207? |

ANS:

a.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Raw Materials Inventory | |  | Work in Process Inventory | |
| BB 40,000 |  |  | BB 77,800 |  |
|  |  |  | 29,500 | 60,700 |
|  | 31,500 |  | 20,000 |  |
|  |  |  | 32,000 |  |
|  |  |  | 98,600 |  |
|  |  |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Finished Goods Inventory | |  | Manufacturing Overhead Control | |
| BB 85,000 |  |  | 4,000 |  |
| 60,700 |  |  | 8,000 | 32,000 |
|  |  |  | 19,000 |  |
|  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| b. | 1. | Work in Process Inventory | 29,500 | |  |
|  |  | Manufacturing Overhead Control | 4,000 | |  |
|  |  | Raw Materials Inventory |  | | 33,500 |
|  |  |  |  | |  |
|  | 2. | Work in Process Inventory | 20,000 | |  |
|  |  | Manufacturing Overhead Control | 8,000 | |  |
|  |  | Payroll |  | | 28,000 |
|  |  |  |  | |  |
|  | 3. | Manufacturing Overhead Control |  | 19,000 |  | |
|  |  | Accounts Payable |  | | 19,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| c. | 160%/DL COST  $20,000 = $32,000 | | |
|  |  |  |
|  | Work in Process Inventory | 32,000 |  |
|  | Manufacturing Overhead Control |  | 32,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| d. | Finished Goods Inventory | 60,700 |  |
|  | Work in Process Inventory |  | 60,700 |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| e. | WIP INV | 98,600 |
|  | Job 206 = $51,300 | Job 207 = $47,300 |

|  |  |  |  |
| --- | --- | --- | --- |
|  | JOB #205 | JOB #206 | JOB #207 |
| Beg WIP | $50,300 | $27,500 | - |
| Direct Mat | 0 | 8,200 | $21,300 |
| Direct Labor | 4,000 | 6,000 | 10,000 |
| Factory Overhead | 6,400 | 9,600 | 16,000 |
|  | $60,700 | $51,300 | $47,300 |

3. The Pittman Company manufactures special purpose machines to order. On January 1, there were two jobs in process, #705 and #706. The following costs were applied to these jobs in the prior year:

|  |  |  |
| --- | --- | --- |
|  | Job No. | |
|  | 705 | 706 |
| Direct material | $ 5,000 | $ 8,000 |
| Direct labor | 4,000 | 3,000 |
| Overhead | 4,400 | 3,300 |
| Total | $13,400 | $14,300 |

During January, the following transactions took place:

|  |  |
| --- | --- |
| \* | Raw material costing $40,000 was purchased on account. |
| \* | Jobs #707, #708, and #709 were started and the following costs were applied to them: |

|  |  |  |  |
| --- | --- | --- | --- |
|  | JOB | | |
|  | 707 | 708 | 709 |
| Direct materials | $3,000 | $10,000 | $7,000 |
| Direct labor | 5,000 | 6,000 | 4,000 |

|  |  |
| --- | --- |
| \* | Job #705 and Job #706 were completed after incurring additional direct labor costs of $2,000 and $4,000, respectively |
| \* | Wages paid to production employees during January totaled $25,000. |
| \* | Depreciation for the month of January totaled $10,000. |
| \* | Utilities bills in the amount of $10,000 were paid for operations during December. |
| \* | Utilities bills totaling $12,000 were received for January operations. |
| \* | Supplies costing $2,000 were used. |
| \* | Miscellaneous overhead expenses totaled $24,000 for January. |

Actual overhead is applied to individual jobs at the end of each month using a rate based on actual direct labor costs.

**Required:**

|  |  |
| --- | --- |
| a. | Determine the January overhead rate. |

|  |  |
| --- | --- |
| b. | Determine the cost of each job. |

|  |  |
| --- | --- |
| c. | Prepare a statement of cost of goods manufactured. |

ANS:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | MOH $4,000 + $10,000 + $12,000 + $2,000 + $24,000 = | | | | | | | | $52,000 = $2.4762/dl cost | | | |
|  |  | | | | | | | | $21,000 dl cost | | | |
| b. |  | JOB  #705 | JOB  #706 | | JOB  #707 | | JOB  #708 | JOB  #709 | |  |  |
|  | DM | - | - | | $ 3,000 | | $10,000 | $ 1,000 | | = | $ 20,000 |
|  | DL | $ 2,000 | $ 4,000 | | 5,000 | | 6,000 | 4,000 | | = | 21,000 |
|  | MOH | 4,952 | 9,905 | | 12,381 | | 14,857 | 9,905 | | = | 52,000 |
|  | Beg WIP | 13,400 | 14,300 | | - | | - | - | | = | 27,700 |
|  |  | $20,352 | $28,205 | | $20,381 | | $30,857 | $20,905 | |  | $120,700 |
| c. | Beg WIP | | | $27,700 | |
|  | + DM | | | 20,000 | |
|  | + DL | | | 21,000 | |
|  | + MOH | | | 52,000 | |
|  | - End WIP | | | 72,143 | |
|  |  | | | $48,557 | |

4. The Western Corporation, began operations on October 1. It employs a job order costing system. Overhead is charged at a normal rate of $2.50 per direct labor hour. The actual operations for the month of October are summarized as follows:

|  |  |
| --- | --- |
| a. | Purchases of raw material, 25,000 pieces @ $1.20/piece. |

|  |  |
| --- | --- |
| b. | Material and labor costs charged to production: |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Job No. | Units | Material | Direct  labor cost | Direct  labor hours |
| 101 | 10,000 | $4,000 | $6,000 | 3,000 |
| 102 | 8,800 | 3,600 | 5,400 | 2,700 |
| 103 | 16,000 | 7,000 | 9,000 | 4,500 |
| 104 | 8,000 | 3,200 | 4,800 | 2,400 |
| 105 | 20,000 | 8,000 | 3,600 | 1,800 |

|  |  |
| --- | --- |
| c. | Actual overhead costs incurred: |

|  |  |
| --- | --- |
| Variable | $18,500 |
| Fixed | 15,000 |

|  |  |
| --- | --- |
| d. | Completed jobs: 101, 102, 103, and 104 |

|  |  |
| --- | --- |
| e. | Sales-$105,000. All units produced on Jobs 101, 102, and 103 were sold. |

**Required:** Compute the following balances on October 31:

|  |  |
| --- | --- |
| a. | Material inventory |

|  |  |
| --- | --- |
| b. | Work in process inventory |

|  |  |
| --- | --- |
| c. | Finished goods inventory |

|  |  |
| --- | --- |
| d. | Cost of goods sold |

|  |  |
| --- | --- |
| e. | Under- or overapplied overhead |

ANS:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $30,000 - ($4,000 + $3,600 + $7,000 + $3,200 + $8,000) = $4,200 | | | | | | |
| b. | Job #105 | | $8,000 + $3,600 + ($1,800  2.50) = $16,100 | | | | |
|  |  | |  | | | | |
| c. | Job #104 | | $3,200 + $4,800 + ($2,400  2.50) = $14,000 | | | | |
|  |  | |  | | | | |
| d. | Job # | 101 | $4,000 + $6,000 + ($3,000  2.50) = | | | | $17,500 |
|  |  | 102 | $3,600 + $5,400 + ($2,700  2.50) = | | | | 15,750 |
|  |  | 103 | $7,000 + $9,000 + ($4,500  2.50) = | | | | 27,250 |
|  |  | | |  | |  | $60,500 |
|  |  | | |  | |  |  |
| e. | Applied 14,400  $2.50 = | | | | $36,000 | | |
|  | Actual | | |  | 33,500 | |  |
|  | Overapplied | | |  | $ 2,500 | |  |

**Steel Company.**

Steel Company uses a job order costing system and develops its predetermined overhead rate based on machine hours. The company has two jobs in process at the end of the cycle, Jobs #177 and #179.

|  |  |
| --- | --- |
| Budgeted overhead | $100,300 |
| Budgeted machine hours | 85,000 |
| Raw material | $ 63,000 |
| Labor cost | $ 50,000 |

5. Refer to Steel Company. What amount of overhead is charged to Jobs #177 and #179? Machine hours are split between Jobs #177 and #179-65 percent and 35 percent, respectively. Actual machine hours equal budgeted machine hours.

ANS:

OH Applied = MH Cost  POHR

Job #177: 85,000 MH  65%= 55,250  $1.18 = $65,195

Job #179: 85,000 MH  35%= 29,750  $1.18 = $35,105

6. Refer to Steel Company. Fifty-four percent of raw material belongs to Job 17 and 38 percent belongs to Job 179, and the balance is considered indirect material. What amount of raw material used was allocated to overhead as indirect material?

ANS:

54% + 38% = 92%; this means that 8% is indirect or $5,040

(.08  $63,000).

7. Refer to Steel Co. Labor cost was split 25 percent and 70 percent, respectively, between Jobs #177 and #179 for direct labor. The remainder was indirect labor cost. What are the total costs of Jobs #177 and #179?

ANS:

|  |  |  |
| --- | --- | --- |
|  | Job #177 | Job #179 |
| DM | $ 34,020 | $23,940 |
| DL | 12,500 | 35,000 |
| MOH | 65,195 | 35,105 |
|  | $111,715 | $94,045 |

8. Sanderson Company manufactures custom-built conveyor systems for factory and commercial operations. Erin Smith is the cost accountant for Sanderson and she is in the process of educating a new employee, Heather Fontenot about the job order costing system that Sanderson uses. (The system is based on normal costs; overhead is applied based on direct labor cost and rounded to the next whole dollar.) Lisa gathers the following job order cost records for July:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Direct | Direct |  | Total |
| Job No. | Materials | Labor | Applied OH | Cost |
| 667 | $ 5,901 | $1,730 | $ 1,990 | $ 9,621 |
| 669 | 18,312 | 1,810 | 2,082 | 22,204 |
| 670 | 406 | 500 | 575 | 1,481 |
| 671 | 51,405 | 9,500 | 10,925 | 71,830 |
| 672 | 9,615 | 550 | 633 | 10,798 |

To explain the missing job number, Erin informed Heather that Job #668 had been completed in June. She also told her that Job #667 was the only job in process at the beginning of July. At that time, the job had been assigned $4,300 for direct material and $900 for direct labor. At the end of July, Job #671 had not been completed; all others had. Erin asked Heather several questions to determine whether she understood the job order system.

**Required:** Help Heather answer the following questions:

|  |  |
| --- | --- |
| a. | What is the predetermined overhead rate used by ABC Company? |

|  |  |
| --- | --- |
| b. | What was the total cost of beginning Work in Process inventory? |

|  |  |
| --- | --- |
| c. | What was total prime cost incurred for the month of July? |

|  |  |
| --- | --- |
| d. | What was cost of goods manufactured for July? |

ANS:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| a. | Use any job started in July: | | |  |  |  |
|  |  |  | |  |  |  |
|  | Rate = MOH | | | JOB $670 | $575 | = 115%/DL Cost |
|  | DL COST | | |  | $500 |  |
|  |  |  | |  |  |  |
| b. | DM | $4,300 |  | |  |  |
|  | DL | 900 |  | |  |  |
|  | FOH | 1,035 | ($900  115%) | |  |  |
|  |  | $6,235 |  | |  |  |
|  |  |  | |  |  |  |
| c. | Prime Cost =DM + DL | | |  |  |  |
|  |  |  | |  |  |  |
|  | DM = $85,639 - 4,300 = $81,339 | | | |  |  |
|  | DL = 14,090 - 900 = 13,190 | | | |  |  |
|  | $94,529 | | | |  |  |
|  |  |  | |  |  |  |
| d. | COGM = $9,621 + 22,204 + 1,481 + 10,798 = $44,104 | | | | | |

9. Perry Company uses a job order costing system and has the following information for the first week of June:

|  |  |
| --- | --- |
| 1. | Direct labor and direct materials used: |

|  |  |  |
| --- | --- | --- |
| Job No. | Direct Material | Direct Labor Hours |
| 498 | $1,500 | 116 |
| 506 | 960 | 16 |
| 507 | 415 | 18 |
| 508 | 345 | 42 |
| 509 | 652 | 24 |
| 511 | 308 | 10 |
| 512 | 835 | 30 |
| Total | $5,015 | 256 |

|  |  |
| --- | --- |
| 2. | The direct labor wage rate is $4 per hour. |

|  |  |
| --- | --- |
| 3. | The overhead rate is $5 per direct labor hour. |

|  |  |
| --- | --- |
| 4. | Actual overhead costs for the week, $1,480. |

|  |  |
| --- | --- |
| 5. | Jobs completed: Nos. 498, 506, and 509. |

|  |  |
| --- | --- |
| 6. | The factory had no work in process at the beginning of the week. |

**Required:**

|  |  |
| --- | --- |
| a. | Prepare a summary that will show the total cost assigned to each job. |

|  |  |
| --- | --- |
| b. | Compute the amount of overhead over- or underapplied during the week. |

|  |  |
| --- | --- |
| c. | Calculate the cost of the work in process at the end of the week. |

ANS:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| a. | Job No. | | DM | DL | OH | Total | |
|  | 498 | | $1,500 | $ 464 | $ 580 | $2,544 | |
|  | 506 | | 960 | 64 | 80 | 1,104 | |
|  | 507 | | 415 | 72 | 90 | 577 | |
|  | 508 | | 345 | 168 | 210 | 723 | |
|  | 509 | | 652 | 96 | 120 | 868 | |
|  | 511 | | 308 | 40 | 50 | 398 | |
|  | 512 | | 835 | 120 | 150 | 1,105 | |
|  |  | | $5,015 | $1,024 | $1,280 | $7,319 | |
| b. | Actual MOH | |  | $1,480 |  | |  | |
|  | Applied MOH | |  | 1,280 |  | |  | |
|  | Underapplied | |  | $  200 |  | |  | |
| c. | JOB | 507 | | $ 577 |  | |  | |
|  |  | 508 | | 723 |  | |  | |
|  |  | 511 | | 398 |  | |  | |
|  |  | 512 | | 1,105 |  | |  | |
|  | Ending WIP | |  | $2,803 |  | |  | |

10. You are asked to bring the following incomplete accounts of Andrepont Printing, Inc. up to date through January 31,20X5. Consider the data that appear in the T-accounts as well as additional information given in items (a) through (i).

Andrepont’s job order costing system has two direct cost categories (direct material and direct manufacturing labor) and one indirect cost pool (manufacturing overhead, which is allocated using direct manufacturing labor costs).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Materials Inventory Control** | |  | **Wages Payable Control** | |
| 12/31/20X4 |  | | | 1/31/20X5 |
| Balance 15,000 |  | | | Balance 3,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | |  | **Manufacturing Department** | |
| **Work in Process Inventory Control** | |  | **Overhead Control** | |
|  | January 20X5 | | |  |
|  | Charges 57,000 | | |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | **Manufacturing Overhead Control** | | |
|  | | | |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Finished Goods Inventory Control** | |  | **Cost of Goods Sold** | | |
| 12/31/20X4 |  | | |  |
| Balance 20,000 |  | | |  |

*Additional Information:*

|  |  |
| --- | --- |
| a. | Manufacturing department overhead is allocated using a budgeted rate set every December. Management forecasts next year's overhead and next year's direct manufacturing labor costs. The budget for 20X5 is $400,000 of direct manufacturing labor and $600,000 of manufacturing overhead. |
| b. | The only job unfinished on January 31, 20X5 is No. 419, on which direct manufacturing labor costs are $2,000 (125 direct manufacturing labor hours) and direct material costs are $8,000. |
| c. | Total material placed into production during January is $90,000. |
| d. | Cost of goods completed during January is $180,000. |
| e. | Material inventory as of January 31, 20X5 is $20,000. |
| f. | Finished goods inventory as of January 31, 20X5 is $15,000. |
| g. | All plant workers earn the same wage rate. Direct manufacturing labor hours for January totals 2,500. Other labor and supervision totals $10,000. |
| h. | The gross plant payroll on January paydays totals $52,000. Ignore withholdings. All personnel are paid on a weekly basis. |
| i. | All "actual" manufacturing department overhead incurred during January has already been posted. |

Required:

|  |  |
| --- | --- |
| a. | Material purchased during January |
| b. | Cost of Goods Sold during January |
| c. | Direct Manufacturing Labor Costs incurred during January |
| d. | Manufacturing Overhead Allocated during January |
| e. | Balance, Wages Payable Control, December 31, 20X4 |
| f. | Balance, Work in Process Inventory Control, January 31, 20X5 |
| g. | Balance, Work in Process Inventory Control, December 31, 20X4 |
| h. | Balance, Finished Goods Inventory Control, January 31, 20X5 |
| i. | Manufacturing Overhead underapplied or overapplied for January |

ANS:

|  |  |
| --- | --- |
| a. | $15,000 + Purchases - $20,000 = $90,000. Purchases = $95,000 |
| b. | $20,000 + $180,000 - $15,000 = $185,000 |

|  |  |
| --- | --- |
| c. | DL = $2,000 = $16/HR  2,500 HRS = $40,000 |
|  | 125 |

|  |  |
| --- | --- |
| d. | $600,000 = 150% DL cost  $40,000 = $60,000 |
|  | $400,000 |

|  |  |
| --- | --- |
| e. | BEGIN + $50,000 - $52,000 = $3,000 BEGIN = $5,000 |

|  |  |
| --- | --- |
| f. | $2,000 + ($2,000  150%) + $8,000 = $13,000 |

|  |  |
| --- | --- |
| g. | BEGIN + $90,000 + $40,000 + $60,000 - $180,000 = $13,000 BEGIN = $3,000 |

|  |  |
| --- | --- |
| h. | $20,000 + $180,000 - $185,000 = END = $15,000 |

|  |  |  |
| --- | --- | --- |
| i. | APPLIED | $60,000 |
|  | ACTUAL | 57,000 |
|  |  | $ 3,000 overapplied |

11. Beauty Company manufactures picture frames of all sizes and shapes and uses a job order costing system. There is always some spoilage in each production run. The following costs relate to the current run:

|  |  |
| --- | --- |
| Estimated overhead (exclusive of spoilage) | $160,000 |
| Spoilage (estimated) | $ 25,000 |
| Sales value of spoiled frames | $ 11,500 |
| Labor hours | 100,000 |

The actual cost of a spoiled picture frame is $7.00. During the year 170 frames are considered spoiled. Each spoiled frame can be sold for $4. The spoilage is considered a part of all jobs.

|  |  |
| --- | --- |
| a. | Labor hours are used to determine the predetermined overhead rate. What is the predetermined overhead rate per direct labor hour? |
| b. | Prepare the journal entry needed to record the spoilage. |
| c. | Prepare the journal entry if the spoilage relates only to Job #12 rather than being a part of all production runs. |

ANS:

|  |  |  |
| --- | --- | --- |
| a. | $160,000 + $25,000 - $11,500 = $173,500 | |
|  | $173,500/100,000 = $1.735 per DLH | |
| b. | Disposal Value of Spoiled Work | | 680 |  |
|  | Manufacturing Overhead | | 510 |  |
|  | | Work in Process Inventory |  | 1,190 |
| c. | Disposal Value of Spoiled Work | | 680 |  |
|  | | Work in Process Inventory-Job #12 |  | 680 |