

Chapter 2 Question Review

1. Job order costing is used when
 - a) A large volume of similar products is produced
 - b) Production is continuous
 - c) Products have unique characteristics
 - d) only when a perpetual system is used

2. Which of the following would use job order costing?
 - a) manufacturer of cereal
 - b) refining of petroleum
 - c) production of ice cream
 - d) printing of individual wedding invitations

3. Which is the correct order to record job order cost flow?
 - a) accumulate, then assign
 - b) assign, then accumulate
 - c) estimate, then assign
 - d) assign, then estimate

4. To record factory labor costs incurred, the journal entry requires a debit to:
 - a) Work in Process
 - b) Factory Labor
 - c) Wages Expense
 - d) Manufacturing Overhead

5. The entry to record the issuance of raw materials in a job order cost system includes:
 - a) credit to work in process inventory
 - b) debit to work in process inventory
 - c) debit to raw materials inventory
 - d) credit to manufacturing overhead

6. If ABC Company estimates that total manufacturing overhead will be \$400,000. It estimates to use \$300,000 in raw materials, and \$50,000 in direct labor. Actual costs incurred were \$310,000 in raw materials and \$55,000 in direct labor. ABC Company allocated manufacturing overhead based on direct labor hours. How much manufacturing overhead should be debited to work in process inventory?
 - a) \$350,000
 - b) \$365,000
 - c) \$400,000
 - d) \$440,000

7. Manufacturing overhead is overapplied if:
 - a) actual overhead is less than applied
 - b) actual overhead is greater than applied
 - c) applied overhead is less than work in process inventory
 - d) applied overhead is greater than work in process inventory

8. ABC company has underapplied overhead of \$3,100. The adjusting entry to eliminate this would include:

- a) credit to manufacturing overhead for \$3,100
- b) credit to work in process for \$3,100
- c) debit to cost of goods sold for \$3,100
- d) debit to finished goods for \$3,100

9. ABC completes Job No. 15 at a cost of \$9,000. ABC then sold it for \$11,500. The entry to record the completion of the job would include:

- a) a debit to finished goods for \$9,000 and a credit to work in process for \$9,000
- b) a debit to finished goods for \$11,500 and a credit to work in process for \$11,500
- c) a debit to work in process for \$9,000 and a credit to finished goods for \$9,000
- d) a debit to work in process for \$11,500 and a credit to finished goods for \$11,500

10. ABC completes Job No. 15 at a cost of \$9,000. ABC then sold it for \$11,500. The entry to record the sale of the job would include:

- a) a debit to finished goods for \$9,000 and a credit to cost of goods sold for \$9,000
- b) a debit to cost of goods sold for \$11,500 and a credit to finished goods for \$11,500
- c) a debit to accounts receivable for \$9,000 and a credit to sales revenue for \$9,000
- d) a debit to accounts receivable for \$11,500 and a credit to sales revenue for \$11,500

Practice Problem #1

Z Company makes custom motorboats. It incurred the following costs for the just-completed job B011. 500 pounds of direct materials were used at a cost per pound of \$25. The job cost sheet indicates that a total of 90 direct labor-hours incurred on job B011. The workers were paid at a rate of \$18 per hour. The company applies overhead based on machine hours. At the beginning of the year, it was estimated that the total amount of overhead would be \$180,000 and a total of 30,000 machine hours would be incurred. Job B011 required 150 machine hours.

Required: Determine the total cost assigned to Job B011

Practice Problem #2

T Company had special chocolate chip cookie orders in production at June 30. Material costs for chocolate chip were \$500. Direct labor costs per batch were \$200. Overhead is applied at the rate of 50% of direct materials costs.

Required: What was the balance in work-in-process at June 30?

Practice Problem #3

B Company, which began operations on January 1 of the current year, reported the following information:

Estimated manufacturing overhead	\$600,000
Actual manufacturing overhead	639,000
Estimated direct labor cost	480,000
Actual direct labor cost	500,000
Actual direct materials used	755,000
Total credits in the Finished Goods account	920,000

B Company uses a normal cost system and applies manufacturing overhead to jobs on the basis of direct labor cost. A 60% markup is added to the cost of completed production when finished goods are sold. On December 31, job no. 18 was the only job that remained in production. That job had direct-material and direct-labor charges of \$16,500 and \$36,000, respectively.

- Required:
- Prepare entry to assign direct labor and direct materials to the job
 - Determine the company's predetermined overhead rate. Prepare journal entry to record applied overhead
 - Determine the amount of under- or overapplied overhead.
 - Prepare the adjusting entry for the under- or overapplied overhead
 - Prepare the journal entries needed to record B Company's sales, which are all made on account.

Solutions

1. c
2. d
3. a
4. b
5. b
6. d
7. a
8. a
9. a
10. d

Practice Problem #1

Predetermined overhead rate:	$\frac{\$180,000}{30,000 \text{ MH}}$	= \$6.00 per MH
Direct materials used:	500 pounds X \$25.00 =	\$12,500
Direct labor cost:	90 DLH X \$18.00 =	1,620
Overhead applied to job B011:	\$6.00 X 150 MH =	<u>900</u>
Total job cost:		\$15,020

Practice Problem #2

	Chocolate Chip
Direct Materials	\$500
Direct Labor	\$200
Overhead	(1) \$250
Total Job Costs	(2) \$950

- (1) $\$500 \times 50\% = \250
- (2) $\$500 + \$200 + \$250 = \950

Practice Problem #3

a) Debit: Work in Process Inventory	1,255,000	
Credit: Raw Material Inventory		755,000
Credit: Factory Labor		500,000

b)

Predetermined overhead rate =	$\frac{\text{Estimated overhead costs}}{\text{Estimated direct labor cost}}$	$\frac{\$600,000}{\$480,000}$	= 125% of direct labor cost
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Debit: Work in Process Inventory	625,000	
Credit: Manufacturing Overhead		625,000
Applied overhead: \$500,000*125%		

c)

Actual manufacturing overhead	\$639,000
less: Applied overhead: \$500,000 x 125%	<u>625,000</u>
Under-applied overhead	\$14,000

d)

Debit: Cost of Goods Sold	14,000	
Credit: Manufacturing overhead		14,000

e)

Accounts receivable	1,472,000	
Sales \$920,000 x 1.60		1,472,000
Cost of goods sold	920,000	
Finished goods		920,000