

Study Guide Managerial Accounting Chapter 2

1. Which of the following would be accounted for using a job order cost system?

- a. The production of personal computers.
- b. The production of automobiles.
- c. The refining of petroleum.
- d. The construction of a new campus building.

2. As of December 31, 2013, Stand Still Industries had \$2,500 of raw materials inventory. At the beginning of 2013, there was \$2,000 of materials on hand. During the year, the company purchased \$325,000 of materials; however, it paid for only \$312,500. How much inventory was requisitioned for use on jobs during 2013?

- a. \$312,000
- b. \$324,500
- c. \$325,500
- d. \$313,000

3. The two major steps in the flow of costs are

- a. allocating and assigning.
- b. acquiring and accumulating.
- c. accumulating and assigning.
- d. accumulating and amortizing.

4. Kline Manufacturing has the following labor costs:

Factory—Gross wages	\$490,000
Factory—Net wages	420,000
Employer Payroll Taxes Payable	50,000

The entry to record the cost of factory labor and the associated payroll tax expense will include a debit to Factory Labor for

- a. \$540,000.
- b. \$490,000.
- c. \$470,000.
- d. \$440,000.

5. Madison Inc. uses job order costing for its brand new line of sewing machines. The cost incurred for production during 2013 totaled \$18,000 of materials, \$9,000 of direct labor costs, and \$6,000 of manufacturing overhead applied. The company ships all goods as soon as they are completed which results in no finished goods inventory on hand at the end of any year. Beginning work in process totaled \$15,000, and the ending balance is \$9,000. During the year, the company completed 20 machines. How much is the cost per machine?

- a. \$1,350
- b. \$1,950
- c. \$1,650
- d. \$2,400

6. A company expected its annual overhead costs to be \$1,800,000 and direct labor costs to be \$1,000,000. Actual overhead was \$1,740,000, and actual labor costs totaled \$1,100,000. How much is the company's predetermined overhead rate to the nearest cent?

- a. \$1.74
- b. \$1.57
- c. \$1.80
- d. \$1.64

7. Vektex, Inc. thinks machine hours is the best activity base for its manufacturing overhead. The estimate of annual overhead costs for its jobs was \$1,025,000. The company used 1,000 hours of processing on Job No. B12 during the period and incurred overhead costs totaling \$1,050,000. The budgeted machine hours for the year totaled 20,000. How much overhead should be applied to Job No. B12?
- \$1,050
  - \$51,250**
  - \$52,500
  - \$1,025

**BE 1**

Builder Bug Company allocates overhead at \$9 per direct labor hour. Job A45 required 4 boxes of direct materials at a cost of \$30 per box and took employees 15 hours to complete. Employees earn \$15 per hour.

**Instructions**

Compute the total cost of Job A45.

Direct materials (4 × \$30)	\$120
Direct labor (15 hours × \$15)	225
Overhead (15 hours × \$9)	<u>135</u>
Total job cost	<u>\$480</u>

**BE 2**

Colby Company estimates that annual manufacturing overhead costs will be \$600,000. Estimated annual operating activity bases are: direct labor cost \$460,000, direct labor hours 40,000 and machine hours 80,000. The actual manufacturing overhead cost for the year was \$601,000 and the actual direct labor cost for the year was \$456,000. Actual direct labor hours totaled 40,200 and machine hours totaled 79,000. Colby applies overhead based on direct labor hours.

**Instructions**

Compute the predetermined overhead rate and determine the amount of manufacturing overhead applied. Determine if overhead is over- or underapplied and the amount.

Rate =  $\$600,000 \div 40,000 = \$15$  per direct labor hour  
 Applied =  $\$15 \times 40,200 = \$603,000$   
 Overapplied =  $\$603,000 - \$601,000 = \$2,000$

**BE 3**

At December 31, Ding Company reported the following balances in its accounts:

Cost of Goods Sold	\$210,000
Finished Goods Inventory	30,000

The company's balance in its Manufacturing Overhead account at the same date was a debit of \$2,400.

**Instructions**

Prepare the entry to adjust the over- or underapplied overhead amount at December 31.

Cost of Goods Sold .....	2,400	
Manufacturing Overhead .....		2,400

**Ex. 4**

The gross earnings of factory workers for Dinkel Company during the month of January are \$400,000. The employer's payroll taxes for the factory payroll are \$48,000. Of the total accumulated cost of factory labor, 75% is related to direct labor and 25% is attributable to indirect labor.

**Instructions**

- Prepare the entry to record the factory labor costs for the month of January.
- Prepare the entry to assign factory labor to production.
- Prepare the entry to assign manufacturing overhead to production, assuming the predetermined overhead rate is 125% of direct labor cost.

(a)	Factory Labor.....	448,000	
	Factory Wages Payable .....		400,000
	Employer Payroll Taxes Payable .....		48,000

(b)	Work in Process Inventory .....	336,000	
	Manufacturing Overhead.....	112,000	
	Factory Labor .....		448,000
	(\$448,000 × 75% = \$336,000)		

(c)	Work in Process Inventory .....	420,000	
	Manufacturing Overhead.....		420,000
	(\$336,000 × 125% = \$420,000)		

**Ex. 5**

Fancy Decorating uses a job order costing system to collect the costs of its interior decorating business. Each client's consultation is treated as a separate job. Overhead is applied to each job based on the number of decorator hours incurred. Listed below are data for the current year.

Budgeted overhead	\$840,000
Actual overhead	\$870,000
Budgeted decorator hours	40,000
Actual decorator hours	41,000

The company uses Operating Overhead in place of Manufacturing Overhead.

**Instructions**

- Compute the predetermined overhead rate.
- Prepare the entry to apply the overhead for the year.
- Determine whether the overhead was under - or overapplied and by how much.

(a)	Predetermined overhead rate = Budgeted overhead ÷ Budgeted decorator hours	
	= \$840,000 ÷ 40,000 decorator hours	
	= \$21 per decorator hour	

(b)	<u>Applied Overhead</u>	
	Work in Process (41,000 hrs × \$21) .....	861,000
	Operating Overhead.....	861,000

(c)	Actual overhead	\$870,000	
	Applied overhead	<u>861,000</u>	
	Balances	<u>\$ 9,000</u>	underapplied