**Assignment 2**

1. C) Manufacturer of mass-produced carbonated beverages
2. A) Job cost record
3. B) allocating manufacturing overhead to the job.
4. D) Job cost information is not useful for assessing the profitability of different products
5. D) None of the statements is true.
6. B) departments incur different types of overhead and the products or jobs use the departments to a different extent.
7. C) Identifying the company’s primary activities
8. B) facility-level activities
9. A) ABM refers to using activity-based cost information to make decisions.
10. C) produce high volumes of some products and low volume of other products.
11. D) Transportation costs
12. A) Warranty costs

13) **Calculations of company predetermined overhead rate =**

**a) Total manufacturing overhead/Total Direct Labor hours =** $2 Million /40000 hours = $50 per labor hours

**Computation of  the total amount of direct materials: : = $2200**

Lumber ◊ 10 units at $30 per unit = $300

Padding ◊ 20 yards at $20 per yard = $400

Upholstery fabric ◊ 60 yards at $25 per yard = $1500

**Computation of  the total amount of direct labor =** $ **390**

Jessee Slothower: 10 hours at $12 per hour = $120

Becky Wilken: 15 hours at $18 per hour = $270

**Manufacturing Overhead= $1250**

(10+15) = 25\* 50 = $1250

**Compute the total Cost:**

2200$+390$+1250$= $3840

**Cost of the recliner**:

Total Cost/No.of recliner =$3840/10 = **$ 384**

**14)**

1. During January, $150,000 of raw materials was purchased on account.

Raw Materials Inventory (debit) = $150,000  
Accounts Payable (credit) = $150,000  
  
to record purchases of raw materials

1. During the month, $140,000 of raw materials was requisitioned. Of this amount, $135,000 was traced to specific jobs, while the remaining materials were for general factory use.

Work in Process Inventory (debit) = $135,000  
Manufacturing Overhead (debit) = $5,000  
Raw Materials Inventory (credit) = $140,000  
  
to record the use of direct materials and indirect materials

1. Manufacturing labor (both direct and indirect) for the month totaled $80,000. It has not yet been paid. Of this amount, $60,000 was traced to specific jobs.

Work in Process Inventory for direct labor (debit) = $60,000   
 Manufacturing Overhead for indirect labor (debit) = $20,000  
 Wages Payable (credit) = $60,000

to record the use of direct labor and indirect labor

1. The company recorded $9,000 of depreciation on the plant building and machinery. In addition, $3,000 of prepaid property tax expired during the month. The company also received the plant utility bill for $6,000.

Manufacturing Overhead (debit) = $18,000  
Accumulated Depreciation-Plant and Equipment (credit) = $9,000  
Prepaid Plant Property Tax for expiration of property tax (credit) = $3,000  
Accounts Payable for electric bill (credit) = $6,000  
  
to record other indirect manufacturing costs incurred during the month

1. Manufacturing overhead was allocated to jobs using a predetermined manufacturing overhead rate of 75% of direct labor cost.

Work in Process Inventory (75% \* 60,000 of direct labor, debit) = $45,000  
 Manufacturing Overhead (credit) = $45,000  
 to allocate manufacturing overhead to jobs

1. Several jobs were completed during the month. According to the job cost records, these jobs cost $255,000 to manufacture.

Finished Goods Inventory (debit) = $255,000  
Work in Process Inventory (credit) = $255,000  
  
to move the completed jobs out of the factory and into Finished Goods

1. Sales (all on credit) for the month totaled $340,000. According to the job cost records, the units sold cost $250,000 to manufacture. Assume the company uses a perpetual inventory system.

Accounts Receivable (debit) = $340,000  
Sales Revenue (credit) = $340,000  
  
to record the sales and receivables  
  
Cost of Goods Sold (debit) = $250,000  
Finished Goods Inventory (credit) = $250,000  
  
to reduce Finished Goods Inventory and record Cost of Goods Sold

1. The company incurred operating expenses of $60,000 during the month. Assume that 80% of these were for marketing and administrative salaries and the other 20% were lease and utility bills related to the corporate headquarters.

Salary Expense ($60,000 \* 80%, debit) = $48,000  
Lease and Utilities Expense ($60,000 \* 20%, debit) = $12,000  
Salaries and Wages Payable (credit) = $48,000  
Accounts Payable (credit) = $12,000  
  
to record all non-manufacturing costs incurred during the month

1. In order to prepare its January financial statements, the company had to close its Manufacturing Overhead account.

Actual Manufacturing Overhead = $5,000 (Requirement b) + $20,000 (Requirement c) + $18,000 (Requirement d)  
Allocated Manufacturing Overhead = $45,000 (Requirement e)  
Credit Balance = $2,000  
  
Manufacturing Overhead (debit) = $2,000  
Cost of Goods Sold (credit) = $2,000  
  
to close the Manufacturing Overhead account to CGS

1. Prepare the January income statement for Fashion Fabrics based on the transaction recorded in Requirements 1 through 9.

Sales Revenue = $340,000 (Requirement g)  
Less: Cost of Goods Sold = $248,000 (Cost of Goods Sold in Requirement g ($250,000) - Cost of Goods Sold in Requirement i ($2,000))  
Gross Profit = $92,000  
Less: Operating Expenses = $60,000 (Requirement h)  
Operating Income = $32,000

**15)**

**1 and 2) Problem**

|  |  |  |  |
| --- | --- | --- | --- |
| **1) Manufacturing Cost** | **Use of Activity** | **Cost Rate** | **Total** |
| **Direct Material** | **50,000 (seats)** | **$11** | **$550,000** |
| **Direct Labour** | **10,000 (Dl, hours)** | **$ 25** | **$250,000** |
| **MOH** |  |  |  |
| **Machining** | **400(machine hours)** | **$ 30** | **$ 12,000** |
| **Assembling** | **1,000,000 (parts)** | **$ 0.50** | **$ 50,0000** |
| **Packing** | **50,000 (seats)** | **$ 0.90** | **$ 45,0000** |
| **Total Cost** |  |  | **$1,357,000** |
| **Divide by Number of units** |  |  | **50,000** |
| **Average cost per unit** |  |  | **$27.14** |
| **2)** |  |  |  |
| **Calculate of bid price** |  |  |  |
| **Total Job Cost** |  |  | **$ 1,357,000** |
| **Multiply by : 100% + Markup** |  |  | **130%** |
| **Bid Price** |  |  | **$ 1,764,100** |
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| **3) Manufacturing cost** | **Use Of Activity** | **Cost Rate** | **Total** |
| **Direct Material** | **50,000 (seats)** | **$11** | **$550,000** |
| **Direct Labour** | **10,000(hours)** | **$25** | **$250,000** |
| **MOH:** | **10,000(hours)** | **$65** | **$650,000** |
| **Total Cost** |  |  | **$1450,000** |
| **Divide by Number of units** |  |  | **$50,000** |
| **Average Cost er Unit** |  |  | **$29.00** |
|  |  |  |  |
| **Calculation of bid price** |  |  |  |
| **Total job cost** |  |  | **1,450,000** |
| **Multiply by 100%+ markup** |  |  | **130%** |
| **Bid Price** |  |  | **$1,885,000** |

4) XYZ bid would be $120,900 higher using the plantwide overhead rate than using ABC ($1,885,000 versus $1,764,100). Assuming that the ABC system more accurately captures the costs caused by the order, the traditional plantwide overhead system overcosts the order. This leads to a higher bid price that reduces XYZ's chance of winning the bid. The ABC system shows that XYZ can increase its chance of winning the bid by bidding a lower price and still make a profit.