

Baba Company is a manufacturing firm that uses job-order costing. The company's inventory balances were as follows at the beginning and end of the year:

	Beginning Balance	Ending Balance
Raw materials	\$22,000	\$25,000
Work in process	\$52,000	\$34,000
Finished goods.....	\$121,000	\$136,000

The company applies overhead to jobs using a predetermined overhead rate based on machine-hours. At the beginning of the year, the company estimated that it would work 40,000 machine-hours and incur \$200,000 in manufacturing overhead cost. The following transactions were recorded for the year:

- Raw materials were purchased, \$412,000.
- Raw materials were requisitioned for use in production, \$409,000 (\$362,000 direct and \$47,000 indirect).
- The following employee costs were incurred: direct labor, \$324,000; indirect labor, \$57,000; and administrative salaries, \$129,000.
- Selling costs, \$135,000.
- Factory utility costs, \$22,000.
- Depreciation for the year was \$102,000 of which \$94,000 is related to factory operations and \$8,000 is related to selling, general, and administrative activities.
- Manufacturing overhead was applied to jobs. The actual level of activity for the year was 44,000 machine-hours.
- Sales for the year totaled \$1,198,000.

Required:

- a. Prepare a schedule of cost of goods manufactured in good form.
- b. Was the overhead underapplied or overapplied? By how much?
- c. Prepare an income statement for the year in good form. The company closes any underapplied or overapplied overhead to Cost of Goods Sold.

Ans:

a. Schedule of cost of goods manufactured

Estimated total manufacturing overhead (a).....	\$200,000	
Estimated total machine-hours (b)	<u>40,000</u>	
Predetermined overhead rate (a) ÷ (b).....	<u>\$5.00</u>	
Actual total machine-hours (a).....	44,000	
Predetermined overhead rate (b)	<u>\$5.00</u>	
Overhead applied (a) × (b)	<u>\$220,000</u>	
Direct materials:		
Raw materials inventory, beginning.....	\$ 22,000	
Add: purchases of raw materials.....	<u>412,000</u>	
Total raw materials available	434,000	
Deduct: raw materials inventory, ending	<u>25,000</u>	
Raw materials used in production.....	409,000	
Less: indirect materials	<u>47,000</u>	
Direct materials		\$362,000
Direct labor		324,000
Manufacturing overhead applied		<u>220,000</u>
Total manufacturing costs.....		906,000
Add: Beginning work in process inventory		<u>52,000</u>
		958,000
Deduct: Ending work in process inventory.....		<u>34,000</u>
Cost of goods manufactured.....		<u>\$924,000</u>

b. Overhead underapplied or overapplied

Actual manufacturing overhead cost incurred:		
Indirect materials	\$ 47,000	
Indirect labor	57,000	
Factory utilities	22,000	
Factory depreciation.....	<u>94,000</u>	
Manufacturing overhead cost incurred	220,000	
Manufacturing overhead applied	220,000	
Overhead is neither underapplied nor overapplied.....		\$0

c. Income Statement

Beginning finished goods inventory	\$ 121,000	
Cost of goods manufactured.....	<u>924,000</u>	
Goods available for sale	1,045,000	
Ending finished goods inventory.....	<u>136,000</u>	
Unadjusted cost of goods sold	909,000	
Deduct: underapplied or overapplied overhead	<u>0</u>	
Adjusted cost of goods sold	<u>\$ 909,000</u>	
Sales		\$1,198,000
Cost of goods sold (adjusted).....		<u>909,000</u>
Gross margin		289,000
Less selling and administrative expenses:		
Administrative salaries.....	\$129,000	
Selling costs.....	135,000	
Depreciation.....	<u>8,000</u>	<u>272,000</u>
Net operating income.....		<u>\$ 17,000</u>

Bledsoe Corporation has provided the following data for the month of November:

Inventories:	Beginning	Ending
Raw materials	\$25,000	\$21,000
Work in process	\$17,000	\$10,000
Finished goods.....	\$48,000	\$56,000

Additional information:

Raw materials purchases	\$72,000
Direct labor cost	\$92,000
Manufacturing overhead cost incurred	\$42,000
Indirect materials included in manufacturing overhead cost incurred	\$4,000
Manufacturing overhead cost applied to Work in Process	\$41,000

Required:

Prepare a Schedule of Cost of Goods Manufactured and a Schedule of Cost of Goods Sold in good form.

Ans:

Cost of Goods Manufactured

Direct materials:		
Beginning materials inventory.....	\$25,000	
Add: Purchases of raw materials	<u>72,000</u>	
Raw materials available for use	97,000	
Deduct: Ending raw materials inventory.....	<u>21,000</u>	
Raw materials used in production.....	76,000	
Less indirect materials included in manufacturing overhead incurred.....	<u>4,000</u>	\$ 72,000
Direct labor		92,000
Manufacturing overhead applied to Work in Process		<u>41,000</u>
Total manufacturing costs.....		205,000
Add: Beginning work in process inventory		<u>17,000</u>
		222,000
Deduct: Ending work in process inventory.....		<u>10,000</u>
Cost of goods manufactured.....		<u>\$212,000</u>

Cost of Goods Sold

Beginning finished goods inventory	\$ 48,000
Add: Cost of goods manufactured	<u>212,000</u>
Goods available for sale	260,000
Deduct: Ending finished goods inventory	<u>56,000</u>
Unadjusted cost of goods sold	204,000
Add: Underapplied overhead	<u>1,000</u>
Adjusted cost of goods sold	<u>\$205,000</u>