Managerial Accounting

Chapter 5 – Job Order Costing

Question Sheet

1. Mikes Manufacturing is a bottle manufacturing company that uses job order costing system. Mikes Manufacturing applies overhead cost to the jobs based on machine hours. He estimated that this year the machines would work 40,000 hours with a total of $180,000 in overhead costs. The beginning balances were as follows:

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<table>
<thead>
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</thead>
<tbody>
<tr>
<td>Raw Materials</td>
<td>$20,000</td>
</tr>
<tr>
<td>Work in Process</td>
<td>$12,000</td>
</tr>
<tr>
<td>Finished Goods</td>
<td>$35,000</td>
</tr>
</tbody>
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Required

I. Prepare journal entries based on the above information

   a. Raw materials purchased on credit were $240,000
   b. A total of $230,000 worth of raw material was used in production (85% being direct and the remaining indirect)
   c. The factory incurred $25,000 in electricity cost, $10,000 in water expense and $10,000 for utilities
   d. Cost incurred for employee services were; $25,000 as indirect labour, admin salaries for $75,000, direct labour for $180,000
   e. Depreciation was recorded for $75,000 (80% relating to factory depreciation and the remaining to selling and administrative activities)
   f. Prepaid insurance of $15,000 expired for the year (100% relates to factory operations)
   g. Overhead was applied to production. Mike recorded 45,000 machine hours for the year
   h. Goods that cost $400,000 to manufacture were transferred to finished goods
   i. Credit sales were $600,000. According to their job costing sheets the total cost to manufacture these bottles were $460,000

II. Is the manufacturing overhead over applied or under applied? By how much?