

LO 4 Computation and Application of Overhead Rate

E15A. For Road Patch Company, labor is the highest single expense, totaling \$693,000 for 75,000 hours of work last year. Overhead costs for last year were \$900,000 and were applied to specific jobs on the basis of labor hours worked. This year, the company anticipates a 25 percent increase in overhead costs. Labor costs will increase by \$130,000, and the number of hours worked is expected to increase by 20 percent.

1. Determine the total amount of overhead anticipated this year.
2. Compute the overhead rate for this year.
3. At the end of this year, Road Patch had compiled a total of 89,920 labor hours worked. The actual overhead incurred was \$1,143,400.
 - a. Using the overhead rate computed in 2, determine the total amount of overhead applied to operations during the year.
 - b. Compute the amount of under/overapplied overhead for the year.
 - c. **ACCOUNTING CONNECTION** ▶ Will the Cost of Goods Sold account be increased or decreased to correct the under/overapplication of overhead?

EXERCISES: SET B

Visit the textbook companion web site at www.cengagebrain.com to access Exercise Set B for this chapter.

PROBLEMS

LO 2 T Account Analysis with Unknowns

- ✓ d: May ending work in process inventory: \$45,770
- ✓ i: June overhead applied: \$57,800

P1. Patriotic Enterprises makes flags. The company's new controller can find only the following partial information for the past two months:

Account/Transaction	May	June
Beginning Materials Inventory	\$ 36,240	\$ (e)
Beginning Work in Process Inventory	56,480	(f)
Beginning Finished Goods Inventory	44,260	(g)
Materials purchased	(a)	96,120
Direct materials requested	82,320	(h)
Direct labor costs	(b)	72,250
Overhead applied	53,200	(i)
Cost of units completed	(c)	221,400
Cost of Goods Sold	209,050	(j)
Ending Materials Inventory	38,910	41,950
Ending Work in Process Inventory	(d)	(k)
Ending Finished Goods Inventory	47,940	51,180

The current year's predetermined overhead rate is 80 percent of direct labor cost.

REQUIRED

Using T accounts, compute the unknown values.

LO 2, 3, 4 Job Order Costing: T Account Analysis

- ✓ 2: \$260 underapplied overhead

P2. Eagle Carts, Inc., produces special-order golf carts, so Eagle Carts uses a job order costing system. Overhead is applied at the rate of 90 percent of direct labor cost. A list of transactions for January follows.

- Jan. 1 Purchased direct materials on account, \$215,400.
- 2 Purchased indirect materials on account, \$49,500.
- 4 Requested direct materials costing \$193,200 (all used on Job X) and indirect materials costing \$38,100 for production.
- 10 Paid the following overhead costs: utilities, \$4,400; manufacturing rent, \$3,800; and maintenance charges, \$3,900.