5. Your roommate asks your help in understanding the major steps in the flow of costs in a job order cost system. Identify the steps for your roommate.
6. There are three inventory control accounts in a job order system. Identify the control accounts and their subsidiary ledgers.
7. What source documents are used in accumulating direct labor costs?
8. "Entries to Manufacturing Overhead normally are only made daily." Do you agree? Explain.
9. Stan Kaiser is confused about the source documents used in assigning materials and labor costs. Identify the documents and give the entry for each document.
10. What is the purpose of a job cost sheet?
11. Indicate the source documents that are used in charging costs to specific jobs.
12. Explain the purpose and use of a "materials requisition slip" as used in a job order cost system.
13. Sam Bowden believes actual manufacturing overhead should be charged to jobs. Do you agree? Why or why not?
14. What elements are involved in computing a predetermined overhead rate?
15. How can the agreement of Work in Process Inventory and job cost sheets be verified?
16. Jane Neff believes that the cost of goods manufactured schedule in job order cost accounting is the same as shown in Chapter 1. Is Jane correct? Explain.
17. Matt Litkee is confused about under- and overapplied manufacturing overhead. Define the terms for Matt, and indicate the balance in the manufacturing overhead account applicable to each term.
18. "At the end of the year, under- or overapplied overhead is closed to Income Summary." Is this correct? If not, indicate the customary treatment of this amount.

BRIEF EXERCISES

Prepare a flowchart of a job order cost accounting system, and identify transactions.
(LO 2), C

BE2-1 Knox Company begins operations on January 1. Because all work is done to customer specifications, the company decides to use a job order cost system. Prepare a flowchart of a typical job order system with arrows showing the flow of costs. Identify the eight transactions.

Prepare entries in accumulating manufacturing costs.
(LO 2), AP

BE2-2 During January, its first month of operations, Knox Company accumulated the following manufacturing costs: raw materials $4,000 on account, factory labor $6,000 of which $5,200 relates to factory wages payable and $800 relates to payroll taxes payable, and utilities payable $2,000. Prepare separate journal entries for each type of manufacturing cost.

Prepare entry for the assignment of raw materials costs.
(LO 3), AP

BE2-3 In January, Knox Company requisitions raw materials for production as follows: Job 1 $900, Job 2 $1,400, Job 3 $700, and general factory use $600. Prepare a summary journal entry to record raw materials used.

Prepare entry for the assignment of factory labor costs.
(LO 3), AP

BE2-4 Factory labor data for Knox Company is given in BE2-2. During January, time tickets show that the factory labor of $6,000 was used as follows: Job 1 $2,200, Job 2 $1,600, Job 3 $1,400, and general factory use $800. Prepare a summary journal entry to record factory labor used.

Prepare job cost sheets.
(LO 3), AP

BE2-5 Data pertaining to job cost sheets for Knox Company are given in BE2-3 and BE2-4. Prepare the job cost sheets for each of the three jobs. (*Note:* You may omit the column for Manufacturing Overhead.)

Compute predetermined overhead rates.
(LO 4), AP

BE2-6 Marquis Company estimates that annual manufacturing overhead costs will be $900,000. Estimated annual operating activity bases are direct labor cost $500,000, direct labor hours 50,000, and machine hours 100,000. Compute the predetermined overhead rate for each activity base.

Assign manufacturing overhead to production.
(LO 4), AP

BE2-7 During the first quarter, Roland Company incurs the following direct labor costs: January $40,000, February $30,000, and March $50,000. For each month, prepare the entry to assign overhead to production using a predetermined rate of 80% of direct labor cost.

Prepare entries for completion and sale of completed jobs.
(LO 5), AP

BE2-8 In March, Stinson Company completes Jobs 10 and 11. Job 10 cost $20,000 and Job 11 $30,000. On March 31, Job 10 is sold to the customer for $35,000 in cash. Journalize the entries for the completion of the two jobs and the sale of Job 10.

Prepare entries for service salaries and wages and operating overhead.
(LO 5), AP

BE2-9 Preprah Engineering Contractors incurred service salaries and wages of $32,000 ($24,000 direct and $8,000 indirect) on an engineering project. The company applies overhead at a rate of 25% of direct labor. Record the entries to assign service salaries and wages and to apply overhead.

Prepare adjusting entries for under- and overapplied overhead.
(LO 6), C

BE2-10 At December 31, balances in Manufacturing Overhead are Shimeca Company—debit $1,200, Garcia Company—credit $900. Prepare the adjusting entry for each company at December 31, assuming the adjustment is made to cost of goods sold.

> DO IT! REVIEW

DO IT! 2-1 During the current month, Tomlin Company incurs the following manufacturing costs.

Prepare journal entries for manufacturing costs.
(LO 2), AP

(a) Purchased raw materials of $16,000 on account.
(b) Incurred factory labor of $40,000. Of that amount, $31,000 relates to wages payable and $9,000 relates to payroll taxes payable.
(c) Factory utilities of $3,100 are payable, prepaid factory property taxes of $2,400 have expired, and depreciation on the factory building is $9,500.

Prepare journal entries for each type of manufacturing cost. (Use a summary entry to record manufacturing overhead.)

DO IT! 2-2 Milner Company is working on two job orders. The job cost sheets show the following.

Assign costs to work in process.
(LO 3, 4), AP

	Job 201	Job 202
Direct materials	$7,200	$9,000
Direct labor	4,000	8,000
Manufacturing overhead	5,200	9,800

Prepare the three summary entries to record the assignment of costs to Work in Process from the data on the job cost sheets.

DO IT! 2-3 During the current month, Reyes Corporation completed Job 310 and Job 312. Job 310 cost $60,000 and Job 312 cost $50,000. Job 312 was sold on account for $90,000. Journalize the entries for the completion of the two jobs and the sale of Job 312.

Prepare entries for completion and sale of jobs.
(LO 5), AP

DO IT! 2-4 For Eckstein Company, the predetermined overhead rate is 130% of direct labor cost. During the month, Eckstein incurred $100,000 of factory labor costs, of which $85,000 is direct labor and $15,000 is indirect labor. Actual overhead incurred was $115,000. Compute the amount of manufacturing overhead applied during the month. Determine the amount of under- or overapplied manufacturing overhead.

Apply manufacturing overhead and determine under- or overapplication.
(LO 6), AN

✔ The Navigator

EXERCISES

E2-1 The gross earnings of the factory workers for Vargas Company during the month of January are $66,000. The employer's payroll taxes for the factory payroll are $8,000. The fringe benefits to be paid by the employer on this payroll are $6,000. Of the total accumulated cost of factory labor, 85% is related to direct labor and 15% is attributable to indirect labor.

Prepare entries for factory labor.
(LO 2, 3), AP

XLS

Instructions
(a) Prepare the entry to record the factory labor costs for the month of January.
(b) Prepare the entry to assign factory labor to production.

E2-2 Stine Company uses a job order cost system. On May 1, the company has a balance in Work in Process Inventory of $3,500 and two jobs in process: Job No. 429 $2,000, and Job No. 430 $1,500. During May, a summary of source documents reveals the following.

Prepare journal entries for manufacturing costs.
(LO 2, 3, 4, 5), AP

Job Number	Materials Requisition Slips		Labor Time Tickets	
429	$2,500		$1,900	
430	3,500		3,000	
431	4,400	$10,400	7,600	$12,500
General use		800		1,200
		$11,200		$13,700

Stine Company applies manufacturing overhead to jobs at an overhead rate of 60% of direct labor cost. Job No. 429 is completed during the month.

Instructions

(a) Prepare summary journal entries to record (i) the requisition slips, (ii) the time tickets, (iii) the assignment of manufacturing overhead to jobs, and (iv) the completion of Job No. 429.

(b) Post the entries to Work in Process Inventory, and prove the agreement of the control account with the job cost sheets. (Use a T-account.)

Analyze a job cost sheet and prepare entries for manufacturing costs.

(LO 2, 3, 4, 5), AP

E2-3 A job order cost sheet for Lowry Company is shown below.

Job No. 92			**For 2,000 Units**
Date	Direct Materials	Direct Labor	Manufacturing Overhead
Beg. bal. Jan. 1	5,000	6,000	5,100
8	6,000		
12		8,000	6,400
25	2,000		
27		4,000	3,200
	13,000	18,000	14,700
Cost of completed job:			
Direct materials			$13,000
Direct labor			18,000
Manufacturing overhead			14,700
Total cost			$45,700
Unit cost ($45,700 ÷ 2,000)			$22.85

Instructions

(a) On the basis of the foregoing data, answer the following questions.

(1) What was the balance in Work in Process Inventory on January 1 if this was the only unfinished job?

(2) If manufacturing overhead is applied on the basis of direct labor cost, what overhead rate was used in each year?

(b) Prepare summary entries at January 31 to record the current year's transactions pertaining to Job No. 92.

Analyze costs of manufacturing and determine missing amounts.

(LO 2, 6), AN

E2-4 Manufacturing cost data for Orlando Company, which uses a job order cost system, are presented below.

	Case A	**Case B**	**Case C**
Direct materials used	$ (a)	$ 83,000	$ 63,150
Direct labor	50,000	140,000	(h)
Manufacturing overhead applied	42,500	(d)	(i)
Total manufacturing costs	145,650	(e)	213,000
Work in process 1/1/14	(b)	15,500	18,000
Total cost of work in process	201,500	(f)	(j)
Work in process 12/31/14	(c)	11,800	(k)
Cost of goods manufactured	192,300	(g)	222,000

Instructions

Indicate the missing amount for each letter. Assume that in all cases manufacturing overhead is applied on the basis of direct labor cost and the rate is the same.

Compute the manufacturing overhead rate and under- or overapplied overhead.

(LO 4, 6), AN

XLS

E2-5 Duggan Company applies manufacturing overhead to jobs on the basis of machine hours used. Overhead costs are expected to total $325,000 for the year, and machine usage is estimated at 125,000 hours.

For the year, $342,000 of overhead costs are incurred and 130,000 hours are used.