PROBLEM 4–17 Applying Overhead; Underapplied or Overapplied Overhead; Income Statement [LO 4–2, LO 4–4, LO 4–5]

Durham Company uses a job-order costing system. The following transactions took place last year:

a. Raw materials requisitioned for use in production, $40,000 (80% direct and 20% indirect).

b. Factory utility costs incurred, $14,600.
c. Depreciation recorded on plant and equipment, $28,000. Three-fourths of the depreciation relates to factory equipment, and the remainder relates to selling and administrative equipment.
d. Costs for salaries and wages were incurred as follows:

Direct labor	$40,000
Indirect labor	$18,000
Sales commissions	$10,000
Administrative salaries	$25,000

e. Insurance costs incurred, $3,000 (80% relates to factory operations, and 20% relates to selling and administrative activities).
f. Miscellaneous selling and administrative expenses incurred, $18,000.
g. Manufacturing overhead was applied to production. The company applies overhead on the basis of 150% of direct labor cost.
h. Goods that cost $130,000 to manufacture according to their job cost sheets were transferred to the finished goods warehouse.
i. Goods that had cost $120,000 to manufacture according to their job cost sheets were sold for $200,000.

Required:

1. Determine the underapplied or overapplied overhead for the year.
2. Prepare an income statement for the year. (Hint: No calculations are required to determine the cost of goods sold before any adjustment for underapplied or overapplied overhead.)