ACCOUNTING 203
Chapter 2 Practice Test

True and False Statements

1. Both job order and process costing systems use averaging to compute unit product costs.

2. The three cost categories appearing on a job cost sheet are: selling expense, manufacturing expense, and administrative expense.

3. Under a job-order cost system the Work in Process account is debited with the cost of materials purchased.

4. The process of assigning overhead to jobs is known as overhead application.

5. Period costs are expensed as incurred, rather than going into the Work in Process account.

Multiple Choice Questions

6. In a job-order cost system, the application of manufacturing overhead usually would be recorded as a debit to:

   A) Cost of Goods Sold
   B) Work in Process inventory.
   C) Manufacturing Overhead.
   D) Finished Goods inventory.

7. Which of the following would probably be the least appropriate allocation base for allocating overhead in a highly automated manufacturer of specialty valves?

   A) machine-hours
   B) power consumption
   C) direct labor-hours
   D) machine setups
8. The Work in Process inventory account of a manufacturing firm shows a balance of $3,000 at the end of the accounting period. The job cost sheets of two uncompleted jobs show charges of $500 and $300 for materials, and charges of $400 and $600 for direct labor. From this information, it appears that the company is using a predetermined overhead rate, as a percentage of direct labor costs, of:

A) 83%
B) 120%
C) 40%
D) 300%

9. Paulson Company uses a predetermined overhead rate based on machine hours to apply manufacturing overhead to jobs. The company has provided the following estimated costs for next year:

- Direct materials ........................................... $25,000
- Direct labor ............................................... 22,000
- Advertising expense .................................... 15,000
- Rent on factory building ................................ 13,500
- Depreciation on factory equipment ............... 6,500
- Indirect materials ........................................ 10,000
- Sales salaries ............................................. 28,000
- Insurance on factory equipment .................. 12,000

Paulsen estimated that 40,000 direct labor hours and 20,000 machine hours would be worked during the year. The predetermined overhead rate per machine hour will be:

A) $1.60.  
B) $2.10.  
C) $9.00  
D) $1.05.

Use the following to answer questions 10-11.

Maverick Company had the following transactions last year:

1) Raw materials purchased on account totaled $165,000.
2) Raw materials issued from the storeroom, $140,000 (90% direct materials, 10% indirect materials).
3) Factory utility costs incurred, $35,000.
4) Employee salaries and wages incurred, $200,000 (80% direct labor, 10% indirect labor and 10% selling and administrative).
5) Depreciation on factory equipment, $30,000.
6) Depreciation on autos used by the sales staff, $15,000.
7) Overhead was applied to production at a rate of 50% of direct labor cost.
8) Goods costing $310,000 were transferred from Work in Process to Finished Goods.
10. The total cost added to Work in Process during the year was:
   A) $366,000.
   B) $340,000.
   C) $420,000.
   D) $286,000.

11. The cost of goods manufactured was:
   A) $366,000.
   B) $420,000.
   C) $385,000.
   D) $310,000.

12. Granite Company uses a job order cost system. The company applies manufacturing overhead to jobs using a predetermined overhead rate based on direct labor-hours. Last year, manufacturing overhead and direct labor-hours were estimated at $80,000 and 16,000 hours respectively, for the year. In June, job #315 was completed. Materials costs on the job total $1,500 and labor costs totaled $2,400 at $6 per hour. At the end of the year, it was determined that the company worked 15,000 direct labor-hours for the year, and incurred $78,000 in actual manufacturing overhead costs.

   Required:

   a. Determine the predetermined overhead rate for the year.

   b. Determine the amount of overhead charged to jobs during the year.

   c. Determine the amount of under- or overapplied overhead of the year.

   d. Assuming that 100 units were completed, determine the unit product cost that would appear on the job cost sheet for Job #315.
ANSWERS

True and False

Multiple Choice

12. a. $80,000 / 16,000 DLH = $5/DLH

   b. 15,000 DLH X $5/DLH = $75,000

   c. Actual overhead costs ..................$78,000
      Applied overhead costs .................. 75,000
      Underapplied overhead .................. $3,000

   d. Direct materials .......................$1,500
      Direct labor ............................. 2,400
      Overhead applied
         (400 DLH * X $5/DLH) .................. 2,000
      Total cost ............................... $5,900
      Unit product cost ....................... $5.90

   *2,400 / $6/DLH = 400 DLH