

Cost Accounting, 15e (Horngren/Datar/Rajan)
Chapter 4 Job Costing

I. In each of the following situations, determine whether job costing or process costing would be more appropriate.

- | | |
|------------------------------------|---------------------------------------|
| a. A CPA firm | l. A landscaping company |
| b. An oil refinery | m. A cola-drink-concentrate producer |
| c. A custom furniture manufacturer | n. A movie studio |
| d. A tire manufacturer | o. A law firm |
| e. A textbook publisher | p. A commercial aircraft manufacturer |
| f. A pharmaceutical company | q. A management consulting firm |
| g. An advertising agency | r. A plumbing contractor |
| h. An architecture firm | s. A catering service |
| i. A flour mill | t. A paper mill |
| j. A paint manufacturer | u. An auto repair shop |
| k. A nursing home | |

II. Select the best answer that fits each of the following statement

- 1) A _____ is anything for which a measurement of costs is desired.
A) cost-allocation base B) cost pool C) cost object D) cost-application base
- 2) A _____ is a grouping of individual indirect cost items.
A) cost allocation base B) cost assignment C) cost pool D) job-costing system
- 3) Direct costs _____.
A) are anything for which a measurement of costs is desired
B) are costs related to a particular cost object that can be traced to that cost object in a cost-effective manner
C) focus specifically on the costing needs of the CFO
D) are costs related to a particular cost object that cannot be traced to that cost object in a cost-effective manner
- 4) In a costing system, _____.
A) cost tracing allocates indirect costs B) cost allocation assigns direct costs
C) a cost-allocation base can be either financial or nonfinancial
D) a cost object should be a product and not a department or a geographic territory
- 5) Assigning direct costs to a cost object is called _____.
A) cost allocation B) cost assignment C) cost pooling D) cost tracing
- 6) _____ is the process of distributing indirect costs to products.
A) Cost allocation B) Job cost recording C) Cost pooling D) Cost tracing
- 7) A _____ links an indirect cost to a cost object.
A) cost-allocation base B) cost pool C) cost assignment D) cost tracing

- 8) Which of the following includes both traced direct costs and allocated indirect costs?
 A) cost tracing B) cost pools C) cost assignments D) cost allocations
- 9) The cost allocation base _____.
 A) is a grouping of individual indirect cost items
 B) are costs related to a particular cost object that cannot be traced to that cost object in an economically feasible way
 C) is anything for which a measurement of costs is desired
 D) is a systematic way to link an indirect cost or group of indirect costs to cost objects
- 10) Process costing is _____.
 A) used to enhance employees' job satisfaction
 B) used by businesses to price unique products or identical products produced in batches
 C) used by businesses to price identical products
 D) used by businesses when manufacturing goods above normal capacity
- 11) Process costing _____.
 A) allocates all product costs, including materials, and labor
 B) results in different costs for different units produced
 C) is commonly used by general contractors who construct custom-built homes
 D) is used exclusively in manufacturing
- 12) Job costing is _____.
 A) used by businesses to price identical products
 B) used by businesses to price unique products for different jobs
 C) used to calculate equivalent units
 D) used to calculate the percentage of work completed
- 13) Vision Enterprises manufactures digital video equipment. For each unit, \$3,000 of direct material is used and there is \$2,000 of direct manufacturing labor at \$20 per hour. Manufacturing overhead is applied at \$25 per direct manufacturing labor hour. Calculate the profit earned on 50 units if each unit sells for \$9,000.
 A) \$65,000 B) \$80,000 C) \$75,000
- 14) Fixed costs remain constant at \$400,000 per month. During high-output months variable costs are \$320,000, and during low-output months variable costs are \$80,000. What are the respective high and low indirect-cost rates if budgeted professional labor-hours are 16,000 for high-output months and 4,000 for low-output months?
 A) \$45.00 per hour; \$120.00 per hour B) \$45.00 per hour; \$45.00 per hour
 C) \$25.00 per hour; \$20.00 per hour D) \$56.20 per hour; \$120.00 per hour

Answer the following questions using the information below:

For 2014, Bakers Manufacturing uses machine-hours as the only overhead cost-allocation base. The direct cost rate is \$3.00 per unit. The selling price of the product is \$20.00. The estimated manufacturing overhead costs are \$240,000 and estimated 40,000 machine hours. The actual manufacturing overhead costs are \$300,000 and actual machine hours are 50,000.

- 15) Using job costing, the 2014 actual indirect-cost rate is _____.

- A) \$6.00 per machine-hour B) \$5.80 per machine-hour
 C) \$6.50 per machine-hour D) \$6.75 per machine-hour

- 16) What is the profit margin percentage if each unit requires two machine-hours?
 A) 53.33% B) 33.33% C) 66.67% D) 58.73% E) 25%

17) Tiscara Company manufactures insulation and applies manufacturing overhead costs to production at a budgeted indirect-cost rate of \$15 per direct labor-hour. The following data are obtained from the accounting records for June 2014:

Direct materials	\$440,000
Direct labor (3,500 hours @ \$11/hour)	38,500
Indirect labor	15,000
Plant facility rent	50,000
Depreciation on plant machinery and equipment	35,000
Sales commissions	10,000
Administrative expenses	25,000

- The actual amount of manufacturing overhead costs incurred in June 2014 totals _____.
 A) \$278,500 B) \$100,000 C) \$80,000 D) \$110,000

Answer the following questions using the information below:

Roiann and Dennett Law Office employs 12 full-time attorneys and 10 paraprofessionals. Direct and indirect costs are applied on a professional labor-hour basis that includes both attorney and paraprofessional hours. Following is information for 2014:

	<u>Budget</u>	<u>Actual</u>
Indirect costs	\$270,000	\$300,000
Annual salary of each attorney	\$100,000	\$110,000
Annual salary of each paraprofessional	\$ 29,000	\$ 30,000
Total professional labor-hours	50,000 dlh	60,000 dlh

- 18) What are the actual direct-cost rate and the actual indirect-cost rate, respectively, per professional labor-hour?
 A) \$27.00; \$4.17 B) \$29.80; \$5.40 C) \$32.40; \$5.00 D) \$27.00; \$5.00

- 19) How much should the client be billed in an actual costing system if 200 professional labor-hours are used?
 A) \$5,000 B) \$6,960 C) \$7,480 D) \$6,400

Indicate whether each of the following statement is true or false:

- 20) If indirect-cost rates were based on actual short-term usage, periods of lower demand would result in lower costs per unit.
 21) In job costing, only direct costs are used to determine the cost of a job.
 22) Indirect manufacturing costs should be allocated equally to each job.
 23) Each cost pool may have multiple cost allocation bases.
 24) Normal costing is a costing system that traces direct costs to a cost object by using the actual direct-

cost rates times the actual quantities of the direct-cost inputs.

15) Companies often use multiple cost-allocation bases to allocate indirect costs because different indirect costs have different cost drivers.

27) All costs other than direct materials and direct manufacturing labor are classified as indirect costs.

30) One reason for using longer time periods to calculate indirect-cost rates is seasonal cost fluctuations.

Answer the following questions

31) Plastic Products Company manufactures pipes and applies manufacturing costs to production at a budgeted indirect-cost rate of \$12 per direct labor-hour. The following data are obtained from the accounting records for June 2014:

Direct materials	\$350,000
Direct labor (16,000 hours @ \$11/hour)	176,000
Indirect labor	20,000
Plant facility rent	100,000
Depreciation on plant machinery and equipment	40,000
Sales commissions	50,000
Administrative expenses	60,000

Required:

- What actual amount of manufacturing overhead costs was incurred during June 2014?
- What amount of manufacturing overhead was allocated to all jobs during June 2014?
- For June 2014, was manufacturing overhead underallocated or overallocated? Explain.

32) The following information was gathered for Zeba Company for the year ended December 31, 2014

	<u>Budgeted</u>	<u>Actual</u>
Direct labor-hours	50,000 dlh	60,000 dlh
Factory overhead	\$550,000	\$600,000

Assume that direct labor-hours are the cost-allocation base.

Required:

- Compute the budgeted factory overhead rate.
- Compute the factory overhead applied.
- Compute the amount of over/underapplied overhead.

33) Markswell Corp uses a budgeted factory overhead rate to apply overhead to production. The following data are available for the year ended December 31, 2014. The company has budgeted factory overhead of \$750,000, direct labor costs of \$500,000, and direct labor hours of 15,000. The actual factory overhead incurred is \$800,000, direct labor costs of 450,000, and direct labor hours of 17,000.

Required:

- Determine the budgeted factory overhead rate based on direct labor-hours.
- What is the applied overhead based on direct labor-hours?
- Is overhead overapplied or underapplied? Explain.