

Comprehensive Problem #2

Part 1:

Wilson Mfg, Inc. produces sport caps for various professional teams throughout the region. The company uses a continuous job cost accounting system to manufacture their products.

Wilson's trial balance on June 1 is as follows:

Wilson Mfg, Inc.			
Trial Balance			
June 1, 20xx			
<u>Account</u>	<u>Debit</u>	<u>Credit</u>	
Cash	\$ 14,000		
Accounts Receivable	155,000		
Raw Materials Inventory	5,700		
Work-in-Process Inventory	39,400		
Finished Goods Inventory	20,400		
Plant Assets	200,000		
Accumulated Depreciation		\$ 72,000	
Accounts Payable		127,000	
Wages Payable		1,700	
Common Stock		142,000	
Retained Earnings		91,800	
Sales Revenue			
Cost of Goods Sold			
Manufacturing Overhead			
Selling & Administrative Expenses			
Totals	<u>\$ 434,500</u>	<u>\$ 434,500</u>	

The following transactions were completed during the month of June.

- a. Collections on account, \$152,000.
- b. Selling and administrative expenses incurred and paid, \$28,000.
- c. Payments on account, \$36,000.
- d. Materials purchases on account, \$26,700.
- e. Materials requisitioned and used in production:
 - (1) Direct materials, \$8,500
 - (2) Indirect materials, \$1,000
- f. Wages incurred during June:
 - (1) Direct labor, \$20,100
 - (2) Indirect labor, \$14,900

- g. Wages paid in June include the balance in Wages Payable (\$1,700) at May 31, plus \$32,200 of wages incurred during June.**
- h. Depreciation on plant and equipment, \$2,600.**
- i. Manufacturing overhead is allocated at the predetermined overhead rate of 50% of direct labor cost.**
- j. The company produced 11,375 caps during June for a total cost of \$45,500.**
- k. Sales on account during June, \$111,000. Cost of the products sold was \$50,600.**
- l. Adjusted for over-allocated or under-allocated manufacturing overhead.**

Requirements:

- (1) Open T-accounts (or Balance Column account forms) for each of the accounts listed in the June 1 Trial Balance (with their balances, using *Bal.* as the reference).**
- (2) Journalize the transactions (a. through l.) for the company, using the standard job cost accounts.**
- (3) Post the journal entries to the T-accounts (or Balance Column account forms) using the transaction letters as a reference.**
- (4) Prepare a trial balance as of June 30, 20xx.**

Part 2:

Wilson Mfg, Inc. is considering expansion of operations since current market prospects look very favorable as well in the near future. The anticipated selling price of sport caps is \$7.50. Variable costs of producing each cap is \$3.00. Annual fixed costs are estimated to be \$42,660. Company management requires some additional information with which to determine the feasibility of this proposed expansion.

Requirements:

- (1) Determine the company's contribution margin.**
- (2) Determine the company's contribution ratio.**
- (3) Calculate the company's breakeven point in units of product.**
- (4) Calculate the company's breakeven point in sales dollars.**
- (5) Determine the number of units of product that the company will have to produce and sell to earn a profit of \$40,000 annually. (Round answer to the nearest whole unit)**