

REVIEW FOR EXAM NO. 1, ACCT-2302
(Chapters 14-16)

(SAC)

A. Chapter 14 (Managerial Accounting).

1. Purposes and Principles. (Page 541)

- a. Provides economic/financial information (both historical and estimated) to managers and internal users.
- b. Managerial reports need not be prepared in accordance with GAAP; can be prepared in any format; and can be prepared at any time desired by management.

2. Cost Classifications (Pages 544-546)

a. Traceability:

- (1) Direct Cost- costs directly traceable to a cost object
- (2) Indirect Cost- costs that cannot be traced to a single cost object.

b. Function:

- (1) Product Cost- cost that become an integral part of a finished product.
- (2) Period Cost- costs associated with a time period vs a product (flows directly to the Income Statement).

3. Manufacturing Cost Elements. (Pages 545-546)

a. Direct Material:

- (1) Raw materials
- (2) Becomes part of the product

b. Direct Labor: Work that can be physically associated with converting raw materials into finished products.

c. Factory Overhead: All manufacturing costs, other than direct material and direct labor, associated with the manufacturing of finished products.

d. Product Costs.

- (1) Direct Material
- (2) Direct Labor
- (3) Factory Overhead

e. Prime Costs - direct materials and direct labor.

f. Conversion Costs - direct labor and factory overhead.

4. Manufacturing Inventories. (Page 548)

- a. Raw Materials: Contains all raw material used in the manufacturing process.
- b. Work-In-Process: Goods that are partially finished.
- c. Finished Goods:
 - (1) Completed products that have not been sold.
 - (2) Equivalent of Merchandise Inventory of a merchandising company.

5. Schedule of Cost of Goods Manufactured. (Page 551)

Report Format:

<u>Direct Materials Used</u>	\$ xx,xxx
<u>Direct Labor</u>	xx,xxx
<u>Factory Overhead:</u>	
Indirect material.....	\$ xx,xxx
Indirect labor.....	xx,xxx
Depreciation of factory equipment.....	xx,xxx
Factory utilities.....	<u>xx,xxx</u>
etc.	
Total factory overhead.....	<u>xx,xxx</u>
Total manufacturing costs for the year.....	\$ xx,xxx
Add beginning work-in-process inventory.....	<u>xx,xxx</u>
Total cost of work-in-process.....	\$ xx,xxx
Less ending work-in-process inventory.....	<u>(xx xxx)</u>
Cost of goods manufactured (*).....	<u>\$ xx,xxx</u>

(*) equivalent to Cost of Goods Purchased for a merchandising company.

B. Chapter 15 (Job Order Costing).

1. Types of Cost Accounting Systems. (Page 575)

- a. Job Order Cost - Costs assigned to each job or batch (has its own distinguishing characteristics)
- b. Process Cost - Costs assigned to, or accumulated by department or processes (uniform homogeneous products from a continuous process)

2. Job Costing.

- a. Job - Special order for a specific customer. (Page 575)
- b. Job Cost Sheet- Subsidiary ledger to the Work-In-Process Account in the General Ledger. (Record of all costs to produce a given job) (Page 576)

3. Material. (Page 578)

- a. Job direct raw materials are obtained with a material requisition.
- b. Cost of materials is posted to appropriate job cost sheets and are charged to the Work-in-Process (WIP) account.
- c. Overhead materials are charged to the Factory Overhead account.
- d. Journal entries to record direct and indirect material consumption (Pages 579 & 584).

4. Labor. (Page 580)

- a. Labor time records are used to charge both jobs and overhead accounts.
- b. Factory labor costs are transferred to:
 - (1) Work-in-Process account
 - (2) Factory Overhead account
- c. Journal entries to record labor usage (Pages 581 & 584).

5. Factory Overhead. (Page 582)

- a. Applied to jobs on an estimated basis through a predetermined overhead rate.
- b. Pre-determined Overhead Rate is based on the relationship between estimated annual overhead costs and a common equitable activity base (direct labor cost, direct labor hours, machine hours).
- c. Overhead Application Rate Formula (Page 582):

$$\begin{array}{rcc} \text{Predetermined} & & \text{Estimated Overhead Costs} \\ \text{Overhead} & = & \text{-----} \\ \text{Rate} & & \text{Estimated Activity Base} \end{array}$$

- d. Overhead is applied using the computed rate and the activity base cost or units applied to each job. (Journal entry - Page 583)
 - (1) (Direct Labor Hours) x (O/H Rate or \$/DLH)
 - (2) (Direct Labor Cost) x (O/H %)
 - (3) (Machine Hours) x (O/H Rate or \$/MH)
- e. Disposal of Factory Overhead Balance. (Page 588)
 - (1) There will usually be a balance, in the Factory Overhead Account, at year-end.
 - (2) Generally, an under/over application is closed to Cost of Goods Sold, if the balance amount is considered to be immaterial. (Journal Entry - Page 589)
 - under-applied (actual costs greater than applied costs)
 - over-applied (actual costs less than applied costs)

(3) Allocation Among Inventories (if the balance is considered significant, then distribute to the following inventories):

- Work-In-Process
- Finished Goods
- Cost of Goods Sold
- Allocation based on the percent of each inventory to the total inventories.

6. Work-In-Process.

- a. Control account in the General Ledger.
- b. Job Cost Sheets make up the subsidiary record to the control account.
- c. Contains cost (direct labor, direct material, and allocated overhead) of partially completed products.
- d. Journal entry to move completed items to finished goods (Page 587).

7. Finished Goods.

- a. Controlling account in the General Ledger.
- b. Cost of Goods Sold entry (units x manufacturing cost per unit)
- c. Sales (units x selling price).
- d. Journal entries (Page 587).

C. Chapter 16 (Process Costing).

1. Process Cost Characteristics. (Page 619)

- a. Continuous process until finished product emerges.
- b. All units processed in the same manner, with essentially the same amount of material, labor, and overhead.
- c. Homogeneous products with high production volume.

2. System Features. (Page 621)

- a. Material, labor, and overhead costs are charged to specific production departments. Work-in-Process (WIP) accounts are maintained for each department or process.
- b. Departmental Production - Measured in terms of equivalent finished units.
- c. Costs charged to WIP are summarized in Production Cost Reports, rather than job cost sheets.
- d. Total costs are determined at the end of the period.
- e. Unit costs determined by dividing total manufacturing costs by the equivalent units produced during the period.

3. Inventory Costing Methods. (Page 621)

a. FIFO (First-In, First-Out) Method.

Beginning inventory is finished first before new work is started/finished for items entering the process.

b. Weighted-Average Method.

(1) Treats beginning WIP and as if it was started and completed during the current period.

(2) Less accurate than the FIFO Method.

4. FIFO End-of-Period Procedures (4-Step Process). (Page 637)

a. Determine physical units to be assigned costs.

b. Calculate equivalent units of production.

c. Compute unit costs of production (cost per equivalent unit).

d. Assign and reconcile costs.

5. Equivalent Units/Costs. (Page 639)

A measure of productivity with respect to product costs (partially completed units converted to equivalent whole units).

a. Total material costs for the department are allocated equally to the equivalent finished units for material. Materials are usually added at the beginning of the production process, but occasionally may be added at various points in the production process.

b. Conversion costs (labor and overhead) are allocated equally to the equivalent finished units for conversion. Labor and overhead are usually added uniformly throughout the production process.

c. Equivalent Units - Products being manufactured:

(1) Have received part, or all, of their material.

(2) Have had some labor and overhead applied.

(3) Are not completed.

d. Costs per Equivalent Unit are determined for: (Page 641)

(1) Materials

(2) Conversion (Labor and Overhead) (Equivalent units are identical for both)

EXAM NO. 1 REVIEW PROBLEM, ACCT-2302
(Equivalent Units)

A. Data - During the accounting period:

1. 8,000 units were (25%) complete when the period began.
2. 25,000 units were started into production during the period.
3. The department finished and transferred -- 27,000 units to Finished Goods.
4. 6,000 units (60% complete) were on hand at the end of the period.

B. Compute Equivalent Units for Material - (Assuming that all material is added at the time work is first begun on a unit)

	<u>Physical Units Involved</u>	<u>Factor Added During the Period</u>	<u>Equivalent Units Completed</u>
Beginning WIP Inventory.....	_____	_____	_____
Units Started & Finished.....	_____	_____	_____
Ending WIP Inventory.....	_____	_____	_____
Equivalent Finished Units for Material.....			_____

C. Compute Equivalent Units for Conversion (Labor/Overhead) - (Added evenly throughout the process)

	<u>Physical Units Involved</u>	<u>Factor Added During the Period</u>	<u>Equivalent Units Completed</u>
Beginning WIP Inventory ().....	_____	_____	_____
Units Started & Finished.....	_____	_____	_____
Ending WIP Inventory().....	_____	_____	_____
Equivalent Finished Units for Conversion.....			_____