

ANSWERS TO QUESTIONS

1. (a) Process cost.
(b) Process cost.
(c) Job order.
(d) Job order.
2. The primary focus of job order cost accounting is on the individual job. In process cost accounting, the primary focus is on the processes involved in producing homogeneous products.
3. The similarities are: (1) all three manufacturing cost elements—direct materials, direct labor, and overhead—are the same; (2) the accumulation of the costs of materials, labor, and overhead is the same; and (3) the flow of costs is the same.
4. The features of process cost accounting are: (1) separate work in process accounts for each process, (2) production cost reports, (3) product costs computed for each accounting period, and (4) unit costs computed based on total manufacturing costs.
5. Mel is correct. The flow of costs is the same in process cost accounting as in job order cost accounting. The method of assigning costs, however, is significantly different.
6. (a) (1) Materials are charged to production on the basis of materials requisition slips.
(2) Labor is usually charged to production on the basis of the payroll register or departmental payroll summaries.
(b) The criterion used in assigning overhead to processes is to identify the activity that “drives” or causes the cost. In many companies this activity is machine time, not direct labor.
7. The entry to assign overhead to production is:

July 31	Work in Process—Machining	15,000	
	Work in Process—Assembly	12,000	
	Manufacturing Overhead.....		27,000
8. To prepare a production cost report, four steps are followed: (a) compute the physical unit flow, (b) compute equivalent units of production, (c) compute unit costs of production, and (d) prepare a cost reconciliation schedule.
9. Physical units to be accounted for consist of units in process at the beginning of the period plus units started (or transferred) into production during the period. Units accounted for consist of units completed and transferred out during the period plus units in process at the end of the period.
10. Equivalent units of production measure the work done during the period, expressed in fully completed units.
11. Equivalent units are the sum of: (1) units completed and transferred out and (2) equivalent units of ending work in process.
12. Units started into production were 9,600, or (9,000 + 600).

Questions Chapter 21 (Continued)

13.

	Equivalent Units	
	<u>Materials</u>	<u>Conversion Cost</u>
Units transferred out	12,000	12,000
Work in process		
800 X 100%	800	
800 X 20%		160
Total equivalent units	<u>12,800</u>	<u>12,160</u>

14. Units transferred out were 3,300

Units to be accounted for

 Work in process (beginning)

500

 Started into production

3,000

 Total units

3,500

Units accounted for

 Completed and transferred out

3,300

 Work in process (ending)

200

 Total units

3,500

15. (a) The cost of the units transferred out is \$126,000, or (14,000 X \$9).
 (b) The cost of the units in ending inventory is \$9,000, or [(2,000 X \$3) + (500 X \$6)].
16. (a) Eve is incorrect. The report is an internal report for management.
 (b) There are four sections in a production cost report: (1) number of physical units, (2) equivalent units determination, (3) unit costs, and (4) cost reconciliation schedule.
17. The production cost report provides the basis for evaluating: (1) the productivity of a department, (2) whether unit and total costs are reasonable, and (3) whether management's predetermined production and cost goals are being met.
18. The per unit conversion cost is \$8.75. [Conversion costs = \$6,000 – \$3,200 = \$2,800. Equivalent units for conversion costs are 320 (800 X 40%); \$2,800 ÷ 320 = \$8.75.]
19. Operations costing is similar to process costing in that standardized methods are used to manufacture the product. At the same time, the product may have some individual features that require the use of a job order cost system.
20. In deciding which system to use, a cost-benefit tradeoff occurs. In a job order system, detailed information related to the cost of the product is involved. The cost of implementing this system is often expensive. In a process cost system, an average cost of the product will suffice and therefore the cost to implement is less. In summary, the cost of implementing the system must be balanced against the benefits provided from the additional information.
21. (a) Just-in-time processing has a "just-in-time" philosophy and a "pull" approach.
 (b) There are three important elements in JIT processing:
 (1) A company must have dependable suppliers who are willing to deliver on short notice exact quantities of raw materials according to precise quality specifications.
 (2) A multiskilled workforce must be developed.
 (3) A total quality control system must be established.

Questions Chapter 21 (Continued)

22. (a) The principal differences are:

	<u>Activity-Based Costing</u>	<u>Traditional Costing</u>
(1) Primary focus	Activities performed in making products	Units of production
(2) Bases of allocation	Multiple cost drivers	Single unit-level bases
(3) Total product costs	Sum of costs of activities performed in making product	Direct materials plus direct labor plus manufacturing overhead

(b) There are two assumptions that must be met in using ABC:

- (1) All overhead costs related to the activity must be driven by the cost driver used to assign costs to products.
- (2) All overhead costs related to the activity should respond proportionally to changes in the activity level of the cost driver.

23. An appropriate cost driver for each activity is:

<u>Activity</u>	<u>Cost Driver</u>
Materials handling	Number of requisitions
Machine setups	Number of setups
Factory machine maintenance	Machine hours used
Factory supervision	Number of employees
Quality control	Number of inspections

*24. (a) ABC involves the following steps:

- (1) Identify the major activities that pertain to the manufacture of specific products.
- (2) Accumulate manufacturing overhead costs by activities.
- (3) Identify the cost driver(s) that accurately measure(s) each activity's contribution to the finished product.
- (4) Assign manufacturing overhead costs for each activity to products using the cost driver(s).

(b) The principal advantages of ABC are:

- (1) More accurate product costing is achieved.
- (2) Control over overhead costs is enhanced.
- (3) Better management decisions can be made in: (a) setting selling prices, (b) deciding whether to discontinue or expand a product line, and (c) deciding whether to make or buy a product component.