

A. Income Statement, February, 1994

(refer to Ex 2-6, page 38, Panel A)

Sales	800	x	\$200.00	=		\$160,000
Finished goods, beginning	700				\$103,600	
Cost of goods manufactured	900	x	\$142.83	=	\$128,550	d
Goods available for sale	1,600				\$232,150	
Finished goods, ending	800				\$117,883	Plug
Cost of goods sold	800		\$142.83	e	\$114,267	
Overhead variance (Under applied)					\$21,800	
Adjusted cost of goods sold					\$136,067	\$136,067
Gross margin						\$23,933

B. Schedule of Cost of goods manufactured

(refer to Ex 2-6, page 38, Panel B)

Raw materials	lbs.					
Beginning inventory	1,800			\$9,000		
Purchases	1,950	\$6.00		\$11,700		
Cost of materials available	3,750			\$20,700		
Ending materials	1,900			\$9,600	a	plug
Materials used	1,850	\$6.00		\$11,100	b	11,100
Direct labor						47,250
Overhead				\$59,200		
Indirect Labor				\$32,800		92,000
Other overhead						
Actual manufacturing costs						150,350
less Underapplied overhead						(21,800) c
Manufacturing costs incurred in February						128,550
						\$128,550
Add beginning work in process				200 units		\$2,000
Total manufacturing costs						\$130,550
Less Ending work in process				200 units		\$2,000
Cost of goods manufactured						\$128,550
Unit Cost of goods manufactured			\$128,550 ÷	900 units		= \$142.83 d

a Work backwards: equals cost of materials available for use. - Materials used.

b Assume LIFO. All the materials used comes from this period's purchase.

c	Budgeted indirect costs			\$78,000
	Budgeted activity level			1,000 units
	Predetermined overhead rate	\$78,000 ÷	1,000 =	\$78.00 per unit
	Actual overhead costs			\$92,000
	Applied overhead	\$78.00 x	900	\$70,200
	Overhead variance (Under applied)			(\$21,800)

e For cost of goods sold use LIFO. All the sales come from most recent production.

Schedule of Cost of goods manufactured Actual Costing

(Method 1 in page 142)

Account	Units Increase @	Allocated Overhead \$78.00	Percent	Prorated overhead Variance	Unadjusted Cost	Adjusted Balance
Work in process	0	\$0	0.00%	\$0	+ \$2,000	= \$2,000
Finished goods	100	\$7,800	11.11%	\$2,422	+ \$117,883	= \$120,306
Cost of Goods Sold	800	\$62,400	88.89%	\$19,378	+ \$114,267	= \$133,644
Total		\$70,200		\$21,800		

f We can also get the actual cost of goods sold from
 Actual manufacturing costs \$150,350 from B. Schedule of Cost of goods manufactured
 ÷ Units produced 900 units
 Actual unit cost this period \$167.06
 Cost of goods sold \$167.06 x 800 units = \$133,644

Accounts payable	Raw Materials	Work in Process	
11,700	9,000	2,000	
	11,700	11,100	
	9,600		
Wages payable		47,250	
47,250			
59,200	Overhead control		
	59,200		
Other overhead			11,100
32,800			117,450
	32,800		128,550
	92,000	70,200	
		Applied	
	21,800	21,800	
		to COGS	
		and Finished Goods	
		2,000	
			128,550
			to finished goods

Normal costing: Method 3

	Finished Goods	Cost of Goods Sold
	103,600	
From work in process	128,550	114,267
	117,883	
Under allocated overhead		21,800
		136,067

Actual costing: Method 1

	Finished Goods	Cost of Goods Sold
	103,600	
From Work in Process	128,550	114,267
Under allocated overhead	2,422	19,378
	120,306	133,644