

ANSWERS TO QUESTIONS

1. (a) Cost accounting involves the measuring, recording, and reporting of product costs. A cost accounting system consists of manufacturing cost accounts that are fully integrated into the general ledger of a company.
 (b) An important feature of a cost accounting system is the use of a perpetual inventory system that provides immediate, up-to-date information on the cost of a product.
2. (a) The two principal types of cost accounting systems are: (1) job order costing and (2) process costing. Under a job order cost system, costs are assigned to each job or batch of goods; at all times each job or batch of goods can be separately identified. A job order cost system measures costs for each completed job, rather than for set time periods. Under a process cost system, product-related costs are accumulated by or assigned to departments or processes for a set period of time. Job order costing lends itself to specific, special-order manufacturing or servicing while process costing is better suited to similar, large-volume products and continuous process manufacturing.
 (b) A company may use both types of systems. For example, General Motors uses process costing for standard model cars and job order costing for custom-made vehicles.
3. A job order cost system is most likely to be used by a company that receives special orders, or custom builds, or produces heterogeneous, nontransferable items or products; that is, the product manufactured or the service rendered is tailored to the customer or client's requests, needs, or situation. Examples of industries that use job order systems are custom home builders, commercial printing companies, motion picture companies, construction contractors, repair shops, accounting and law firms, hospitals, shipbuilders, and architects.
4. A process cost system is most likely to be used by manufacturing firms with continuous production flows usually found in mass production, assembly line, large-volume, uniform, or relatively similar product industries. Companies producing appliances, chemicals, pharmaceuticals, rubber and tires, plastics, cement, petroleum, and automobiles utilize process cost systems.
5. The major steps in the flow of costs in a job order cost accounting system are: (1) accumulating the manufacturing costs incurred and (2) assigning the accumulated costs to work done.
6. The three inventory control accounts and their subsidiary ledgers are:
 Raw materials inventory—materials inventory records (stores ledger cards).
 Work in process inventory—job cost sheets.
 Finished goods inventory—finished goods records.
7. The source documents used in accumulating direct labor costs are time tickets and time cards.
8. Disagree. Entries to Manufacturing Overhead are also made at the end of an accounting period. For example, there will be adjusting entries for factory depreciation, property taxes, and insurance.
9. The source document for materials is the materials requisition slip and the source document for labor is the time ticket. The entries are:

Materials			Labor		
Work in Process Inventory	XX		Work in Process Inventory	XX	
Manufacturing Overhead	XX		Manufacturing Overhead	XX	
Raw Materials Inventory		XX	Factory Labor		XX

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10. The purpose of a job cost sheet is to record the costs chargeable to a specific job and to determine the total and unit costs of the completed job.
11. The source documents for charging costs to specific jobs are materials requisition slips for direct materials, time tickets for direct labor, and the predetermined overhead rate for manufacturing overhead.
12. A materials inventory record, also called the stores ledger card, is used in a perpetual inventory system as a record of individual parts, units, assemblies, or other materials (direct as well as indirect). The materials inventory record is the basic inventory record in the subsidiary ledger. The materials requisition slip is a business document used as an authorization to issue materials from inventory to production. It is approved and signed by authorized personnel so that materials may be removed from inventory and charged to production, to specific jobs, departments, or processes. The materials requisition slip is the basis for posting to the materials inventory records and to the job cost sheet.
13. Disagree. Actual manufacturing overhead cannot be determined until the end of a period of time. Consequently, there could be a significant delay in assigning overhead and in determining the total cost of the completed job.
14. The relationships for computing the predetermined overhead rate are the estimated annual overhead costs and an expected activity base such as direct labor hours. The rate is computed by dividing the estimated annual overhead costs by the expected annual operating activity.
15. At any point in time, the balance in Work in Process Inventory should equal the sum of the costs shown on the job cost sheets of unfinished jobs. Alternatively, posting to Work in Process Inventory may be compared with the sum of the postings to the job cost sheets for each of the manufacturing cost elements.
16. Tina is incorrect. There is a difference in computing total manufacturing costs. In job order costing, manufacturing overhead applied is used, whereas in Chapter 19, actual manufacturing overhead is used.
17. Underapplied overhead means that the overhead assigned to work in process is less than the overhead incurred. Overapplied overhead means that the overhead assigned to work in process is greater than the overhead incurred. Manufacturing Overhead will have a debit balance when overhead is underapplied and a credit balance when overhead is overapplied.
18. Under- or overapplied overhead is not closed to Income Summary. The balance in Manufacturing Overhead is eliminated through an adjusting entry. Under- or overapplied overhead generally is considered to be an adjustment of Cost of Goods Sold.