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# Cost Accounting | (15 h Edition)

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### Problem

**FIFO method, spoilage, equivalent units.** Refer to the information in Exercise 18-17. Suppose Gray Manufacturing Company uses the FIFO method of process costing instead of the weighted-average method.

Compute equivalent units for direct materials and conversion costs. Show physical units in the first column of your schedule.

**18-17 -Weighted-average method, spoilage, equivalent units.** (CMA, adapted) Consider the following data for November 2014 from Gray Manufacturing Company, which makes silk pennants and uses a process-costing system. All direct materials are added at the beginning of the process, and conversion costs are added evenly during the process. Spoilage is detected upon inspection at the completion of the process. Spoiled units are disposed of at zero net disposal value. Gray Manufacturing Company uses the weighted-average method of process costing.

	Physical Units (Pennants)	Direct Materials	Conversion Costs
Work in process, November 1 <sup>a</sup>	1,000	\$ 1,423	\$ 1,110
Started in November 2014	?		
Good units completed and transferred out during November 2014	9,000		
Normal spoilage	100		
Abnormal spoilage	50		
Work in process, November 30 <sup>b</sup>	2,000		
Total costs added during November 2014		\$12,180	\$27,750

<sup>a</sup>Degree of completion: direct materials, 100%; conversion costs, 50%.

<sup>b</sup>Degree of completion: direct materials, 100%; conversion costs, 30%.

Compute equivalent units for direct materials and conversion costs. Show physical units in the first column of your schedule.

### Step-by-step solution

#### Step 1 of 2

Statement showing the computation of equivalent units under FIFO method:

	Flow of production	Equivalent units		
		Physical	Direct	Conversion



work in process		Chapter 18, Problem 19E			4 Bookmarks	Show all steps: ON
PLUS	Started during current period	<u>10,150</u>				
	<b>To account for</b>	<b>11,150</b>				
	<b>Good units completed and transferred for</b>					
A	<b>From beginning work in process</b>	1,000	-	500		
	(1,000 × (100%-100%); 1,000 (100% - 50%))					
B	Started and completed					
	(8,000 × 100%); 8,000 × 100%)	8,000	8,000	8,000		
C	Normal spoilage	100	100	100		
	(100 × 100%; 100 × 100%)					
D	Abnormal spoilage	50	50	50		
	(50 × 100%, 50 × 100%)					
E	Work in process ending	<u>2,000</u>	<u>2,000</u>	<u>600</u>		
	(2,000 × 100%; 2,000 × 30%)	-				
	<b>Accounted for</b>	<b>11,150</b>				
A+B+C+D+E	Equivalent units of work done to date		<b>10,150</b>	<b>9,250</b>		

Walkthrough for problem

**Equivalent units for direct material are 11,150, and equivalent units for conversion costs are 9,250 units.**

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### Step 2 of 2

#### NOTE:

1. The total material cost for WIP was already considered 100 percent in the previous period and hence work in process beginning for material will be nil. WIP conversion cost incurred in the current period is 50% only and hence 500 units (50 percent of 1,000 units) were taken.
2. Good units completed and transferred out (9,000 units) contain two types. 1,000 units are from work in process beginning (assumed that they are completed first and transferred out) and the

3. Normal spoilage and abnormal spoilage are treated as equivalent units for direct materials.

Chapter 18, Problem 19E

4 Bookmarks

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4. Work in process (ending) was 100 percent completed for direct material and 30 percent complete for conversion costs and hence equivalent units for direct material was taken with full value (2,000 units) and conversion costs were taken with 30 percent value 600 units (2,000 × 0.3).

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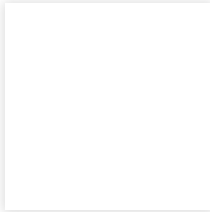
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#### Chapter 18, Problem 21E

Weighted-average method, spoilage. LaCroix Company produces handbags from leather of moderate quality. It distributes the...

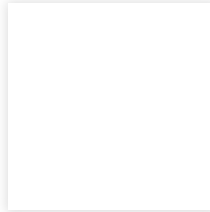
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#### Chapter 18, Problem 26E

FIFO method, spoilage. Refer to the information in Exercise 18-25. 1. Do Exercise 18-25 using the FIFO method of process...

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