

CPA REVIEW SCHOOL OF THE PHILIPPINES
M a n i l a

ADVANCED FINANCIAL ACCOUNTING
JUST-IN-TIME AND BACKFLUSH COSTING

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Part I: Theory of Accounts

1. It is a production system in which each component in a production line is produced *immediately as needed* by the next step in the production process.
 - a. Activity Based Costing system
 - b. Just-in-time manufacturing system
 - c. Just-in-case inventory system
 - d. Min-max inventory system

2. It is a product costing system that is usually used for just-in-time production systems since it eliminates the detailed tracking of cost throughout the production system and only prepares journal entries at the specified *trigger points*.
 - a. Backflush costing
 - b. Standard costing
 - c. Normal costing
 - d. Traditional costing

3. The ideal batch size for a just-in-time production system is _____.
 - a. Zero
 - b. One
 - c. One hundred
 - d. The economic order quantity

4. Which costing method is the most appropriate when using backflush costing in a just-in-time inventory system?
 - a. Normal costing
 - b. Actual costing
 - c. Standard costing
 - d. Budgeted costing

5. Which of the following is not a benefit of utilizing a just-in-time inventory system?
 - a. Lowering the cost of inventory
 - b. Enhanced product quality and delivery time
 - c. Less margin for errors in the production process
 - d. Accounting procedures are simplified through backflush costing.

Part II: Problem Solving

1. LL2 Company uses a highly efficient just-in-time manufacturing system. The company uses backflush costing for recording its production. The following transactions occurred for the year ended December 31, 2020:
 - a. Purchased P200,000 worth raw materials on account.
 - b. Incurred direct labor costs of P100,000.
 - c. Actually incurred factory overhead costs amounting to P120,000.
 - d. Applied a total of P220,000 to the production as conversion cost
 - e. No materials were left in the production process.
 - f. All goods were completed and sold.

1. Assuming the company has three trigger points in its backflush costing system, the entry to record the sale of goods would include a debit to cost of goods sold account for P420,000 and a credit to:
 - a. Trade payable account for 200,000
 - b. Finished goods account for 420,000
 - c. Accrued factory payroll account for 80,000
 - d. Raw materials and in process account for 200,000

2. Assume that the company has two trigger points in its backflush costing system, namely in the purchase of materials stage and in the sale of goods stage. the entry to record the sale of goods would include:
 - a. A credit to trade payable account for 200,000
 - b. A credit to Finished goods account for 420,000
 - c. A debit to Accrued factory payroll account for 80,000
 - d. A credit to Raw materials and in process account for 200,000

2. GHY Company has a cycle time of 2 days. It uses a raw materials and in process account and charges all conversion costs to cost of goods sold. At the end of each month, all inventories are counted, conversion costs components are estimated, and inventory account balances are adjusted. Raw material cost is backflushed from the raw materials and in process account to the finished goods account. The following information is provided for the month of December:

Beginning Balance of RIP account, including P5,000 conversion cost	15,000
Beginning Balance of finished goods account, including P8,000 conversion cost	20,000
Raw materials received on credit	500,000
Direct labor cost	350,000
Factory overhead applied	450,000
Ending RIP inventory per physical count, including P9,000 conversion cost	30,000
Ending finished goods inventory per physical count, including P4,000 conversion cost	11,000

1. How much is the cost of goods sold for the month of December?

- a. 494,000
- b. 800,000
- c. 1,285,000
- d. 1,294,000

2. How much is the conversion cost included cost of goods sold in June?

- a. 494,000
- b. 800,000
- c. 1,285,000
- d. 1,294,000

3. How much direct materials were backflushed from RIP to finished goods?

- a. 489,000
- b. 494,000
- c. 500,000
- d. 1,285,000

4. How much direct materials were backflushed from finished goods to cost of goods sold?

- a. 489,000
- b. 494,000
- c. 500,000
- d. 1,285,000

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