

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

ADVANCED FINANCIAL ACCOUNTING

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JOINT COST, BY-PRODUCT, SUPPORT COST ALLOCATION

Part I: Theory of Accounts

1. These are the common manufacturing costs from the start of production up to the split-off point.
 - a. Joint cost
 - b. Separable cost
 - c. Sunk cost
 - d. Variable cost

2. The following are examples of industries producing joint products, **except**
 - a. Agricultural companies
 - b. Mining companies
 - c. Petroleum extraction companies
 - d. None of the choices

3. Which of the following can be produced from a joint process?
 - a. Joint products
 - b. By-products
 - c. Scrap
 - d. All of the above

4. This method is more suitable for products that undergo further processing after the split-off point since it takes into account the additional costs needed to further process and sell the joint products.
 - a. Weighted average method
 - b. Market value at split-off approach
 - c. Average unit or production output method
 - d. Hypothetical market value or approximated net realizable value approach

5. All of the following are treatments for recognizing the by-products when they are sold, **except**
 - a. The net realizable value of the by-product may be treated as additional sales revenue when sold.
 - b. The net realizable value of the by-product may be treated as other income when sold.
 - c. The net realizable value of the by-product may be treated as a reduction from the cost of the main product when sold.
 - d. The net realizable value of the by-product may be accounted for using the reversal cost method or the normal net profit method when sold.

6. Statement 1: If by-products are recognized when sold, joint costs are not allocated to the by-products.
Statement 2: If by-products are recognized when produced, joint costs are not allocated to the by-products
 - a. Both statements are true
 - b. Both statements are false
 - c. Statement 1 is true; statement 2 is false
 - d. Statement 1 is false; statement 2 is true

Part II: Problem Solving

1. YYZ Company produces four products with a manufacturing cost of P224,000 at the split-off point. The following information were available:

Product	Units produced	Sales price per unit at split off	Separate cost at split-off	Separate cost if processed further	Total separate cost after split-off	Ultimate selling price per unit	Weight factor
AA	20,000	P12.00	P18,000	P22,000	40,000	P15.00	3
BB	32,000	3.50	14,000	11,000	25,000	5.00	5.5
CC	36,000	6.00	16,000	14,000	30,000	8.00	5
DD	24,000	5.50	12,000	9,000	21,000	7.00	6

- How much is joint cost allocated to AA using the physical method of allocation?
 - 40,000
 - 48,000
 - 64,000
 - 72,000
- How much is joint cost allocated to AA using the weighted average method of allocation?
 - 24,000
 - 57,600
 - 70,400
 - 72,000
- How much is joint cost allocated to AA using the sales value at split-off method of allocation?
 - 35,840
 - 42,240
 - 69,120
 - 76,800
- How much is joint cost allocated to AA using the net realizable value at split-off method of allocation?
 - 34,300
 - 42,000
 - 70,000
 - 77,700
- How much is joint cost allocated to AA using the approximated net realizable value at split-off method of allocation?
 - 37,800
 - 41,160
 - 72,240
 - 72,800

2. YYL produces a main product Z together with a by-product X. There was no beginning inventory during the current month. The following information were available:

	Produced	Sold
Z	1,000	800
X	250	75

Joint cost amounted to P125,000 during the month. One unit of Z can be sold for P200, and one unit of X can be sold for P100 after incurring P20 disposal cost.

Operating expenses amounted to P10,000

- How much is the net income if the NRV of the by-product is recognized when sold and is treated as additional sales revenue?
 - 50,000
 - 56,000
 - 57,500
 - 70,000
 - How much is the net income if the NRV of the by-product is recognized when sold and is treated as a reduction to cost?
 - 50,000
 - 54,800
 - 56,000
 - 57,500
 - How much is the net income if the by-product is recognized when produced using the net realizable value method?
 - 45,000
 - 54,800
 - 66,000
 - 70,000
 - Assume that the by-product X can be sold for P100 after incurring P20 disposal cost for a normal profit of 20% of sales. Additional total manufacturing costs of P1,000 for direct materials and P4,000 for conversion costs will be incurred after separation. How much is the gross profit from sale of product Z if by-product is recognized when produced, using the reversal cost method?
 - 60,000
 - 64,800
 - 76,000
 - 68,000
3. RAV Manufacturing Company has two production departments (Fabrication and Assembly) and three service departments (General Factory Administration, Factory Maintenance, and Factory Cafeteria).
A summary of the year's overhead costs and other data for each department prior to allocation of service department costs appears below:

	Fabrication	Assembly	General Factory Administration	Factory Maintenance	Factory Cafeteria
Overhead costs	P6,730,000	P4,850,000	P160,000	P203,200	P240,000
Direct labor hours	562,500	437,500	31,000	27,000	42,000
Number of employees	280	200	12	8	20
Square footage occupied	88,000	72,000	1,750	2,000	4,800

The costs of the General Factory Administration Department, Factory Maintenance Department, and Factory Cafeteria are allocated on the basis of direct labor hours, square footage occupied, and number of employees, respectively. It is the company's policy that the order of distribution is based on the highest peso amount of costs originating in the service departments and the direct method is used.

1. What is the total overhead cost allocated to the Fabrication department?

- a. 341,760
- b. 342,300
- c. 339,633
- d. 340,533

2. What is the total overhead cost of the Assembly department?

- a. 261,440
- b. 260,900
- c. 5,110,900
- d. 5,111,440

4. BPI Savings and Loan has three departments that generate revenue: loans, checking accounts, and savings accounts. BPI Savings and Loan has two service departments: Administration/Personnel and Maintenance. The service departments provide service in the order of their listing. The following information is available for overhead costs. Administration/ Personnel costs are best allocated based on number of employees while Maintenance costs are best allocated based on square footage occupied.

Department	Overhead costs	Employees	Footage
Admin./Pers.	530,000	10	30,000
Maintenance	450,000	8	16,500
Loans	900,000	15	45,000
Checking	600,000	6	10,000
Savings	240,500	5	42,000

Under the step method, what is the total overhead cost allocated to the Loans Department?

- a. 500,440
- b. 266,616
- c. 442,587
- d. 208,763

5. Grant Corporation distributes its service department overhead costs to producing departments. Information for January is presented here.

	Maintenance	Utilities
Overhead costs incurred	18,700	9,000
Service provided to:		
Maintenance Dept.		10%
Utilities Dept.	20%	
Producing Dept. A	40%	30%
Producing Dept. B	40%	60%

Under the algebraic method, what is the total overhead cost allocated to the revenue producing and service departments from the Maintenance department?

- a. 18,700
- b. 20,000
- c. 13,000
- d. 19,600

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