AE 212 MIDTERM SUMMATIVE ASSESSMENT

MULTIPLE CHOICE-THEORETICAL

Choose the best answer from each of the following statements or questions.

Overapplied factory overhead would result if:

- factory overhead costs incurred were less than costs charged to production
- factory overhead costs incurred were unreasonably large in relation to units produced
- factory overhead costs incurred were greater than costs charged to production
- theoretical capacity were used in computing the overhead rate
- the plant were operating at less than normal capacity

Costs of abnormal spoilage are usually accounted for as

- part of the cost of goods sold.
- part of the cost of goods manufactured.
- a separate line item in the income statement.
- an asset in the balance sheet

If normal spoilage is detected at an inspection point within the process (rather than at the end), the cost of that spoilage should be

- included with the cost of the units sold during the period.
- included with the cost of the units completed in that department during the period.
- allocated to ending work in process units and units transferred out based on their relative values.
- allocated to the good units that have passed the inspection point.

Which of the following is not a question that needs to be answered with regard to quality control?

- What happens to the spoiled units?
- What is the actual cost of spoilage?
- How can spoilage be controlled?
- Why does spoilage happen?

When average costing method is used, the costs of the beginning work in process are:

- Added to current costs.
- Averaged with other costs to arrive at total costs.
- Kept separate from the costs of the current period.
- Subtracted from the current month.

Spoilage that is an inherent result of a particular production and arises even under efficient operating conditions

- Normal spoilage
- Abnormal spoilage

- Defective units
- Scrap units

Which of the following costs of a joint process would be allocated to the joint products?

- materials, labor, and overhead
- labor and overhead only
- materials and labor only
- conversion costs less by-product values
- prime costs less by-product values

The following statement that best describes cost allocation is:

- a company, as a general rule, should allocate indirect costs randomly or based on an "ability-to-bear" criterion
- a company can affect total income the most strongly by using the algebraic method of allocating indirect costs
- a company can maximize or minimize total company income by selecting different bases on which to allocate indirect costs
- a company should select an allocation base to raise or lower reported income on given products
- a company's total income will remain unchanged no matter how indirect costs are allocated

Units that do not meet production standards and are usually discarded are known as:

- Added units
- Defective units
- Scrap units
- Spoiled units

Which of the following is not an acceptable method of accounting for by-products?

- The revenue from the sale of by-products is credited to “Other Income.”
- The by-product is valued at its opportunity costs of purchasing or replacing the product.
- The revenue from the sale of by-products is deducted from the costs of the main products.
- The by-product is valued at a standard price; any fluctuations in the price are isolated in a variance account.
- All of the above methods are acceptable approaches to accounting for by-products.

In a process cost system, the cost of spoilage due to an internal production failure should be recorded as:

- dr. Work in Process; cr. Finished Goods
- dr. Work in Process; cr. Factory Overhead Control
- dr. Factory Overhead Control; cr. Work in Process
- dr. Materials; cr. Factory Overhead
- dr. Finished Goods; cr. Work in Process

Normal spoilage units resulting from a continuous process

- are extended to the EUP schedule.
- result in a higher unit cost for the good units produced.
- result in a loss being incurred.
- cause estimated overhead to increase.

Which of the following is a true statement regarding joint costs?

- Joint costs are easily traced to individual products.
- The primary reason for allocating joint costs is to determine whether a product should be sold immediately or processed further.
- The primary reason for allocating joint costs is for inventory valuation for financial reporting.
- Joint costs consist only of overhead, never of materials or direct labor.
- None of the above statements are true.

Don Company found that the differences in product costs resulting from the application of predetermined overhead rates rather than actual overhead rates were very significant when actual production was substantially less than planned production. The most likely explanation is that

- costs of overhead were substantially less than anticipated
- overhead was composed chiefly of variable costs
- several products were produced simultaneously
- fixed factory overhead was a significant cost
- costs of overhead items were substantially higher than anticipated

When FIFO costing method is used, the costs of the beginning work in process are:

- Added to current costs.
- Averaged with other costs to arrive at total costs.
- Kept separate from the costs of the current period.
- Subtracted from the current month

MULTIPLE CHOICE-COMPUTATIONAL

Choose the best answer from each of the following statements or questions.

ABC Corp. distributes service department overhead costs directly to producing departments without allocation to the other service department. Information for the month of June is as follows:

	Service Departments	
	Maintenance	Utilities
Overhead costs incurred	P20,000	P10,000
Service provided to department:		
Maintenance	--	10%
Utilities	20%	--
Producing—A	40%	30%
Producing—B	40%	60%
Totals	100%	100%

The amount of Maintenance Department costs distributed to Producing—A Department for June was:

- P8,000
- P8,800
- P10,000
- P11,000

Coffee Company has the following production data for the month of November, 2020: Work-in-process, beginning 20,000 units Started during the month 80,000 units Transferred-out 66,000 units Work-in-process, ending 30,000 units Abnormal lost units 4,000 units Materials are added at the beginning of the process. As to conversion costs, the beginning work-in-process was 30% incomplete and the ending work-in-process was 40% incomplete. Lost units are detected at the end of the process. Using the average method, what is the equivalent units for November with respect to conversion costs?

- 84,000
- 88,000
- 90,000
- 92,000

Assuming a weighted average method of process costing, compute the average cost per unit for Material A.

Beginning inventory (30% complete as to Material B and 60% complete for conversion)	700	units
Started this cycle	2,000	units
Ending inventory (50% complete as to Material B and 80% complete for conversion)	500	units

Beginning inventory costs:

Material A	P14,270
Material B	5,950
Conversion	5,640

Current Period costs:

Material A	P40,000
Material B	70,000
Conversion	98,100

Material A is added at the start of production, while Material B is added uniformly throughout the process.

- P20.10
- P20.00
- P31.25
- P31.00

AEE Company manufactures a product that passes in four departments in a continuous process. Department C had no beginning work in process and transferred in 36,000 units from Department B, each with equivalent unit cost of ₱6.25. In Department C, unit costs for materials, labor and applied overhead are ₱4.00, ₱3.00 and ₱3.875, respectively. Direct materials in Department C are added at the beginning of the process. Department C had 9,600 units in the ending work in process which are 65% complete as to conversion costs. If 1,240 units were lost in Department C at AEE's inspection point where conversion costs were 45% complete, what was the total costs of lost units?

- ₱ 8,796.25
- ₱11,325.22
- ₱13,818.25
- ₱16,546.25

Assuming a FIFO method of process costing, compute the cost per EUP for Conversion

Beginning inventory (30% complete as to Material B and 60% complete for conversion)	700	units
Started this cycle	2,000	units
Ending inventory (50% complete as to Material B and 80% complete for conversion)	500	units

Beginning inventory costs:

Material A	P14,270
Material B	5,950
Conversion	5,640

Current Period costs:

Material A	P40,000
Material B	70,000
Conversion	98,100

Material A is added at the start of production, while Material B is added uniformly throughout the process.

P45.50
P45.00
P43.03
P47.59

ABC Corp. manufactures a product that yields the by-product, "Y". The only cost associated with Y are selling costs of P.10 for each unit sold. ABC accounts for sales of Y by deducting Y's separable costs from Y's sales, and then deducting this net amount from the major product's cost of goods sold. Y's sales were 100,000 units at P1 each. If ABC changes its method of accounting for Y's sales by showing the net amount as additional sales revenue, then ABC's gross margin would:

- Increase by P90,000
- Increase by 100,000
- Increase by 110,000
- Be unaffected

Top That manufactures baseball-style hats. Material is introduced at the beginning of the process in Cutting Department. Conversion costs are incurred (and allocated) uniformly throughout the process. As the cutting of material is completed, the pieces are immediately transferred to the Sewing Department. Data for the Cutting Department for the month of February 2020 follow:

Work in process, January 31 - 50,000 units
100% complete for direct materials, 40% completed for conversion costs
actual costs of direct materials, P70,500; actual costs of conversion, P34,050
Units started during February, 225,000
Units completed during February, 200,000
Work in process, February 28 - 75,000 units
100% complete for direct materials, 20% completed for conversion costs
Direct materials added during February *[actual costs]* P342,000
Conversion costs added during February *[actual costs]* P352,950

Assuming Top That uses the weighted-average method to account for inventories, the equivalent units of work for the month of February are

- DIRECT MATERIALS P225,000 ; CONVERSION COST P225,000
- DIRECT MATERIALS P200,000; CONVERSION COST P200,000
- DIRECT MATERIALS P275,000; CONVERSION COST P215,000
- DIRECT MATERIALS P225,000; CONVERSION COST P200,000
- None of the above

Allison, Inc., produces two products, X and Y, in a single joint process. Last month the joint costs were P75,000 when 10,000 units of Product X and 15,000 units of Product Y were produced. Addi-tional processing costs were P15,000 for Product X and P10,000 for Product Y. Product X sells for P10, and Product Y sells for P5. The joint cost allocations to Products X and Y respectively using the net realizable value method would be:

- P30,000; P45,000
- P42,500; P32,500
- P42,857 ; P32,143
- P45,000 ; P30,000
- none of the above.

Estimated factory overhead is P600,000, and the hours usage of machinery is expected to be 150,000. Factory overhead is applied at the rate of P10 per direct labor hour. The wage rate for direct labor is P6 per hour, and the total number of estimated direct labor hours for the period is:

- 100,000
- 150,000
- 300,000
- 60,000

XYZ Company transferred 5,500 units to Finished Goods Inventory during June. On June 1, the company had 300 units on hand (40% complete as to both material and

conversion costs). On June 30, the company had 800 units (10% complete as to material and 20% complete as to conversion costs). The number of units started and completed during June was

- 5200
- 5380
- 5500
- 6300

ABC Company produces two main products and a by-product out of a joint process. The ratio of output quantities to input quantities of direct material used in the joint process remains consistent from month to month. ABC employs the physical units method to allocate joint production costs to the two main products. The net realizable value of the by-product is used to reduce the joint production costs before the joint costs are allocated to the main products. Data regarding ABC's operations for the current month are presented below. During the month, ABC incurred joint production costs of P2,520,000. The main products are not marketable at the split-off point and, thus, have to be processed further.

	First Main Product	Second Main Product	By-Product
Monthly output in Kilos	90,000	150,000	60,000
Selling price per Kilo	P30	P14	P2
Separable process costs	P540,000	P660,000	

The amount of joint production cost that ABC would allocate to the Second Main Product by using the physical units method to allocate joint production costs would be:

- P1,200,000.
- P1,260,000.
- P1,500,000.
- P1,575,000.
- P1,650,000.

A company manufactures plastic products for the home and restaurant market. The company also does contract work for other customers and utilizes a job order costing system. The flexible budget covering next year's expected range of activity is:

Direct labor hours	50,000	80,000	110,000
Machine hours	40,000	64,000	88,000
Variable overhead costs	P100,000	P160,000	P220,000
Fixed overhead costs	150,000	150,000	150,000
Total overhead costs	P250,000	P310,000	P370,000

A predetermined overhead rate based on direct labor hours at expected actual capacity is used to apply total overhead. Management has estimated that 100,000 direct labor hours will be used next year. The predetermined overhead rate per direct labor hour to be used to apply total overhead to individual jobs next year is:

- P3.70
- P3.88
- P3.36
- P3.50

DEF Company produces three products (A, B, and C) in a single joint process. All of the products are salable immediately upon split-off. Alternatively, any of the products could be processed further and sold at a higher price. Cost and price information is as follows:

Product	Price at Split-Off	Additional Processing Cost	Price After Processing	Unit Volume
A	P10	P10,000	P12	10,000
B	15	25,000	18	5,000
C	20	50,000	30	8,000

The decision that would maximize profits would be:

- A: sell now; B: sell now; C: sell now
- A: process further; B: process further; C: process further
- A: sell now; B: process further ; C: sell now
- A: process further; B:sell now; C: process further
- none of the above.

Other:

Primo Products transferred 15,000 units to one department. An additional 5,000 units were in beginning inventory in the department. At the end of the month, 12,000 units were transferred to the next department, 6,000 units remained in work in process, 40% complete as to conversion costs and the remaining units were lost at the 75% stage of conversion. Beginning inventory was 60% complete as to conversion costs and lost units were the result of internal failure. The equivalent units of conversion cost using fifo costing is:

- 14,400
- 12,900
- 13,900
- 13,400

2. Rose Co, bad 3,000 units in work in process at April 1, 2018, which were 60% complete as to conversion cost, During April, 10,000 units was completed. At April 30, 4,000 units remained in work in process which were 40% complete as to conversion cost. Direct materials are added at the beginning of the process.How many units were started during April?

- 9,000
- 9,800
- 10,000
- 11,000

PROBLEMS

Final answers only. Remove "peso sign", "commas", "decimal", "space in between figures" and "descriptions". Avoid the use of parenthesis, except to identify a decrease, withdrawal or to establish net loss. Make sure to round-off all your final answers to the nearest peso.

PROBLEM 1

Grace Company manufactures picture frames of all sizes and shapes and uses job-order costing system. There is always some spoilage in each production run. The following costs relate to the current run:

Estimated overhead (exclusive of spoilage)	P 160,000
Spoilage (estimated)	25,000
Sales value of spoiled frames	11,500
Labor hours	100,000

The actual cost of a spoiled picture frame is P7.00. During the year, 170 frames are considered spoiled. Each spoiled frame can be sold for P4. The spoilage is considered a part of all jobs (factory overhead). What amount should be debited to Factory Overhead Control to record spoilage pertaining to unrecovered cost?

Your answer

PROBLEM 2

The Ladyfinger Manufacturing Company has two production departments (fabrication and assembly) and three service departments (factory administration, factory maintenance, and factory cafeteria). A summary of costs and other data for each department prior to allocation of service department costs for the year ended June 30, 2011, appears below. The costs of the factory administration department, factory maintenance department, and factory cafeteria department are allocated on the basis of direct labor hours, square footage occupied, and number of employees, respectively.

	Fabrication	Assembly	Factory Administration	Factory Maintenance	Factory Cafeteria
Actual Direct Labor Costs	P1,950,000	P2,050,000			
Actual Direct Materials Costs	3,130,000	950,000			
Estimated Factory OH Costs Before allocation	1,650,000	1,850,000	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

Assuming that Ladyfinger elects to distribute service department costs to other service departments, as well as the production departments (starting with the service department with the greatest total costs), determine the applied factory overhead rate of Fabrication Department using direct labor hours of 562,500 as the basis.

Your answer

PROBLEM 3

The following cost data were taken from the records of a manufacturing company:

Depreciation on factory equipment	P 1,000,000
Depreciation on sales office	500,000
Advertising	7,000,000
Freight-out	3,000,000
Wages of production workers	28,000,000
Raw materials used	47,000,000
Sales salaries and commissions	10,000,000
Factory rent	2,000,000
Factory insurance	500,000
Supervisor's salary	1,500,000
Administrative salaries	2,000,000

Based upon the above information, the manufacturing costs incurred during the year were?

Your answer

problem 4

SAMCIS Company produces three products (X, Y, and Z) in a joint process costing P100,000. The products can be sold as they leave the process, or they can be processed further and sold. The cost accountant has provided you with the following information:

Product	Unit Volume	Sales Price at Split-Off	Separable Further Processing Costs	Sales Price After Further Processing
X	3,000	P10	P60,000	P25
Y	4,000	15	50,000	30
Z	8,000	20	90,000	35

Assume that all processing costs are variable costs.

Required:

Which products should SAMCIS sell at split-off, and which products should be processed further?

Your answer

PROBLEM 5

Given the following information

Beginning Work in Process Inventory	
(70% complete as to conversion)	6,000 units
Started	24,000 units
Ending Work in Process Inventory	
(10% complete as to conversion)	8,500 units

Beginning WIP Inventory Costs:

Material	P23,400
Conversion	50,607

Current Period Costs:

Material	P31,500
Conversion	76,956

All material is added at the start of the process and all finished products are transferred out.

Assume that weighted average process costing is used. What is the cost per equivalent unit for material?

Your answer

PROBLEM 6

Given the following information

Beginning Work in Process Inventory	
(70% complete as to conversion)	6,000 units
Started	24,000 units
Ending Work in Process Inventory	
(10% complete as to conversion)	8,500 units

Beginning WIP Inventory Costs:

Material	P23,400
Conversion	50,607

Current Period Costs:

Material	P31,500
Conversion	76,956

All material is added at the start of the process and all finished products are transferred out.

Assume that FIFO process costing is used. What is the cost per equivalent unit for conversion?

Your answer

PROBLEM 7

The Curing Department of Harmon Company reported the following information for the month of November:

	Units	Conversion Percentage Completed
Units started	28,000	
Completed and transferred	27,000	
Work in process, 11/1	10,000	80%
Work in process, 11/30	8,000	30%

	Materials	Labor and Overhead	Transferred-In
Costs for November:			
Work in process, 11/1	P 51,720	P 65,048	P 80,624
Added during the month	P145,880	P194,224	P234,320

All materials are added at the beginning of the process. Inspection occurs 60 percent of the way through the process. Normal spoilage is 10 percent of the good units completed. (Round to two decimal places.) What are the weighted average equivalent units for conversion?

Your answer

PROBLEM 8

ABC Manufacturing employs a weighted average process costing system for its products. One product passes through three departments (Molding, Assembly, and Finishing) during production. The following activity took place in the Finishing Department during April 2020.

Units in beginning inventory	4,200
Units transferred in from Assembly	42,000
Units spoiled	2,100
Good units transferred out	33,600

The costs per equivalent unit of production for each cost failure area as follows:

Cost of prior departments	P5.00
Raw material	1.00
Conversion	3.00
Total cost per EUP	P9.00

Raw material is added at the beginning of the Finishing process without changing the number of units being processed. Work in process inventory was 40 percent complete as to conversion on April 30. All spoilage was discovered at final inspection. Of the total units spoiled, 1,680 were within normal limits. Determine the cost of units transferred out of Finishing

Your answer