

Problem 20-7B^A

FIFO: Process cost summary, equivalent units, cost estimates

C2 C3 C4 P4

Belda Co. makes organic juice in two departments: cutting and blending. Direct materials are added at the beginning of each process, and conversion costs are added evenly throughout each process. The company uses the FIFO method of process costing. During March, the cutting department completed and transferred 220,000 units to the blending department. Of the units completed, 10,000 were from beginning inventory and the remaining 210,000 were started and completed during the month. Beginning work in process was 75% complete with respect to direct materials and 60% complete with respect to conversion. The company has 40,000 units (50% complete with respect to direct materials and 30% complete with respect to conversion) in process at month-end. Information on the cutting department's costs of beginning work in process inventory and costs added during the month follows.

Cost		Direct Materials	Conversions
Of beginning work in process inventory.....		\$ 16,800	\$ 97,720
Added during the month.....		223,200	1,233,960

Required

Check (1) EUP for conversion, 226,000
(2) Cost transferred out, \$1,486,960

1. Prepare the cutting department's process cost summary for March using the FIFO method.
2. Prepare the journal entry dated March 31 to transfer the cost of completed units to the blending department.

Analysis Component

3. The company provides incentives to department managers by paying monthly bonuses based on their success in controlling costs per equivalent unit of production. Assume that the production department overestimates the percentage of completion for units in ending inventory with the result that its equivalent units of production for March are overstated. What impact does this error have on bonuses paid to the managers of the production department? What impact, if any, does this error have on these managers' April bonuses?