

Problem 19-2A

Source documents,
Journal entries, overhead,
and financial reports

P2 P3 P4

Bergamo Bay's computer system generated the following trial balance on December 31, 2015. The company's manager knows something is wrong with the trial balance because it does not show any balance for Work in Process Inventory but does show a balance for the Factory Overhead account. In addition, the accrued factory payroll (Factory Payroll Payable) has not been recorded.

	Debit	Credit
Cash	\$170,000	
Accounts receivable	75,000	
Raw materials inventory	80,000	
Work in process inventory	0	
Finished goods inventory	15,000	
Prepaid rent	3,000	
Accounts payable		\$ 17,000
Notes payable		25,000
Common stock		50,000
Retained earnings		271,000
Sales		373,000
Cost of goods sold	218,000	
Factory overhead	115,000	
Operating expenses	60,000	
Totals	<u>\$736,000</u>	<u>\$736,000</u>

After examining various files, the manager identifies the following six source documents that need to be processed to bring the accounting records up to date.

Materials requisition 21-3010:	\$10,200 direct materials to job 402
Materials requisition 21-3011:	\$18,600 direct materials to job 404
Materials requisition 21-3012:	\$5,600 indirect materials
Labor time ticket 6052:	\$36,000 direct labor to job 402
Labor time ticket 6053:	\$23,800 direct labor to job 404
Labor time ticket 6054:	\$8,200 indirect labor

Jobs 402 and 404 are the only units in process at year-end. The predetermined overhead rate is 200% of direct labor cost.

Required

1. Use information on the six source documents to prepare journal entries to assign the following costs.
 - a. Direct materials costs to Work in Process Inventory.
 - b. Direct labor costs to Work in Process Inventory.
 - c. Overhead costs to Work in Process Inventory.
 - d. Indirect materials costs to the Factory Overhead account.
 - e. Indirect labor costs to the Factory Overhead account.
2. Determine the revised balance of the Factory Overhead account after making the entries in part 1. Determine whether there is any under- or overapplied overhead for the year. Prepare the adjusting entry to allocate any over- or underapplied overhead to Cost of Goods Sold, assuming the amount is not material.
3. Prepare a revised trial balance.
4. Prepare an income statement for 2015 and a balance sheet as of December 31, 2015.

Check (2) \$9
underapplied o

(3) T.

\$804,000

(4) N

\$85,800

Analysis Component

5. Assume that the \$5,600 on materials requisition 21-3012 should have been direct materials charged to Job 404. Without providing specific calculations, describe the impact of this error on the income statement for 2015 and the balance sheet at December 31, 2015.