

Problem 19-4A
Overhead allocation and
adjustment using a
predetermined overhead
rate

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In December 2014, Learer Company's manager estimated next year's total direct labor cost assuming 50 persons working an average of 2,000 hours each at an average wage rate of \$25 per hour. The manager also estimated the following manufacturing overhead costs for 2015.

Indirect labor	\$ 319,200
Factory supervision	240,000
Rent on factory building	140,000
Factory utilities	88,000
Factory insurance expired	68,000
Depreciation—Factory equipment	480,000
Repairs expense—Factory equipment	60,000
Factory supplies used	68,800
Miscellaneous production costs	36,000
Total estimated overhead costs	<u>\$1,500,000</u>

At the end of 2015, records show the company incurred \$1,520,000 of actual overhead costs. It completed and sold five jobs with the following direct labor costs: Job 201, \$604,000; Job 202, \$563,000; Job 203, \$298,000; Job 204, \$716,000; and Job 205, \$314,000. In addition, Job 206 is in process at the end of 2015 and had been charged \$17,000 for direct labor. No jobs were in process at the end of 2014. The company's predetermined overhead rate is based on direct labor cost.

Required

1. Determine the following.
 - a. Predetermined overhead rate for 2015.
 - b. Total overhead cost applied to each of the six jobs during 2015.
 - c. Over- or underapplied overhead at year-end 2015.
2. Assuming that any over- or underapplied overhead is not material, prepare the adjusting entry to allocate any over- or underapplied overhead to Cost of Goods Sold at the end of 2015.

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