**Predetermined Overhead Rate and Applied Overhead**

Amanda Bitsworth manufactures votive candles. Overhead is applied to products on the basis of direct labor hours. Last year, total overhead costs were expected to be $85,000. Actual overhead costs totaled $63,000 for 6,500 actual hours. At the end of the year, overhead was underapplied by $4,000.

**Required:**

1. Calculate the predetermined overhead rate. If required, round your answer to nearest dollar.

\_\_\_\_\_\_ per direct labor hour

**B.** How much overhead should be applied to a job that was completed in three direct labor hours?

$27.00 Correct answer

1) Determine applied overhead by subtracting the underapplied overhead from the actual overhead.  
2) Predetermined overhead rate is calculated by dividing the applied overhead by the actual hours.  
B) Multiply direct labor hours by predetermined overhead rate.

**Comprehensive Job Costing**

Kurtis Kabinets produces custom cabinetry for homes, which are sold nationwide. The company adds overhead costs to cabinetry projects at the rate of $7.55 per direct labor hour. The company accumulates overhead costs in a separate manufacturing overhead account and uses normal costing to assign overhead. The following data provide details of the company's activity and balances during the last half of the year:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **July 1** | | **December 31** | |
| Direct materials inventory | $60,700 |  | $60,000 |  |
| Work in process inventory | 43,500 |  | 43,400 |  |
| Finished-goods inventory | 24,100 |  | 22,800 |  |
|  |  |  |  |  |
| **Production data for period:** |  |  |  |  |
| Direct materials purchased | $154,000 |  |  |  |
| Direct labor costs ($14/ hr.) | 261,700 |  |  |  |

**Required:**

Round your interim calculations to two decimal places and final answers to the nearest whole number.

**A.** Calculate the cost of direct materials used during the period.  
$Correct Answer

**B.** Calculate the cost of goods manufactured during the period.  
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**C.** At the end of December, Kurtis found that it had actually incurred overhead costs of

$145,000. If the company adjusts over- or underapplied overhead to cost of goods sold at the end of the year, cost of goods sold will be by $ to $.

A) Set up T account for DM. Beginning and ending balance and purchases given. The credit needed to balance is the materials transferred to WIP.  
B) Set up T account for WIP account, inventory account. Total manufacturing costs are direct materials, direct labor and manufacturing overhead. Beginning and ending balance given and DL costs. DM calculated in (A). Calculate applied OH by multiplying the rate given by DL hours. Determine DL hours by dividing total DL cost by hourly rate. The credit needed to balance is Cost of goods manufactured (COGM). Set up T accounts for finished goods inventory account.  
C) Set up T account for (COGS) cost of goods sold account, expense account. Set up T account for overhead. Debit column is actual amount. Credit column is applied amount. Applied OH was calculated in (B) and actual OH is given. Close OH account. Amount needed to close is under/over applied OH and closed to COGS. A credit to OH needs a debit to COGS. (Dr = Cr).