**Chapter 2 – Weygandt Managerial 9e**

**Challenge Exercise Solutions**

**Solution**

**CE 2-1**

(a)

|  |  |  |  |
| --- | --- | --- | --- |
| **Costs** | **Southside** | **Oceanview** | **Rocky Heights** |
| Direct Materials | $ 5,450 | $ 7,635 | $ 6,480 |
| Direct Labor | 4,810 | 5,980 | 5,525 |
| Operating Overhead  (Landscaper hours x  $60 per hour) | 4,440  (74 x $60) | 5,520  (92 x $60) | 5,100  (85 x $60) |
| Totals | $14,700 | $19,135 | $17,105 |

(b) $14,700 (only the Southside account is incomplete)

(c) Operating Overhead

|  |  |
| --- | --- |
| DEBIT | CREDIT |
| 15,400 (Actual OH) | 4,440 (applied) |
|  | 5,520 (applied) |
|  | 5,100 (applied) |
| 340 balance |  |

Operating Overhead has a debit balance of $340.

(d)

Mountain Estates Bid

Estimated Costs

Direct Materials $10,450

Landscaper Labor Costs\*\* 8,125

Operating Overhead (125 hours x $60/hour) 7,500

Total Estimated Costs $26,075

\*\*Landscaper Labor costs are $65 per hour based on the jobs that Larry’s Landscaping is currently working on.

(Southside $4,810/74 hours = $65 per hour; Oceanview $5,980/92 hours = $65 per hour;

Rocky Heights $5,525/85 hours = $65). Landscaper labor hours for Mountain Estates will be $65 per hour x 125 hours = $8,125.

**Solution**

**CE 2-2**

(a) Predetermined overhead rate = $780,000/39,000 = $20 per hour

(b) Applied overhead = $20 x 38,750 = $775,000

Work In Process…………………………………775,000

Operating Overhead…………………………….775,000

(c) Actual overhead $772,450

Applied overhead 775,000

Overapplied overhead $ 2,550

(d) (1) If estimated overhead increases to $799,500, the predetermined overhead rate would change to: $799,500/39,000 = $20.50 per hour. This would increase applied overhead. The new amount would be $20.50 x 38,750 = $794,375.

(2) Actual overhead would not directly be impacted by a change in estimated overhead. However, the increase in estimated overhead indicates that actual overhead is expected to increase.

With the new amount of applied overhead, overhead would still be overapplied but in the amount of $21,925.

Actual overhead $772,450

Applied overhead 794,375

Overapplied overhead $ 21,925