

Hawthorn Corporation manufactures custom all-terrain vehicles (ATVs) and uses a job costing system to assign and track costs. March's beginning inventory consisted of the following components:

Raw materials	\$65,000
Work in process	27,000
Finished goods	80,000

The above beginning work in process consisted only of Job #02.778. The finished goods inventory consisted of Job #01.987 (\$42,500) and Job #02.665 (\$37,500).

The following descriptions summarize the various transactions that occurred during March:

Purchased \$112,000 of raw materials.

Used \$117,000 of raw materials in the production process. Of this amount, \$95,000 consisted of parts and other materials "directly" incorporated into ATVs. The remainder was "indirect" material for shop supplies and small dollar items that are not otherwise traceable to specific ATVs.

Total wages and salaries were \$225,000. This total was 60% attributable to direct labor, 10% to indirect labor, 5% to sales commissions, and 25% to general and administrative activities.

Depreciation for the period totaled \$28,000. Of this amount, 75% related to factory and factory related equipment, and is contemplated in the factory overhead rates. The other 25% is related to general and administrative activities.

Other general and administrative costs, excluding wages and depreciation, totaled \$15,000.

Other factory overhead costs, excluding indirect materials, wages, and depreciation, totaled \$35,500.

Hawthorn applies factory overhead at 75% of direct labor costs.

The ending work in process consisted of two jobs: Job #03.004 (\$25,500) and Job #03.772 (\$21,500). All completed units had been delivered to customers, and there was no ending finished goods inventory. Sales for the month amounted to \$625,000. All sales are for cash at time of shipment.

- (a) Prepare T-accounts showing how the above costs flow through the accounting system. For simplicity you may assume that all expenditures and receipts settle in cash, and you will only need the following T-accounts:

Raw Materials	Selling Expenses
Work in Process	General & Administrative Expenses
Finished Goods	Sales
Cost of Goods Sold	Cash
Factory Overhead	Accumulated Depreciation

- (b) Was overhead underapplied or overapplied? What is the disposition of the difference between actual and applied factory overhead?
- (c) Prepare an income statement for March. Income taxes of \$50,000 were incurred during March.
- (d) Prepare summary journal entries to record the March transactions.