The journal entry to record the allocation of the underapplied overhead of $10,000 would be:

Work in Process (8% of $10,000)	800	
Finished Goods (12% of $10,000)	1,200	
Cost of Goods Sold (80% of $10,000)	8,000	
Manufacturing Overhead		10,000

Reeder Company
Schedule of Cost of Goods Manufactured

Direct materials:		
Beginning raw materials inventory	$20,000	
Add: Purchases of raw materials.....	150,000	
Total raw materials available.....	170,000	
Deduct: Ending raw materials inventory..	10,000	
Raw materials used in production	160,000	
Less: Indirect materials	24,000	136,000
Direct labor.....		200,000
Manufacturing overhead applied*		300,000
Total manufacturing cost.....		636,000
Add: Beginning work in process inventory.		74,000
		710,000
Deduct: Ending work in process inventory.		60,000
Cost of goods manufactured.....		$650,000

* Note that manufacturing overhead applied during the period is used to compute the total manufacturing costs on the schedule of cost of goods manufactured, not the actual manufacturing costs.

JOB-ORDER COSTING EXAMPLE (continued)

4. Reeder Company's income statement for the year (assuming that the underapplied overhead is closed directly to Cost of Goods Sold) would be:

Reeder Company
Income Statement

Sales		$900,000
Cost of goods sold		610,000
Gross margin		290,000
Selling and administrative expenses:		
Wage and salary expense	$ 90,000	
Insurance expense	4,000	
Advertising expense	100,000	
Depreciation expense	15,000	209,000
Net operating income		$ 81,000

Reeder Company
Schedule of Cost of Goods Sold

Beginning finished goods inventory	$ 40,000
Add: Cost of goods manufactured	650,000
Goods available for sale	690,000
Ending finished goods inventory	90,000
Unadjusted cost of goods sold	600,000
Add: Underapplied overhead	10,000
Adjusted cost of goods sold	$610,000