

Example(1) : al- safa manufactures a product known as “ XYZ”. The transactions for the month of March 2023 were as follows:

Purchase of raw materials \$ 100,000

Labor/Wages incurred \$ 30,000

Factory overhead incurred \$ 40,000

Units completed 50,000 units

Units sold 49,000 units

There are no beginning inventories of raw materials, work in process and finished goods. The standard cost per unit of output is \$ 3.5 (\$ 2 for raw materials and \$ 1.5 for conversion costs)

Required: Prepare the journal entries if:

- a. Using Traditional costing
- b. Back flush costing using three trigger points (purchases, completion of goods and upon sale)
- c. Back flush costing using two trigger points (purchase and upon sale)

Solutions:-

| STAGES | (a) Traditional costing | | (b)-Backflush , Three trigger points (A . Purchases, C. Completion, D. sales) | | ©-Backflush , Two trigger points (A . Purchases , D. Sales) | |
|--|--|---|--|---|--|--|
| STAGE (A) :- A1 – Purchase : | Materials inventory A/P | 100,000 100,000 | Materials inventory A/P | 100,000 100,000 | Materials inventory A/P | 100,000 100,000 |
| A2 – incurred conversion costs | Conversion costs control Various Accounts | 70,000 70,000 | Conversion costs Various Accounts | 70,000 70,000 | Conversion costs Various Accounts | 70,000 70,000 |
| STAGE (B) :- Begin of production | Work in process inventory Materials inv. Applied conversion costs (2x 50,000 unit, 1.5 x 50,000) | 175,000 100,000 75,000 | No entry | | No entry | |
| STAGE (C) :- Completion | Finished goods inventory WIP Inventory | 175,000 175,000 | Finished goods inv. Material inv. Applied C.C. | 175,000 100,000 75,000 | No entry | |
| STAGE (D) :- Sales of goods:- D1 (49,000 X 3.5) D2 | Cost of goods sold Inv. Finished goods Inv. Applied Conversion costs Conversion costs control Cost of goods sold | 171,500 171,500 75,000 70,000 5,000 | COGS FG INV. Applied C C C C Control COGS | 171,500 171,500 75,000 70,000 5,000 | COGS Materials Inv. Applied CC Applied CC CC control COGS | 171,500 98,000 73,500 73,500 70,000 3,500 |

Example (2) :- Ahmmad Company uses a backflush costing system with three trigger points: (■ Purchase of direct materials ■ Completion of good finished units of product ■ Sale of finished goods.)

There are no beginning inventories. Information for April 2023 is as follows:

Direct materials purchased \$880,000

Direct materials used \$850,000

Conversion costs incurred \$422,000

The company produces 100,000 unit of it product and sells 99,000 units.

Standard costs card per unit show that standard direct materials was\$ 8.50,and standard conversion cost per unit was \$ 4.5

Required - Prepare journal entries for April (without disposing of underallocated or overallo- cated conversion costs). Assume there are no direct materials variances.

SOLUTION OF EXCRICE (1)

| STAGES | Traditional costing | | Backflush , Three trigger points (A . Purchases, C. Completion, D. sales) | | Backflush , Two trigger points (A . Purchases , D. Sales) | |
|--|--|--|--|--|--|---|
| STAGE (A) :- A1 – Purchase : | Materials inventory A/P | 880,000 880,000 | Materials inventory A/P | 880,000 880,000 | Materials inventory A/P | 880,000 880,000 |
| A2 – incurred conversion costs | Conversion costs control Various Accounts | 422,000 422,000 | Conversion costs Various Accounts | 422,000 422,000 | Conversion costs Various Accounts | 422,000 422,000 |
| STAGE (B) :- Begin of production | Work in process inventory Materials inv. Applied conversion costs (8.5x 100,000 unit, 4.5 x 100,000) | 1,300,000 850,000 450,000 | No entry | | No entry | |
| STAGE (C) :- Completion | Finished goods inventory WIP Inventory | 1,300,000 1,300,000 | Finished goods inv. Material inv. Applied C.C. | 1,300,000 850,000 450,000 | No entry | |
| STAGE (D) :- Sales of goods:- D1 (99,000 X 13) D2 | Cost of goods sold Inv. Finished goods Inv. Applied Conversion costs Conversion costs control Cost of goods sold | 1,170,000 1,170,000 450,000 422,000 28,000 | COGS FG INV. Applied C C C C Control COGS | 1,170,000 1,170,000 450,000 422,000 28,000 | COGS Materials Inv. Applied CC Applied CC COGS CC control | 1,170,000 841,500 405,000 405,000 17,000 422,000 |