

CASE: Second Department

Durall Company manufactures a plastic gasket that is used in car engines. The gaskets go through three processing departments: Mixing, Forming, and Stamping. The company's accountant (who is very inexperienced) has prepared a summary of production and costs for the Forming Department for October as follows:

Forming department costs:	
Working in process, inventory, Oct. 1 8,000 units; materials 100% complete; conversion 7/8 complete	£22,420*
Costs transferred in from the Mixing department	81,480
Material added during October (added when processing is 50% complete in the Forming Department)	27,600
Conversion costs added during October	96,900
Total departmental costs	£228,400
Forming Departmental costs assigned to:	
Units completed and transferred to the Stamping Department, 100,000 units at £2,284 each	£228,400
Work in process inventory, Oct. 31 st , 5,000 units, conversion 2/5 complete	-
Total departmental costs assigned	£228,400
Consists of cost transferred in, £8,820; materials costs , £3,400; and conversion costs, £10,200	

After mulling over the data above, Durall's president commented, "I can't understand what's happening here. Despite a concentrated effort at cost reduction, our unit cost actually went up in the Forming Department last month. With that kind of performance, year-end bonuses are out of the question for the people in that department."

The company uses the weighted-average method in its process costing.

Required:

1. Prepare a report for the Forming Department for October showing how much cost should have been assigned to the units completed and transferred to the Stamping Department and to the ending work in process inventory.
2. Explain to the president why the unit cost appearing on the report prepared by the accountant is so high.