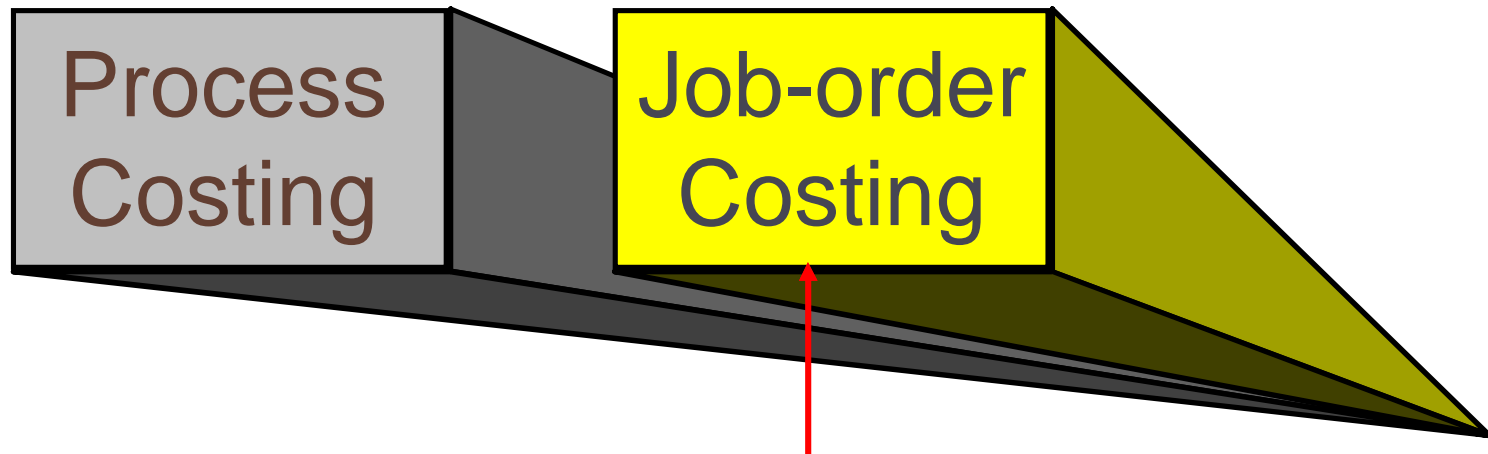


Systems Design: Job-Order Costing

Chapter 3

Types of Product Costing Systems



- ❖ Many different products are produced each period.
- ❖ Products are manufactured to order.
- ❖ The unique nature of each order requires tracing or allocating costs to each job, and maintaining cost records for each job.

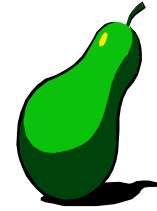


Comparing Process and Job-Order Costing

	Job-Order	Process
Number of jobs worked	Many	Single Product
Cost accumulated by	Job	Department
Average cost computed by	Job	Department



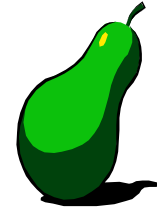
Measuring Direct Materials Cost



PearCo Job Cost Sheet							
Job Number A - 143				Date Initiated 3-4-09			
Department B3				Date Completed _____			
Item Wooden cargo crate				Units Completed _____			
Direct Materials		Direct Labor			Manufacturing Overhead		
Req. No.	Amount	Ticket	Hours	Amount	Hours	Rate	Amount
X7-6890	\$ 116						
Cost Summary				Units Shipped			
Direct Materials				\$ 116			
Direct Labor							
Manufacturing Overhead							
Total Cost							
Unit Product Cost							



Job-Order Cost Accounting



PearCo Job Cost Sheet							
Job Number <u>A - 143</u>				Date Initiated <u>3-4-09</u>			
Department <u>B3</u>				Date Completed _____			
Item <u>Wooden cargo crate</u>				Units Completed _____			
Direct Materials		Direct Labor			Manufacturing Overhead		
Req. No.	Amount	Ticket	Hours	Amount	Hours	Rate	Amount
X7-6890	\$ 116	36	8	\$ 88			
Cost Summary					Units Shipped		
Direct Materials				\$ 116	Date	Number	Balance
Direct Labor				\$ 88			
Manufacturing Overhead							
Total Cost							
Unit Product Cost							

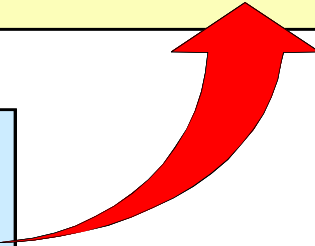


Manufacturing Overhead Application

The predetermined overhead rate (**POHR**) used to apply overhead to jobs is determined before the period begins.

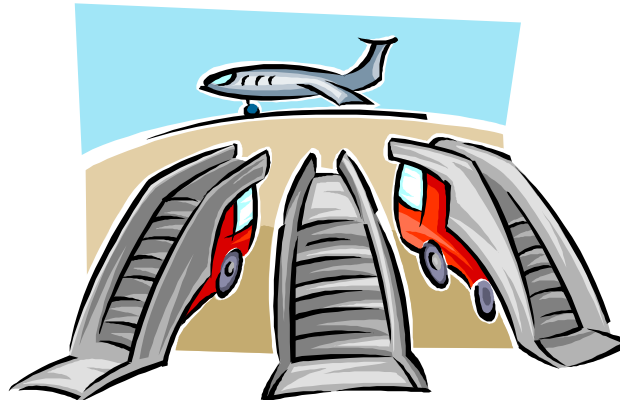
$$\text{POHR} = \frac{\text{Estimated total manufacturing overhead cost for the coming period}}{\text{Estimated total units in the allocation base for the coming period}}$$

Ideally, the allocation base is a **cost driver** that causes overhead.



Determining Predetermined Overhead Rates

Predetermined overhead rates are calculated using a three-step process.



1

Estimate the level of production for the period.

2

Estimate total amount of the allocation base for the period.

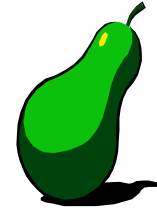
3

Estimate total manufacturing overhead costs.

$$\text{POHR} = \text{3} \div \text{2}$$

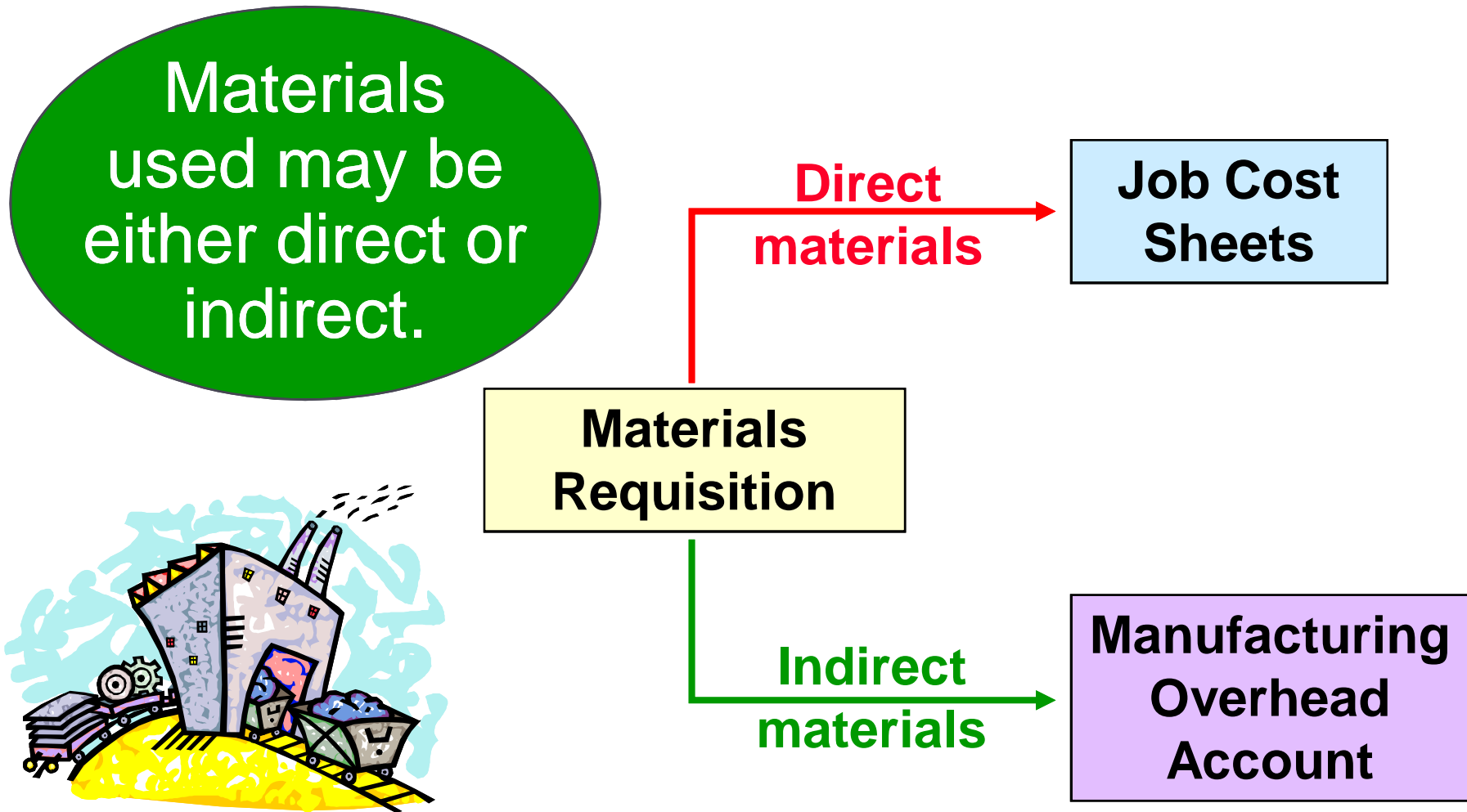


Job-Order Cost Accounting

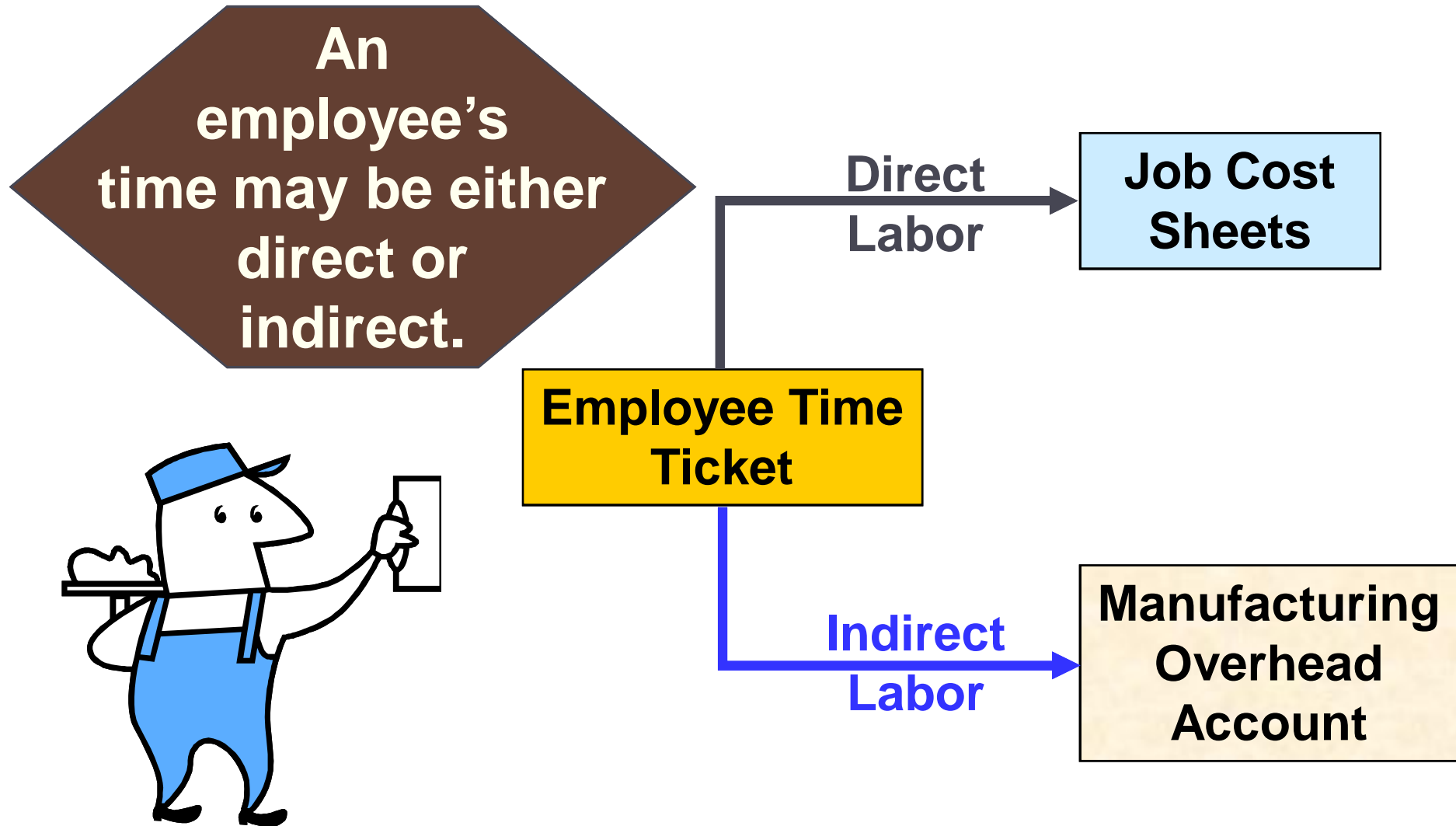


PearCo Job Cost Sheet							
Job Number <u>A - 143</u>				Date Initiated <u>3-4-09</u>			
Department <u>B3</u>				Date Completed <u>3-5-09</u>			
Item <u>Wooden cargo crate</u>				Units Completed <u>2</u>			
Direct Materials		Direct Labor			Manufacturing Overhead		
Req. No.	Amount	Ticket	Hours	Amount	Hours	Rate	Amount
X7-6890	\$ 116	36	8	\$ 88	8	\$ 4	\$ 32
Cost Summary				Units Shipped			
Direct Materials				\$ 116	Date	Number	Balance
Direct Labor				\$ 88			
Manufacturing Overhead				\$ 32			
Total Cost							
Unit Product Cost							

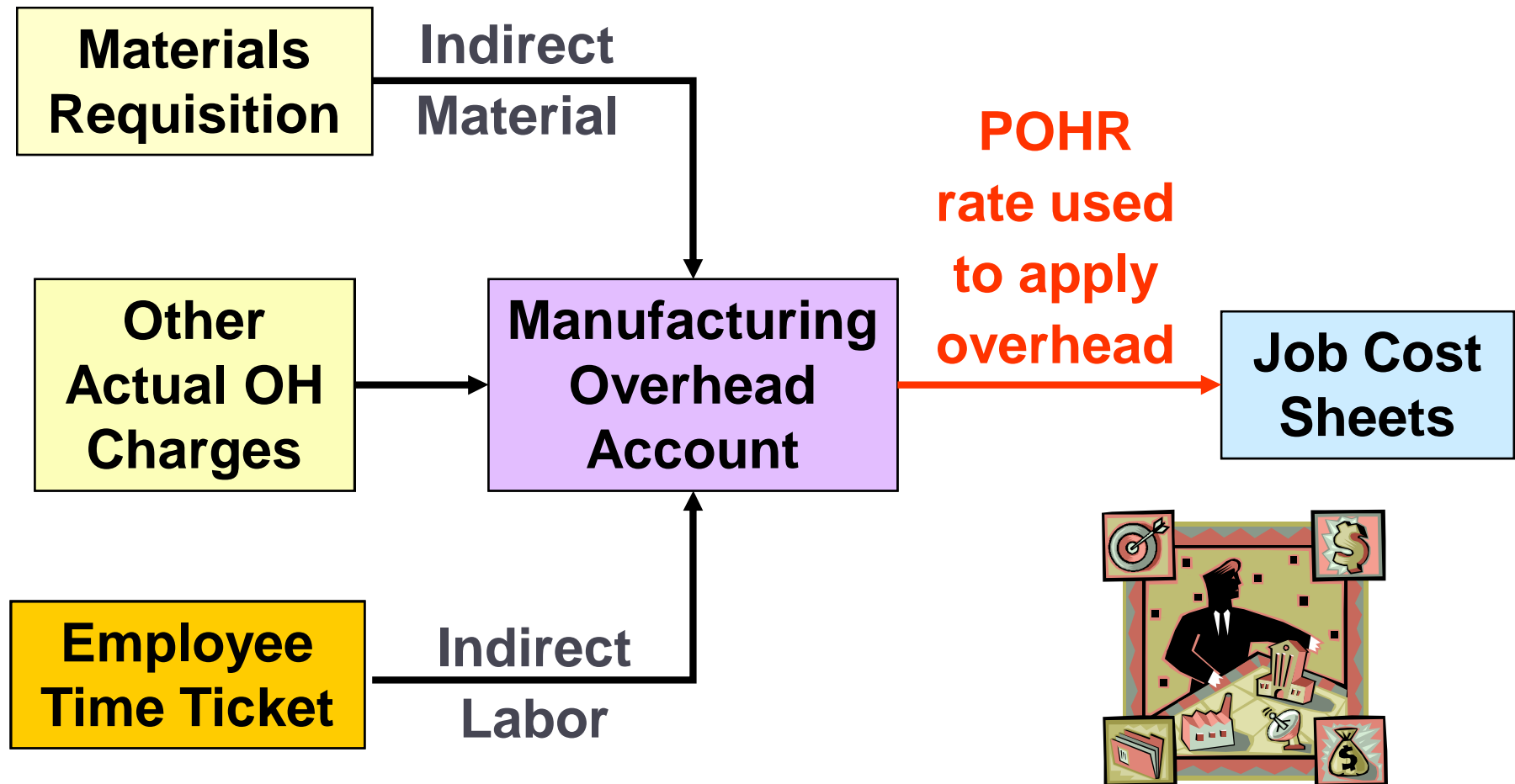
Job-Order Costing Document Flow Summary



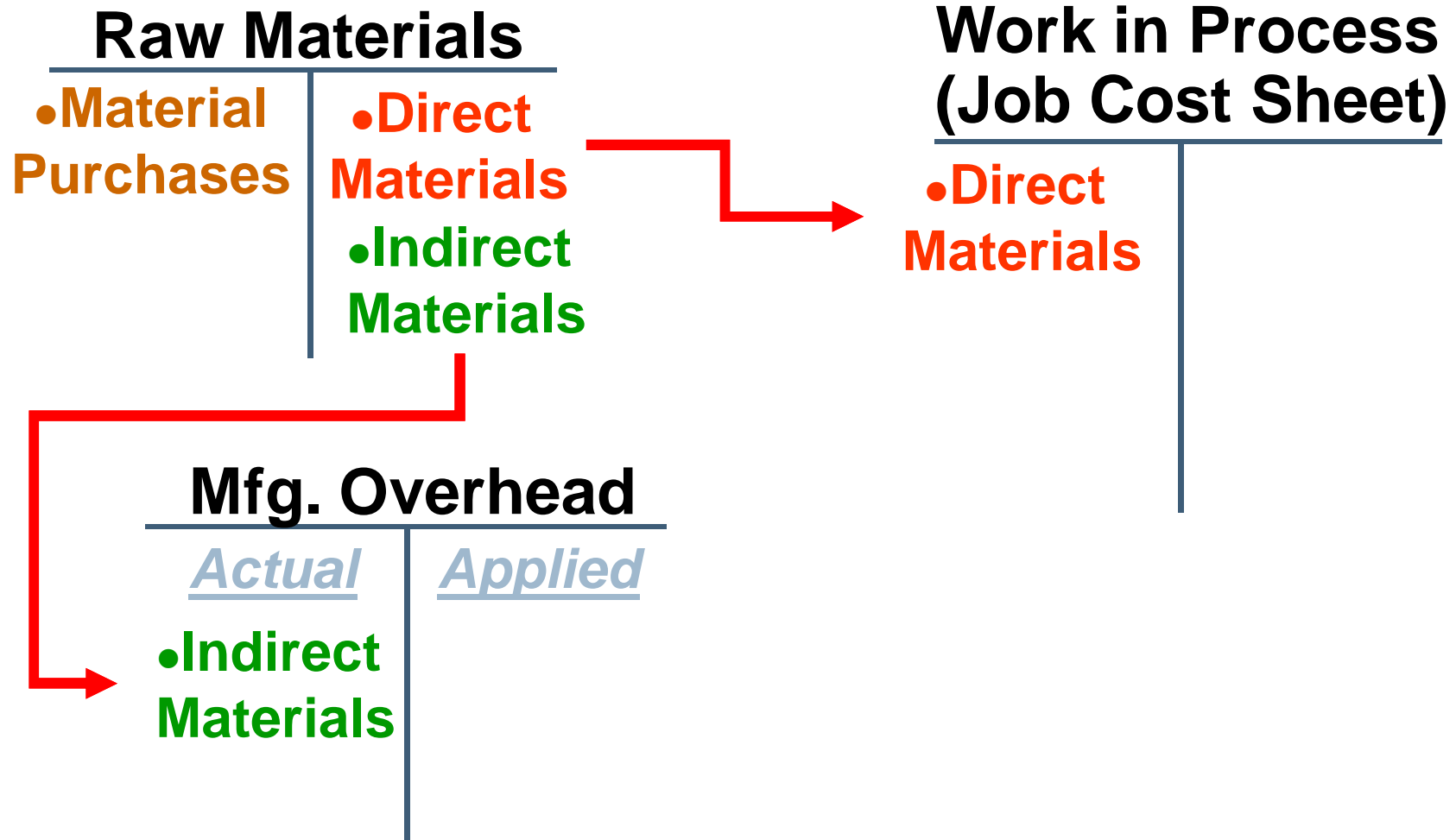
Job-Order Costing Document Flow Summary



Job-Order Costing Document Flow Summary



The Purchase and Issue of Raw Materials



Cost Flows – Material Purchases

Raw material purchases are recorded in an inventory account.

GENERAL JOURNAL

Date	Description	Post. Ref.	Debit	Credit
	Raw Materials		XXXXX	
	Accounts Payable			XXXXX



Cost Flows – Material Usage

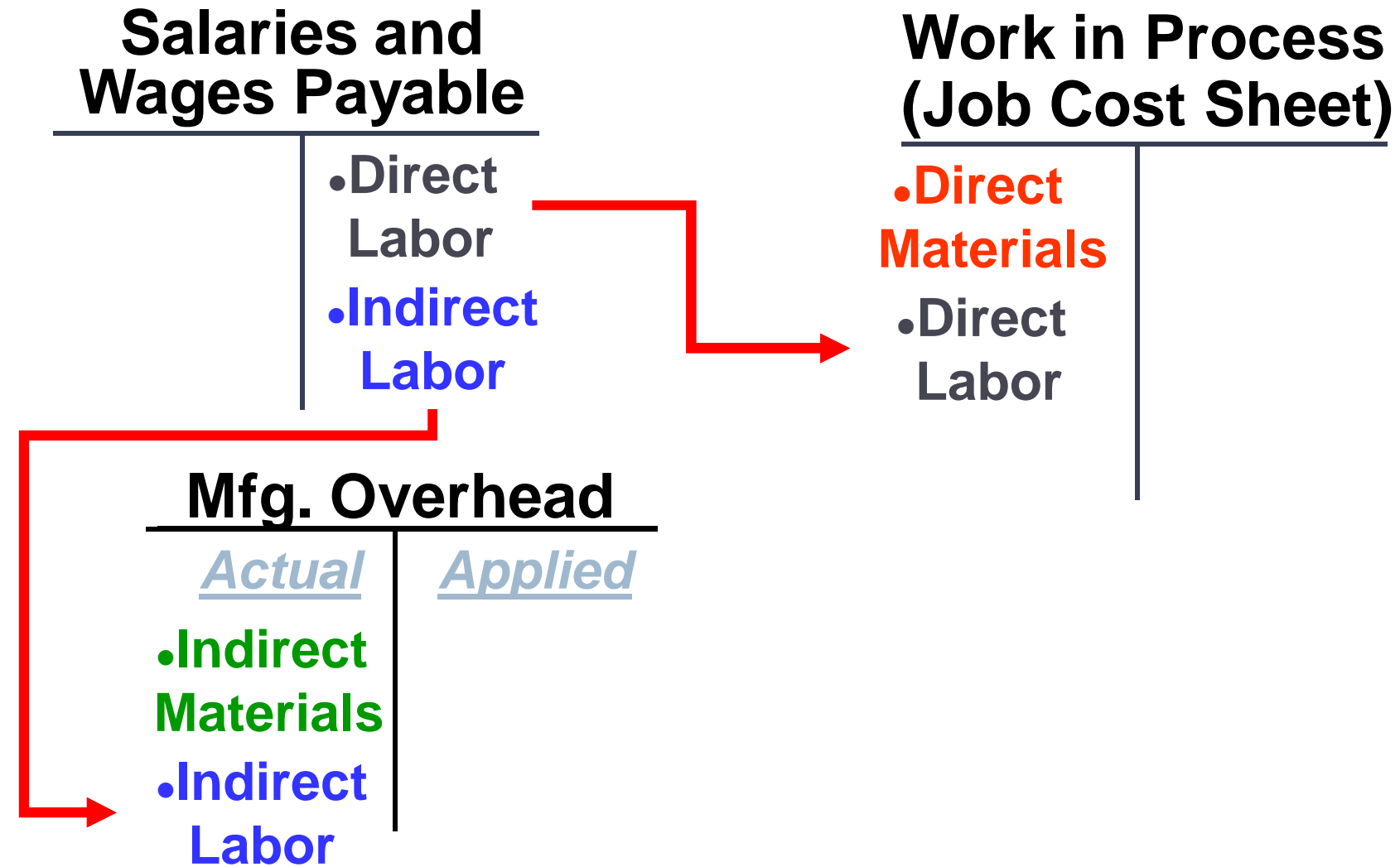
Direct materials issued to a job increase Work in Process and decrease Raw Materials. Indirect materials used are charged to Manufacturing Overhead and also decrease Raw Materials.

GENERAL JOURNAL

Date	Description	Post. Ref.	Debit	Credit
	Work in Process		XXXXX	
	Manufacturing Overhead		XXXXX	
	Raw Materials			XXXXX



The Recording of Labor Costs



Applying Manufacturing Overhead

Salaries and Wages Payable

- Direct Labor
- Indirect Labor

Work in Process (Job Cost Sheet)

- Direct Materials
- Direct Labor
- Overhead Applied

Mfg. Overhead

- | <u>Actual</u> | <u>Applied</u> |
|---------------------|--------------------------------------|
| •Indirect Materials | •Overhead Applied to Work in Process |
| •Indirect Labor | |
| •Other Overhead | |

If actual and applied manufacturing overhead are not equal, a year-end adjustment is required.

Overhead

Transferring Completed Units

Work in Process (Job Cost Sheet)

- **Direct Materials**
- Direct Labor
- **Overhead Applied**

• **Cost of Goods Mfd.**



Finished Goods

• **Cost of Goods Mfd.**



End of Chapter 3

