

## Job Order Cost Accounting Chapter 2

**Cost Accounting:** Measuring, recording, and reporting product costs.

Product costs are needed to determine:

- Which products to produce?
- What price to charge?
- What amounts to produce?

Example: Western States Fire Apparatus

- Submits bids via blind bid system
- Bid too high and they don't get job
- Bid too low and they don't make money

Two types of cost accounting systems:

- Job order cost system
- Process cost system

Job order System

- Used when products are unique rather than mass produced.
- Costs are assigned to each *job* or batch.
  - Individual movies at Fox
  - Customized mainframes at IBM.
  - Printing jobs at Printing Co.
  - Audit engagement by CPA firm.
  - Individual buildings-contractor.
  - Patient at hospital.

Process Cost System (Ch. 3)

Costs assigned to *processes* of production. Used for relatively homogeneous (similar) products. (petroleum, cement, cars, etc.)

Example of Mrs. Fields Cookies: Raw Materials → GIP-Mixing → GIP – Baking → GIP – Packaging → Finished Goods

## Job Cost Sheet

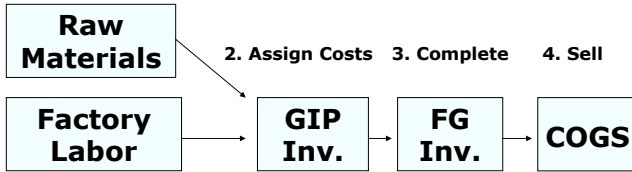
- Form used to record the costs of individual jobs.
- Provides completed jobs:

- total cost
- unit cost

Job Cost Sheet			
Job No.	101	Quantity	1,000
Item	Magnetic Sensors	Date Requested	February 5
For	Tanner Company	Date Completed	January 31
Date	Direct Materials	Direct Labor	Manufacturing Overhead
1/6	\$ 1,000		
1/10		\$ 9,000	\$ 7,200
1/12	7,000		
1/26	4,000		
1/31		6,000	4,800
	\$12,000	\$15,000	\$12,000
Cost of completed job			\$ 12,000
Direct materials			15,000
Direct labor			12,000
Manufacturing overhead			39,000
Total cost			\$ 39,000
Unit cost (\$39,000 ÷ 1,000)			\$ 39.00

## Flow of Costs

1. Actual Costs Accumulated



• Job cost sheets used to assign RM & FP

• PDOH rate used to assign FOH

Dr. RM, FP, FOH  
Cr. A/P, Cash, etc.

## Accumulating Manufacturing Costs

Date	Account	Dr.	Cr.
1/4	Raw Materials Inventory	42,000	
	Accounts Payable		42,000
	(Purchase RM on account)		

Date	Account	Dr.	Cr.
1/31	Factory Payroll	32,000	
	Factory Wages Payable		27,000
	Payroll Taxes Payable		5,000
	(Record monthly labor costs)		

Date	Account	Dr.	Cr.
1/31	Factory Overhead	13,800	
	Utilities Payable		4,800
	Prepaid Insurance		2,000
	Accounts Payable		2,600
	Accumulated Depreciation-Bldg.		3,000
	Property Taxes Payable		1,400
	(Record overhead costs)		

## Assigning Costs

### Materials Requisition Slip

Authorizes release of materials into production.

- One copy kept in storeroom as evidence materials released.
- Original copy goes to accounting
  - Posted daily to individual job cost sheets
  - Periodically journalized.

Wallace Manufacturing Company Materials Requisition Slip				
Deliver to: <u>Assembly Department</u>		Req. No. <u>B247</u>		
Charge to: <u>Work In Process—Job No. 101</u>		Date: <u>1/6/05</u>		
Quantity	Description	Stock No.	Cost per Unit	Total
200	Handles	AA2746	\$5.00	\$1,000
Requested by <u>Bruce Howard</u> Received by <u>Heath Conroy</u>				
Approved by <u>Ken Stine</u> Costed by <u>Heather Remmers</u>				

### Assigning Raw Material Costs

If \$24,000 of *direct materials* and \$6,000 of *indirect materials* are used in January, the entry is

Date	Account	Dr.	Cr.
1/31	Goods in Process Inven.	24,000	
	Factory Overhead		6,000
	Raw Materials Inventory		30,000
	(Assign materials to jobs & OH)		

### Time Ticket

Tracks employee time and cost by job.

Wallace Manufacturing Company Time Ticket				
Employee: <u>John Nash</u>		Date: <u>1/6/05</u>		
Charge to: <u>Work In Process</u>		Employee No. <u>124</u>		
		Job No. <u>101</u>		
Time			Hourly Rate	Total Cost
Start	Stop	Total Hours		
0800	1200	4	10.00	40.00
Approved by <u>Bob Kadler</u> Costed by <u>M. Chen</u>				

### Assigning Factory Labor Costs

If total factory labor costs are \$32,000 and \$28,000 is *direct labor* and \$4,000 *indirect labor*:

Date	Account	Dr.	Cr.
1/31	Goods in Process Inven.	28,000	
	Factory Overhead		4,000
	Factory Payroll		32,000
	(Assign labor to jobs & OH)		

## Predetermined Overhead Rate (POHR)

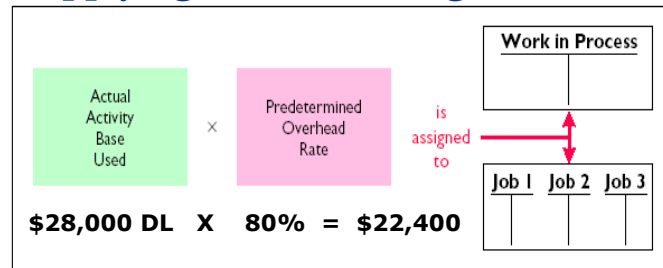
- Overhead applied to jobs based on predetermined overhead rate.

$$\text{PDOH} = \frac{\text{Estimated Annual Overhead}}{\text{Expected Annual Operating Activity}}$$

$$\begin{aligned} \$1 \text{ million} &\div 200,000 \text{ machine hours} = \$5/\text{machine hr} \\ \$1 \text{ million} &\div \$1.25 \text{ million direct labor} = 80\% \text{ of DL} \end{aligned}$$

Illustration 2-13

## Applying Manufacturing Overhead



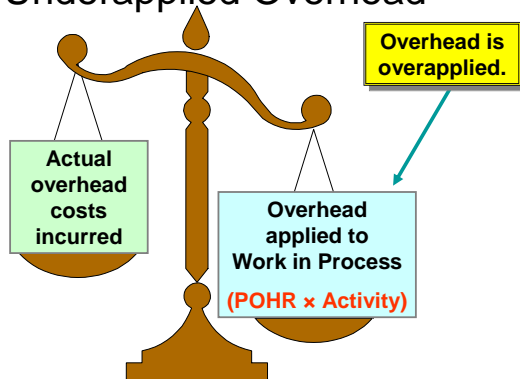
Date	Account	Dr.	Cr.
1/31	Goods in Process Inven. Factory Overhead (Assign OH to jobs)	22,400	22,400

## Overhead Application

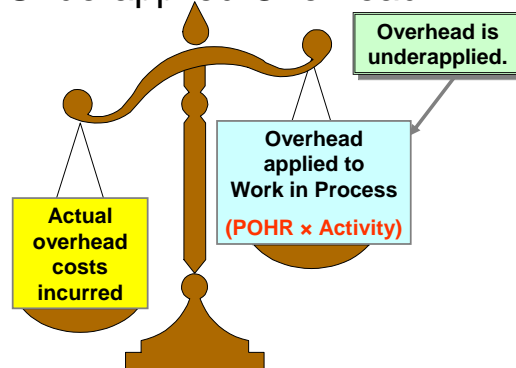
Reasons for using a predetermined overhead rate:

- Overhead is not incurred uniformly throughout the year.
- Predetermined rate makes it possible to estimate job costs sooner.

## Adjusting of Overapplied and Underapplied Overhead



## Adjusting of Overapplied and Underapplied Overhead



## Closing Under/Over Applied Overhead

- Year end balance in Manufacturing Overhead is closed to cost of goods sold (theoretically could be allocated to GIP, FG, & COGS).
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- If Underapplied: Dr. COGS & Cr. MOH
- If Overapplied: Dr. MOH & Cr. COGS

## Completed Job Assigned to Finished Goods

- When a job is completed, the costs are summarized and the job cost sheet is completed.
- The entry for Wallace Manufacturing to transfer its total cost to finished goods:

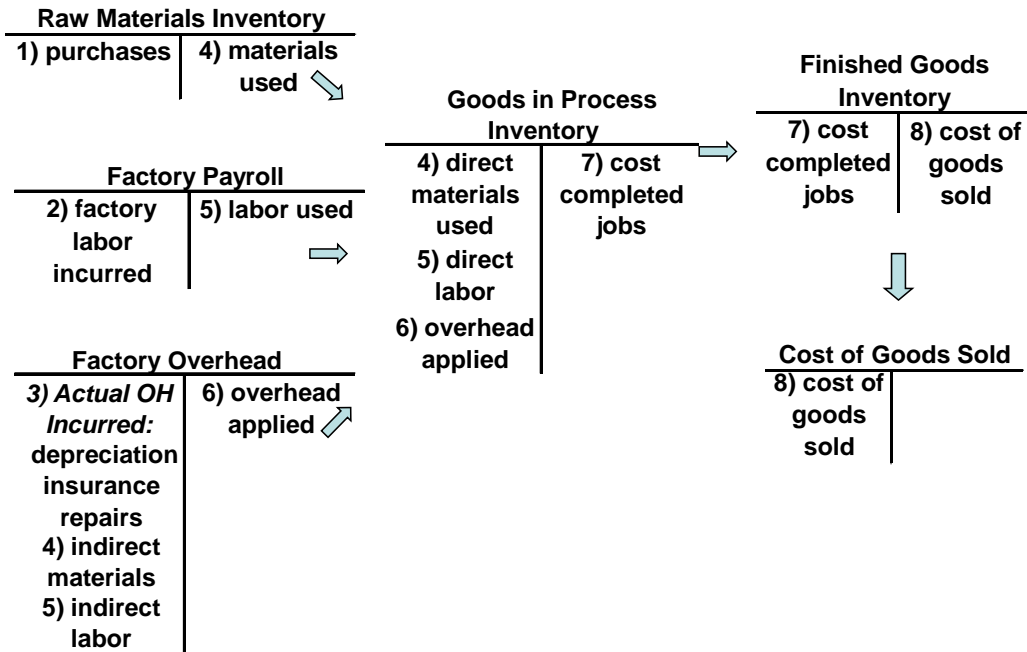
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Cost of completed job			
Direct materials		\$	12,000
Direct labor			15,000
Manufacturing overhead			12,000
Total cost		\$	<u>39,000</u>
Unit cost (\$39,000 ÷ 1,000)		\$	<u>39.00</u>

## Job Sold

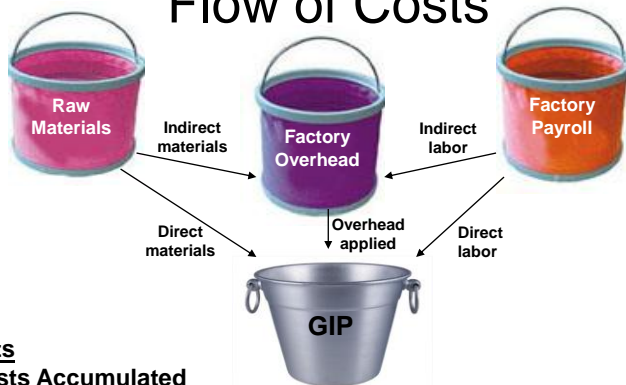
<u>Date</u>	<u>Account</u>	<u>Dr.</u>	<u>Cr.</u>
1/31	Accounts Receivable	50,000	
	Sales		50,000
	Cost of Goods Sold	39,000	
	Finished Goods Inventory		39,000
	(Record sale of job 101)		

<u>Date</u>	<u>Account</u>	<u>Dr.</u>	<u>Cr.</u>
1/31	Finished Goods	39,000	
	Goods in Process Inventory		39,000
	(Completed job 101)		

# Job Order Cost Accounting



## Flow of Costs



### Flow of Costs

1. Actual Costs Accumulated (into RM, FO, & FP)
2. Costs Assigned (GIP or FO)
3. Complete Inventory (into FG)
4. Sell Inventory (expensed)