

JOB ORDER COSTING

LO 1: Cost Systems

Terms

Cost Accounting
Process Cost System
Job Order Cost System

Job-Order Costing	Process Costing
Used for custom or unique items Each job is accounted for separately Measures cost based on completed job Examples: Movie, Plane, Custom house	Used for large volumes of similar products Production is continuous Measures costs based on a period of time Examples: cereal, chips, paper towels,

Practice #1

A list of common manufacturing companies follows.

- a) Cruise ship builder
- b) Cornflakes factory
- c) Law firm
- d) Dentists office
- e) Beverage bottling company

Required: Determine whether job order costing or process costing would be more appropriate for each industry.

Cost Flow

Terms

Predetermined Overhead Rate
Underapplied Overhead
Overapplied Overhead

LO 2: Journal Entries

The journal entries to record the costs incurred are as follows:

1) Purchase of raw materials

Raw material inventory	xxx	
Accounts payable		xxx

2) Factory labor costs

Factory Labor	xxx	
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Factory Wages Payable	xxx
Employer Payroll Taxes Payable	xxx

3)Manufacturing overhead costs

Manufacturing Overhead	xxx	
Various Payable		xxx
Accumulated Depreciation		xxx

The journal entries to record the costs assigned to Work in Process are as follows:

4)Issue raw materials

Work-in-process inventory (direct)	xxx	
Manufacturing overhead (indirect)	xxx	
Raw materials inventory		xxx

5)Labor costs assigned

Work-in-process inventory (direct)	xxx	
Manufacturing overhead (indirect)	xxx	
Factory Labor		xxx

LO 3: Assign Manufacturing Overhead using a Predetermined Overhead Rate

Manufacturing overhead relates to productions as a whole, and cannot be assigned to specific jobs based on costs incurred. Therefore, it is assigned to each job on an estimated basis using:

Predetermined Overhead Rate=

Estimated Annual Overhead Costs / Estimated Annual Operating Activity

Manufacturing overhead assigned=

Actual Activity Base Used * Predetermined Overhead Rate

6)Manufacturing overhead assigned

Work-in-process inventory	xxx	
Manufacturing overhead		xxx

Reconcile: Work in Process Inventory = Job Cost Sheet

Assign Costs to Finished Goods

When a job is completed, increase finished goods account, and decrease work in process

7)Assign costs to finished goods

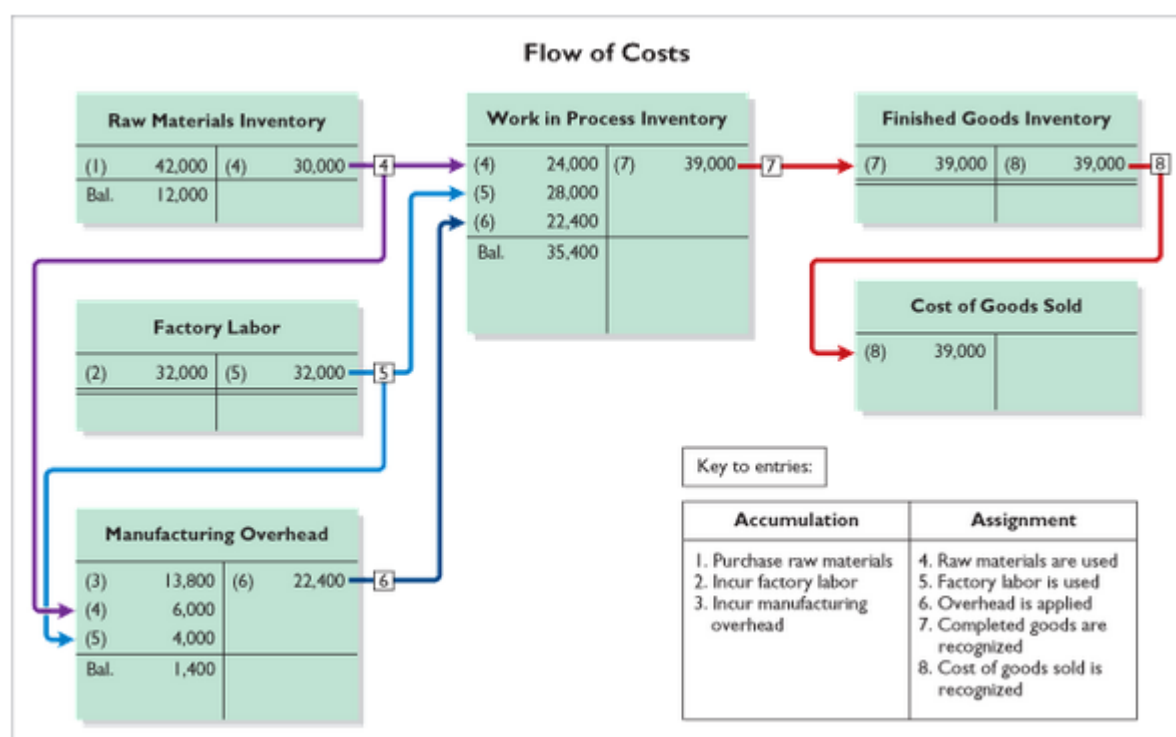
Finished Goods	xxx	
Work in Process		xxx

Assign Finished Goods to Cost of Goods Sold

When a sale occurs, increase cost of goods sold, and decrease finished goods

8) Assign costs to cost of goods sold

Accounts Receivable	xxx	
Sales Revenue		xxx
Cost of Goods Sold	xxx	
Finished Goods		xxx



LO 4: Note: Job order costing can be used for service companies. The Work in Process account is referred to as Service Contracts in Process.

LO 5: Distinguish between under and overapplied manufacturing overhead

The work in process account shows applied overhead (calculated with the predetermined overhead rate) and not actual overhead (costs incurred). As the flow of costs to cost of goods sold comes from work in process, at year end and adjusting entry is made to eliminate any balance in the manufacturing overhead account.

- Underapplied: Manufacturing overhead has a debit balance. Overhead assigned to jobs is less than overhead incurred.

- Overapplied: Manufacturing overhead has a credit balance. Overhead assigned to jobs is greater than overhead incurred

Adjusting Entry in overhead account

- Underapplied

Cost of goods sold	xxx	
Manufacturing overhead		xxx

OR

- Overapplied

Manufacturing overhead	xxx	
Cost of goods sold		xxx

Practice #2

C Company uses job-order costing. It applies overhead cost to jobs on the basis of direct labor-hours. The following transactions took place during the year:

- \$300,000 of raw materials were purchased on account
- Incurred factory labor of \$250,000, \$25,000 was payroll taxes
- Utility costs for the factory were \$60,000. Depreciation recorded was \$200,000
- Raw materials were assigned into production: \$90,000 direct materials and \$4,000 indirect materials
- Labor costs assigned: \$40,000 direct, \$1,000 indirect
- Manufacturing overhead of was estimated to be \$800,000 and is based on direct labor hours. Total direct labor hours are estimated to be 200,000 hours. Actual direct labor-hours incurred were 72,000.
- Jobs costing \$30,000 were completed and transferred into the finished goods inventory.
- Jobs with a cost of \$15,000 were sold on account for \$20,000.
- Closed the under/overapplied overhead for the year.

Required: Prepare the necessary journal entries

Solution #1

- a) Job-order costing (every ship is a separate job)
- b) Process costing
- c) Job-order costing (every case is a separate job)
- d) Job-order costing (every patient visit is a separate job)
- e) Process costing

Solution #2

a)	Raw materials	300,000	
	Accounts payable		300,000
b)	Factory Labor	250,000	
	Factory Wages payable		225,000
	Employer Payroll Tax Payable		25,000
c)	Manufacturing overhead	260,000	
	Utilities Payable		60,000
	Accumulated Depreciation		200,000
d)	Work in Process Inventory	90,000	
	Manufacturing Overhead	4,000	
	Raw Materials		94,000
e)	Work in Process Inventory	40,000	
	Manufacturing Overhead	1,000	
	Factory Labor		41,000
f)	Work in process Inventory	288,000	
	Manufacturing overhead (1)		288,000
g)	Finished goods	30,000	
	Work in process		30,000
h)	Accounts receivable	20,000	
	Sales		20,000
	Cost of goods sold	15,000	

	Finished goods		15,000
i)	Manufacturing overhead	23,000	
	Cost of goods sold		23,000

(1)

Manufacturing Overhead	
actual	applied
260,000	
4,000	288,000
1,000	
	23,000 overapplied