JOB ORDER COSTING

LO 1: Cost Systems

Terms
Cost Accounting
Process Cost System
Job Order Cost System

<table>
<thead>
<tr>
<th>Job-Order Costing</th>
<th>Process Costing</th>
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<tbody>
<tr>
<td>Used for custom or unique items</td>
<td>Used for large volumes of similar products</td>
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<tr>
<td>Each job is accounted for separately</td>
<td>Production is continuous</td>
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<tr>
<td>Measures cost based on completed job</td>
<td>Measures costs based on a period of time</td>
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<td>Examples: Movie, Plane, Custom house</td>
<td>Examples: cereal, chips, paper towels,</td>
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</tbody>
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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
Factory Wages Payable xxx
Employer Payroll Taxes xxx
Payable

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:

\[
\text{Predetermined Overhead Rate} = \frac{\text{Estimated Annual Overhead Costs}}{\text{Estimated Annual Operating Activity}}
\]

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
Work in Process

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
   Sales Revenue
   Cost of Goods Sold
   Finished Goods

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:

a) $300,000 of raw materials were purchased on account
b) Incurred factory labor of $250,000, $25,000 was payroll taxes
c) Utility costs for the factory were $60,000. Depreciation recorded was $200,000
d) Raw materials were assigned into production: $90,000 direct materials and $4,000 indirect materials
e) Labor costs assigned: $40,000 direct, $1,000 indirect
f) 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.
g) Jobs costing $30,000 were completed and transferred into the finished goods inventory.
h) Jobs with a cost of $15,000 were sold on account for $20,000.
i) 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
   Accounts payable
   300,000

   Factory Labor
   Factory Wages payable
   250,000
   Employer Payroll Tax
   Payable
   225,000
   25,000

   Manufacturing overhead
   Utilities Payable
   260,000
   Accumulated Depreciation
   60,000
   200,000

   Work in Process Inventory
   Manufacturing Overhead
   90,000
   Raw Materials
   4,000
   94,000

   Work in Process Inventory
   Manufacturing Overhead
   40,000
   Factory Labor
   1,000
   41,000

   Work in process Inventory
   Manufacturing overhead (1)
   288,000

   Finished goods
   Work in process
   30,000
   30,000

   Accounts receivable
   Sales
   20,000
   20,000

   Cost of goods sold
   15,000
Finished goods 15,000

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

(1)

<table>
<thead>
<tr>
<th>Manufacturing Overhead</th>
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<tbody>
<tr>
<td>actual</td>
<td>applied</td>
</tr>
<tr>
<td>260,000</td>
<td>288,000</td>
</tr>
<tr>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td>1,000</td>
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23,000 overapplied