

JOB ORDER COSTING

- Product costing plays a critical role in the manufacturing environment and is also a significant factor in service industries
- A good costing should be flexible and reliable. It provides information for a variety of purposes and can be used to answer a variety of questions
- In general, the cost accounting system is used to satisfy the needs for cost accumulation, cost measurement, and cost assignment
- Cost accumulation refers to the recognition and recording of costs. The cost accountant needs to develop source documents, which keep track of costs as they occur
- A source document describes a transaction. Data from these source documents can then be recorded in a database. Well-designed source documents can supply information in a flexible manner
- Cost measurement refers to classifying costs and consists of determining the amounts of direct materials, direct labor, and overhead. Two common methods of cost measurement in production are (1) Actual costing and (2) Normal costing
- An actual costing system uses actual costs for direct materials, direct labor, and overhead to determine unit cost
- A normal costing system uses actual costs for direct materials and direct labor but measures overhead costs on a predetermined basis
- Cost assignment refers to distributing costs to units of product manufactured or units of service delivered.
- There are two Product Cost systems used to assign costs to products or services:
 - ⊗ Job-Order Costing
 - ⊗ Process Costing

13.1 Job-Order Costing

- ♣ In a Job-Order Costing System, costs are accumulated by job
- ♣ Firms operating in job-order industries produce a wide variety of products or jobs that are usually quite different from each other
- ♣ Customized or built-to-order products fit into this category, as do services that vary from customer to customer
- ♣ The key feature of job-order costing is that the cost of one job differs from another job and must be monitored separately
- ♣ Once any given job is completed, the unit cost can be computed by dividing total job costs by the number of units produced on that job
- ♣ It is important to understand that the different documents used in a job-order costing system
- ♣ The document that identifies each job and accumulates its manufacturing costs in the job-order cost sheet
- ♣ The job-order cost sheet reflects direct materials, direct labor, and overhead costs for the job

13.1.1 Materials Requisitions

- ❖ The cost of direct materials is traced to each job through the use of a materials requisition form
- ❖ When direct materials are issued to production, the materials requisition form identifies the job, the quantity and type of direct materials, and the cost of direct materials

13.1.2 Job Time Sheet

- ✘ Job time sheet or ticket are the source documents used to assign direct labor costs to jobs
- ✘ When a direct laborer works on a job, he or she fills out a time ticket indicating the time spent on the job, along with the wage rate

13.1.3 Overhead Application

- ✓ Overhead is assigned to jobs using predetermined rates or Overhead Absorption Rate (OAR)
- ✓ If the rate is based on direct labor hours, then the predetermined rate and the information from the time tickets are used to assign overhead to jobs

<i>Type of cost</i>	<i>Name of source document</i>	<i>Description of source document</i>
Direct materials	Materials requisition	Authorizes materials to be taken from the storeroom for use on a job
Direct labor	Time Sheet	A form filled out by employees that reports how much time they spent on each job
Factory overhead	Accountant's working	Factory overhead costs are not allocated to each job based on actual costs. They are allocated based on an estimate called a predetermined overhead rate

Example # 13.1: A Furniture Mart received an order to manufacture furniture for a school the order was assigned a job code FS-6. FS-6 job was priced at Rs. 400,000 and selling & admin cost allocated to the job was 10% of selling price.

Material Requisition

Date	Requisition #	Cost
March 05	978	25,000
March 15	1,060	50,000
March 25	1,100	40,000
Total		Rs. 115,000

Job Time Sheet

Date	Hours	Rate	Cost
March 05	400	50	20,000
March 15	400	50	20,000
March 25	200	50	10,000
Total	1,000	-	50,000

FOH cost is applied at Rs. 180 per direct labor hour (OAR)

Requirement: Make a Job Order Cost Sheet for FS-6

Solution:

Job Order Cost Sheet

Description	FS-6

Overhead Amount = Actual Activity Level * Overhead Absorption Rate

13.2 Job Pricing

- ✘ Since each job is different , there will be no set price for each job
- ✘ Pricing is based on Cost-Plus Pricing also known as markup pricing
- ✘ In this method first calculates the cost of the product and then adds a proportion markup

Example # 13.2: A company carries out small building work for domestic customers. A customer asked the company to quote a price for building an extension at the back of his house. The company’s estimator has come up with the following estimated costs:

Direct Material	Rs. 2,500	Direct Labor	Rs. 4,000
Direct Expenses	Rs. 500	OAR	100% of Direct Labor Cost
Office Overheads	20% of Production Cost	Profit Mark-up	25% of Total Cost

Solution:

Job Order Cost Sheet

Description	Amount

13.2 Accounting Entries for Job Order Costing

⊗ Following are accounting procedure used for job order costing

Example # 13.3: Pass journal entries for the year for Company appear below:

Jan 3, 2019. Raw materials were purchased on account for Rs. 200,000

Date		Account Title and Explanations	Ref	Amount (Rs)	
				Debit	Credit
2019					
Jan	3				

Jan 6, 2019. Raw materials that cost Rs. 160,000 were issued from the storeroom for use in production. Of this total, Rs. 136,000 was for direct materials and Rs. 24,000 for indirect materials

Date		Account Title and Explanations	Ref	Amount (Rs)	
				Debit	Credit
2019					
Jan	6				

Jan 9, 2019. The following costs were incurred for employee services: direct labor, Rs. 200,000; indirect labor, Rs. 85,000; selling and administrative wages and salaries, Rs. 90,000

Date		Account Title and Explanations	Ref	Amount (Rs)	
				Debit	Credit
2019					
Jan	9				

Jan 12, 2019. Supplies costs of Rs. 40,000 were incurred in the factory

Date		Account Title and Explanations	Ref	Amount (Rs)	
				Debit	Credit
2019					
Jan	12				

Jan 15, 2019. Prepaid insurance of Rs. 20,000 expired during the year (80% related to factory operations and 20% to selling and admin)

Date		Account Title and Explanations	Ref	Amount (Rs)	
				Debit	Credit
2019					
Jan	15				

Jan 18, 2019. Advertising costs of Rs. 10,000 were paid during the year.

Date		Account Title and Explanations	Ref	Amount (Rs)	
				Debit	Credit
2019					
Jan	18				

Jan 20, 2019. Depreciation was Rs. 145,000 for the year on factory assets and Rs. 15,000 on selling and admin assets

Date		Account Title and Explanations	Ref	Amount (Rs)	
				Debit	Credit
2019					
Jan	15				

Jan 22, 2019. Manufacturing overhead was applied to jobs. The company’s predetermined overhead rate was based on the following estimates: manufacturing overhead, Rs. 315,000; direct labor cost, Rs. 210,000. Since the total direct labor cost incurred was Rs. 200,000

Date		Account Title and Explanations	Ref	Amount (Rs)	
				Debit	Credit
2019					
Jan	22				

Jan 23, 2019. Goods that cost Rs. 650,000 to manufacture according to their job cost sheets were completed and transferred to the finished goods warehouse

Date	Account Title and Explanations	Ref	Amount (Rs)	
			Debit	Credit
2019				
Jan 22				

Jan 25, 2019. Sales (all on credit) were Rs. 900,000

Date	Account Title and Explanations	Ref	Amount (Rs)	
			Debit	Credit
2019				
Jan 25				

Jan 25, 2019. The goods that were sold had cost Rs. 600,000 to manufacture according to their job cost sheets.

Date	Account Title and Explanations	Ref	Amount (Rs)	
			Debit	Credit
2019				
Jan 25				

Example # 13.4: The following information related to XYZ Company

Direct Materials:

House #1	Rs. 90,000
House #2	100,000
House #3	<u>30,000</u>
Total Direct Materials	<u>Rs. 220,000</u>

Direct Labor:

House #1	Rs. 65,000
House #2	70,000
House #3	<u>15,000</u>
Total Direct Labor	<u>Rs. 150,000</u>

Overhead is applied at 50 percent of direct labor costs.

Requirement: (a) Prepare Job Cost Sheet for three houses

(b) Pass combine journal Entries for this business assuming that Houses #1 and #2 are completed during the period and House #1 is sold for Rs. 200,000 cash

(c) Make T account for Work in Process account, Finished Goods Account and Cost of Goods Sold Account

Solution (a):

Job Order Cost Sheet

Description	Total	House # 1	House # 2	House # 3
Total Production Cost	Rs. 445,000	Rs. 187,500	Rs. 205,000	Rs. 52,500

Solution (b):

General Journal

Date	Account Title and Explanations	Ref	Amount (Rs)	
			Debit	Credit
Total			Rs. 1,225,000	Rs. 1,225,000

