

Chapter 3 Job Order Costing

① Why aren't actual MOH costs traced to jobs just as direct materials and direct labor costs?

↳ By definition, MOH consists of costs that cannot be practically traced to jobs.

Therefore, if these costs are to be assigned to jobs they must be allocated rather than traced

② Explain the four step process used to compute a predetermined overhead rate.

1. Estimate total amount of the allocation base

2. Estimate total fixed MOH cost and variable MOH cost per unit

3. Use cost formula: $Y = a + bx$ to estimate total MOH cost

4. $POHR = \frac{\text{Estimated MOH}}{\text{Estimated Units of Activity}}$

③ What is the purpose of the job cost sheet?

↳ Used to record all costs that are assigned to a particular job. It is used to compute the unit product cost.

④ Explain how a sales order, a production order, a materials requisition form, and a labor time ticket are involved in producing and costing products.

Sales Order: Issued after an agreement has been reached with a customer on quantities, prices, and shipment dates.

(Basis for the production order)

Production Order: Specifies what is to be produced (Basis for the job cost sheet)

Job Cost Sheet: Used to summarize the various production costs incurred to complete the job

↳ These costs are entered from materials requisition forms, direct labor time tickets, and by applying overhead.

⑤ Why must some production costs be assigned to products through an allocation process?

↳ Some costs, such as a ~~company~~ factory manager's salary, cannot be traced to a particular 'job', but rather are incurred as a result of overall production activities.

⑥ Why do companies use predetermined overhead rates rather than actual MOH costs to apply overhead to jobs?

↳ If actual MOH cost is applied, the company must wait until the end of the accounting period to apply overhead and to cost jobs.

⑦ What factors should be considered in selecting a base for the POHR?

↳ should drive the overhead cost

Chapter 4 Process Costing:

① Under what conditions would it be appropriate to use a process costing system?
↳ When a homogeneous product is produced on a continuous scale

② In what ways are job-order and process costing similar?

1. Same basic purpose: to assign materials, labor, and overhead cost to products and to provide a mechanism for computing unit costs

2. Same basic manufacturing accounts

3. Cost flow through the accounts in basically the same way

③ Why is cost accumulation simpler in a process costing system than it is in a job-order costing system?

↳ BIC costs only need to be assigned to departments - not individual jobs.

• Often a small number of departments rather than 100s or 1000s of jobs

④ How many WIP accounts are maintained in a company that uses process costing

↳ A WIP account is maintained for each processing department

⑤ Assume that a company has two processing departments - Mixing then Firing.

Prepare a journal entry to show a transfer of WIP.

↓

Work in Process (Firing)

XXX

Work in Process (Mixing)

XXX

⑥ Explain what costs may be added to the Firing Department's WIP account during a period.

(1) costs transferred in from the mixing department

(2) materials costs added

(3) labor costs added

(4) overhead costs added

⑦ What is meant by the term 'equivalent units of production' when the weighted average method is used?

↳ Consists of units transferred to the next department (or to finished goods)

+ The equivalent units in the department's ending WIP inventory.