Chapter 2

Job Order Costing

Directed Reading Guide

LO1. How do manufacturing companies use job order and process costing systems?

a) Name two reasons why it is important to know unit costs?

i) **Set sales prices that will lead to profits.**

ii) **Compute cost of goods sold for the income statement (students may have other answers).**

b) In job order costing, costs are accumulated by **__job__.**

c) In process costing, costs are accumulated by **__processes___.**

d) A **__job___** is the production of a single unique product or specialized service, or a batch or unique products.

In MyLab Accounting, complete Try It! and S-M:2-1.

LO2. How do materials and labor costs flow through the job order costing system?

a) A job cost record is a document that shows the **___direct materials___, ___direct labor___,** and **___manufacturing overhead___** costs for an individual job.

b) The cost of direct materials is transferred out of Raw Materials and assigned to **____Work-in-Process___** Inventory.

c) The cost of direct labor is transferred and assigned to **____Work-in-Process___** Inventory.

d) Indirect labor and indirect materials costs are accumulated in **___Manufacturing Overhead___.**

In MyLab Accounting, complete Try It! and S-M:2-2 through S-M:2-4.

LO3. How do overhead costs flow through the job order costing system?

a) When journalizing for actual overhead costs, the debit entry is to ___**Manufacturing Overhead**___.

b) What are three examples of cost drivers:

i) **Direct labor hours**

ii) **Direct labor costs**

iii) **Machine hours**

c) If total estimated overhead costs are $100,000 and estimated machine hours are 200,000 hours, what is the predetermined overhead allocation rate?

$100,000 / 200,000 hours = .50 per machine hour

d) If the predetermined overhead allocation rate is $2.00 per machine hour and the actual machine usage for job 21 is 30 machine hours, what is the allocated manufacturing overhead cost for job 21?

$2.00 * 30 machine hours = $60

In MyLab Accounting, complete Try It! and S-M:2-5 through S-M:2-7.

LO4. What happens when products are completed and sold?

a) To transfer finished units to finished goods, the journal entry is to debit ___**Finished Goods Inventory**___ and credit ___**Work-in-Process Inventory**___.

b) Journalize for the sale on account of $1,000, the cost of goods sold was $700.

Date	Accounts and Explanation	Debit	Credit
	Accounts Receivable	**1,000**	
	Sales Revenue		**1,000**
	Cost of Goods Sold	**700**	
	Finished Goods		**700**

In MyLab Accounting, complete Try It! and S-M:2-8.

LO5. How is the manufacturing overhead account adjusted?

a) Actual manufacturing overhead is $1,200 and allocated manufacturing overhead is $1,000. Journalize the adjustment required to close out the manufacturing overhead account.

Date	Accounts and Explanation	Debit	Credit
	Cost of Goods Sold	**200**	
	Manufacturing Overhead		**200**

In MyLab Accounting, complete Try It! and S-M:2-9 through S-M:2-12.

LO6. How are cost of goods manufactured and cost of goods sold calculated?

ABC Company has the following information:

Beginning Work-in-Process Inventory	$12,000
Ending Work-in-Process Inventory	$18,000
Direct materials used	$125,000
Direct labor incurred	$86,000
Manufacturing overhead allocated	$50,000

What is the cost of goods manufactured?

$12,000 + $125,000 +$86,000 + $50,000 - $18,000 = $255,000

In MyLab Accounting, complete Try It! and S-M:2-13 and S-M:2-14.

LO7. How do service companies use a job order costing system?

a) If ABC Company pays John Jones $50,000 per year, what is the hourly cost to employing Mr. Jones assuming a normal 40-hour work week for 50 weeks per year?

$50,000 / (40 hours x 50 weeks) = $25 per hour

b) Based on your answer in part a), what direct labor cost would be assigned to job 37 if Mr. Jones works 10 hours on this job.

$25 x 10 hours = $250

In MyLab Accounting, complete Try It! and S-M:2-15 and S-M:2-16.