

**Chapter 2**  
**Job Order Costing**  
**Directed Reading Guide**

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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?  
  

$$\mathbf{\$100,000 / 200,000 \text{ hours} = .50 \text{ per machine hour}}$$
- 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?  
  

$$\mathbf{\$2.00 * 30 \text{ machine hours} = \$60}$$

**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.

| <b>Date</b> | <b>Accounts and Explanation</b> | <b>Debit</b> | <b>Credit</b> |
|-------------|---------------------------------|--------------|---------------|
|             | <b>Accounts Receivable</b>      | <b>1,000</b> |               |
|             | <b>Sales Revenue</b>            |              | <b>1,000</b>  |
|             | <b>Cost of Goods Sold</b>       | <b>700</b>   |               |
|             | <b>Finished Goods</b>           |              | <b>700</b>    |

**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?

$$\mathbf{\$12,000 + \$125,000 + \$86,000 + \$50,000 - \$18,000 = \$255,000}$$

**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?

$$\mathbf{\$50,000 / (40 \text{ hours} \times 50 \text{ weeks}) = \$25 \text{ per hour}}$$

- 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.

$$\mathbf{\$25 \times 10 \text{ hours} = \$250}$$

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