

ACCT 102 – Fundamentals of Accounting II
Chapters 14 & 15 - Managerial Accounting Concepts and Job Order Costing

Comparison of Financial & Managerial Accounting

Financial Accounting

- Designed for External Users – those outside the company
- Reporting of historical data – those transactions that have already happened
- Objective and governed by GAAP
- Very strict and rigid rules and requirements
- Prepared periodically as specified

Managerial Accounting

- Designed for Internal Users – those inside the company
- Uses much more subjective data –more focused on the future than on the past
- Prepared according to what management needs
- Much more flexible
- Prepared as needed

The Management Process

Managerial Accounting comes into play throughout the Management Process

- Planning
- Directing
- Controlling
- Improving

I. Costs

A cost is a payment of cash or the commitment to pay cash in the future for the purpose of generating revenues. All expenses are costs, but not all costs are expenses

- A. Expense - The benefit is received immediately.
- B. Asset - The benefit has some value in the future

II. Types of Classification

- A. Behavior – Fixed vs. Variable
 - 1. Fixed –
 - 2. Variable –

B. Traceability – Direct vs. Indirect

1. Direct –

2. Indirect -

C. Controllability – Controllable vs. non-controllable

1. Controllable –

2. Non – Controllable –

D. Relevance – Sunk vs. Out-of-Pocket

1. Sunk –

2. Out-of-Pocket

E. Function – product vs. period

1. Product –

- a. Any cost that is involved in the manufacturing process of the goods
- b. Product costs flow through balance sheet accounts until the product is sold

2. Period –

- a. Costs not related to the manufacturing process
- b. Selling and Administrative Expenses
- c. No future value
- d. An expense of the period

III. Manufacturing Product Costs

A. All Manufacturing Costs can be divided into one of three product cost categories:

1. Direct Materials –

- a. Raw materials that can be directly traced to the products
- b. They make up a significant portion of the cost
- c. Costs of Materials goes into a Direct Materials Account (debit)
- d. DM costs go out to WIP
- e. Indirect materials get charged to FOH

2. Direct Labor –

- a. DL is a product cost
- b. Includes the wages of those "touch laborers"
- c. DL costs get directly charged into WIP
- d. Indirect Labor – Labor costs involved in the manufacturing process that are NOT directly traced to the products
- e. Indirect Labor – charged to FOH

3. Factory Overhead -

- a. FOH is a product cost
- b. Includes all manufacturing costs except DM and DL
- c. Sometimes called "factory burden"
- d. FOH costs, by definition, are indirect costs
- e. Accounts go into a FOH acct – and then are allocated out to WIP using a pre-determined rate, or some other allocation method

IV. Cost Accounting Systems

A. Objectives

1. To accumulate product costs
2. To assist management in establishing product prices
3. To assist in controlling operations
4. To assist in preparing financial statements

B. Two Common Cost Acct Systems

1. Job Order Costing

- a. Separate record for each job
- b. Best suited for Custom manufacturing
- c. Costs accumulate by job

2. Process Costing

- a. Costs are accumulated by department or process
- b. Best suited for manufacturing of homogeneous goods
- c. Used for continuous processing

V. Cost Accumulation

A. Flow of Costs - Direct Materials

1. Direct material costs are directly charged to the jobs through the WIP account
2. Source of costs are the invoices for the purchase of the materials

B. Flow of Costs – Direct Labor

1. Direct labor costs are directly charged to the jobs through the WIP account
2. Source of costs are the time cards and payroll records
3. Indirect labor costs (non touch labor product costs) go through FOH

C. Flow of Costs - Factory Overhead (FOH)

1. FOH Allocations

- a. Must use a reasonable method of allocation
- b. Easiest method: Single pre-determined FOH rate
- c. $FOH\ Rate = FOH\ Costs / Basis = rate\ per\ hour$
- d. Charge out to jobs based on number of hours used (DL or Machine Hrs)
- e. Other methods – multiple rates and ABC methods (another chapter)

2. FOH Account

- a. The FOH account is a dummy account
- b. Only used to temporarily hold FOH Costs
- c. After allocations are made, the account will have a balance
- d. Debit balance = Underapplied
- e. Credit balance = Overapplied
- f. If immaterial, close to COGS

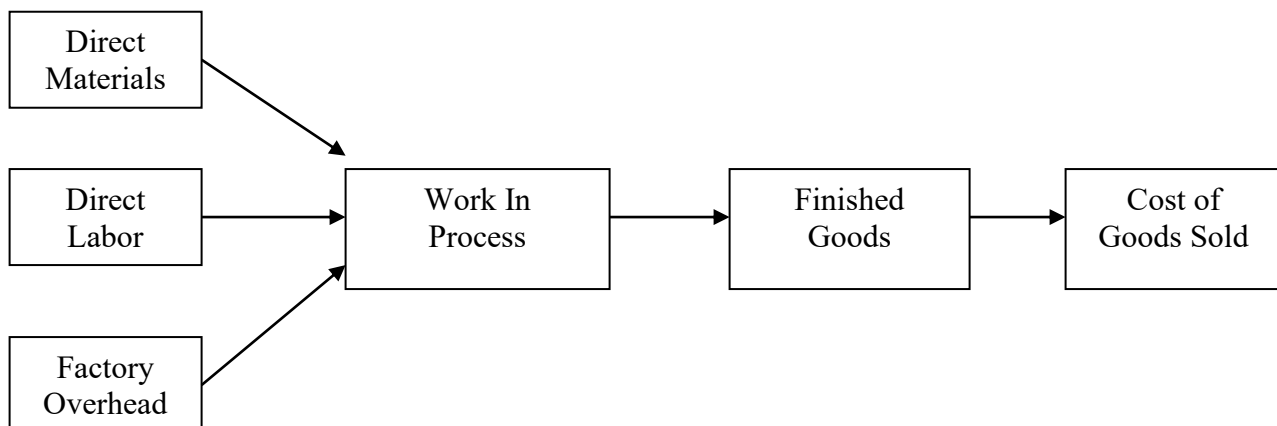
3. WIP - Work in Process Account

- a. One of the largest inventory accts on books of a manufacturer
- b. Costs come in from 3 sources: DM, DL and FOH
- c. Holds the cost of the goods (or jobs) as they are constructed
- d. Costs get transferred to Finished Goods when the goods are completed (Job Order – when job is complete)

4. Finished Goods

- a. A balance sheet account
- b. Holds the costs of the goods from the time they are completed until the time they are sold
- c. Another name for stock on hand
- d. Several types of costing methods are used to transfer costs out: ie FIFO, LIFO

Flow of Product Costs



VI. Financial Statements

Income Statement

Net Sales
-Cost of Goods Sold
=Gross Profit
-Operating Expenses
=Income From Operations
-Other Income/Expense
=Net Income

Calculation of COGS

Beginning Finished Goods
Add: Cost of Goods Manufactured *
=Cost of Goods Available for Sale
Less: Ending Finished Goods
=Cost of Goods Sold

Calculation of Cost of Goods Manufactured

This is basically a summary of the WIP account

Beginning WIP
Add: DM Used
DL Used
FOH Applied
=Total Manufacturing Costs
Less: Ending WIP
=Cost of Goods Manufactured

Calculation of Raw Materials Used in Production:

This is basically a summary of the Raw Materials account

Beginning Raw Materials
Add: Raw Materials Purchased
=Total Raw Materials Available for Use
Less: Ending Raw Materials
=Cost of Raw Materials Used

ACCT 102 – Job Order Costing

Annette Chorde owns Nets Plus, Inc., a manufacturer of tennis court nets. She supplies nets for tennis courts to tennis clubs and parks across the country.

She just received an order from Los Angeles County for 2,000 nets for its city park courts.

Direct Materials

The 2,000 nets take 8,300 yards of netting material at a cost of \$2.60 per yard; 1,400 yards of netting tape at \$1.45 per yard; and 800 yards of net cord at a cost of \$5.16 per yard.

Direct Labor

The nets take 290 direct labor hours to cut, sew and assemble. The workers are paid \$20 per hour.

Factory Overhead

Factory overhead is applied to jobs at a rate of \$25 per direct labor hour.

What is the total cost to manufacture the 2,000 nets?

Annette is considering changing the method of allocating FOH from direct labor hours to machine hours. She estimated that her total FOH for the year will be \$112,500 and that she will have a total of 4,500 direct labor hours and 8,000 total machine hours.

What is the FOH allocation rate under each of the two methods?

What would be the total cost of the job for LA County's 2,000 nets if she allocates FOH based on the 520 machine hours used to complete the 2,000 nets?

Perez Company

JOB COST RECORD				
Job #: 114		Date Promised: September 29, 2019		
Customer Name: Crystal Corporation		Date Started: August 5, 2019		
Date	Direct Materials	Direct Labor	Factory Overhead	JOB TOTAL
Totals				

JOB COST RECORD				
Job #: 115		Date Promised: September 20, 2019		
Customer Name: Bryant Industries		Date Started: August 18, 2019		
Date	Direct Materials	Direct Labor	Factory Overhead	JOB TOTAL
Totals				

JOB COST RECORD				
Job #: 116		Date Promised: October 15, 2019		
Customer Name: Wilson, Inc.		Date Started: September 4, 2019		
Date	Direct Materials	Direct Labor	Factory Overhead	JOB TOTAL
Totals				

P15-2B

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Balance Sheet

Income Statement

Raw Materials

WIP

Finished Goods

COGS

FOH

Sales