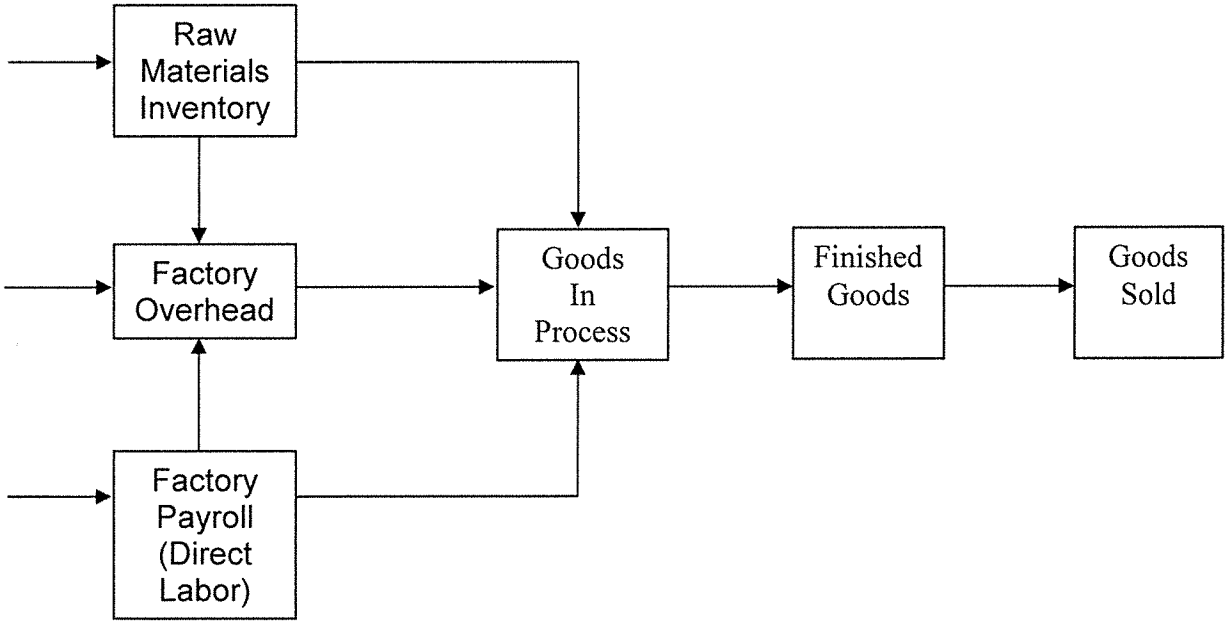
ACCT 102 - Fundamentals Of Accounting II

Ch 16 - Process Costing

Process Costing Systems

To determine the cost of goods transferred from Work in Process (WIP) to Finished Goods (FG) and from Finished Goods to Cost of Goods Sold (COGS). To do so must compute the *cost per unit* of product then apply the cost per unit to the number of units transferred.

- Equivalent Units of Production (EUP) – the number of units that could have been started and completed given the costs incurred. The total cost incurred during the period is for units started and completed this period, units started last period and completed this period, and units started this period and to be completed next period.



Use the information on page 720 for the following example:

Step 1 – Determine the Physical Flow of Units

Calculated in Units only – No $$

Beginning WIP		Units completed and transferred out
+ Units started this period	OR	+Ending WIP
= Total units to account for		=Total units to account for

Step 2 – Calculate Equivalent Units of Production

	DM	DL/FOH
EUP completed and transferred out		
EUP for Ending WIP		
DM		
DL/FOH		
Equivalent units of production		

Note: The weighted-average method of calculating equivalent units of production does not separate the units of beginning inventory from those that were started in the current period; also, it combines the cost of beginning WIP with the costs incurred in the current period.

Step 3 – Compute Cost per Equivalent Unit

	DM	DL/FOH
Cost of Beginning WIP		
Costs incurred this period		
=Total Costs		
÷EUP (from step 2)		
=Cost per Equivalent units of production		

Step 4 – Assign and Reconcile Costs

Cost of units Completed and transferred out		
DM	$	
DL/FOH	$	
=Cost of units completed this period		$
Cost of Ending Work in Process		
DM	$	
DL/FOH	$	
=Cost of units in ending WIP		$
Total Costs Accounted For		**$**

Reconciliation:

Beginning WIP $

Costs added this period

ACCT 102 – Process 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.

Her manufacturing process goes through 2 departments – Cutting & Sewing. All materials are added at the beginning of the process. FOH is applied at 125% of Direct Labor cost. Her costs for September are: Direct Materials cost, $32,500; Direct Labor cost, $8,000; FOH $10,000. The costs of Beginning WIP – Cutting Department on September 1 were $14,500 (Direct Materials $10,000, Direct Labor $2,000, FOH $2,500).

Step 1 – Determine the Physical Flow of Units

There were 400 nets in process on September 1 (60% complete). Another 1,300 were started in September. All 400 in process on September 1 were completed in September; 800 nets were started and completed in September; 500 nets remained in process at the end of September (20% complete).

Beginning WIP

+ Units started this period

= Total units to account for

OR

Units completed and transferred out

+Ending WIP

=Total units to account for

Step 2 – Calculate Equivalent Units of Production

	DM	DL/FOH
EUP completed and transferred out		
EUP for Ending WIP		
DM		
DL/FOH		
Equivalent units of production		

Step 3 – Compute Cost per Equivalent Unit

	DM	DL/FOH
Cost of Beginning WIP		
Costs incurred this period		
=Total Costs		
÷EUP (from step 2)		
=Cost per Equivalent units of production		

Step 4 – Assign and Reconcile Costs

Use the EUP from Step 2 and the Cost per Equivalent Unit from Step 3

Assign Costs to: 1. Units that production completed and transferred to FG
2. Units that remain in process (Ending WIP)

Cost of units Completed and transferred out

DM

DL/FOH

=Cost of units completed this period

Cost of Ending Work in Process

DM

DL/FOH

=Cost of units in ending work in process

Total Costs Accounted For

Reconciliation

Cost of Beginning WIP

DM

DL/FOH

Costs incurred this period

DM

DL/FOH

Total Costs Accounted For