Unit II -Job-Costing

Job Costing

- Job-order costing allocates costs to products that are identified by individual units or batches.

Job Costing

- It is used by a manufacturer who produces products as individual units or in distinct batches or jobs.

Objectives of Job Costing

- To ascertain the cost of each individual job or order
- To determine profit or loss of each job
- To help in estimation of cost of an order or job so as to quote a price to the prospective
- To serve as a tool of cost control by comparing the actual cost with the estimated cost
- To help the management in valuation of work in progress

Job Costing Procedure

- Estimation of Cost:
- After receiving an enquiry from customer about the price, quality, time to be taken to complete the job etc,
- The cost accounting department with the help of production planning department prepares cost estimates for completing the job

Job Costing Procedure

Analysis of Customer's Order:

- ❑ If the customer is satisfied with the price quoted and quality etc;
- ❑ He places an order with the firm
- ❑ As under job costing, each job has its own characteristics

Job Costing Procedure

Production Order:

- ❑ When a job is accepted, the planning department prepares a production order (also called a work order or Job order)
- ❑ The production order contains all details of the work to be performed and it provides an authority to start the work

Job Costing Procedure

Specimen format- Production Order

Production Order No……. Date of order……

Description……. Quantity Ordered……..

Customer's Reference No…… Date of Commencement

Bill of Material No…… Date of Finishing……..

Machine/ Tools No……..

Clock Time	Operation No	Department No	Quantity Produced	Quantity Rejected	Remarks

Job Costing Example

- Supreme Co. is a small furniture manufacturing business in Texas.
- They received an order for 10 chairs from a customer in Kansas City.

Job Costing Example

- Total cost for the job was $500.
- How much was the cost per chair?

$500 ÷ 10 = $50/chair

JOB COSTING

- Job *cost record* is a document used to accumulate the costs of a job.

JOB COST RECORD

Illustration –Specimen of Job Costing

Job Number: J9738 Date Promised: 9/11/10

Customer: Volvo Motors Date Started: 8/03/10

Job Description: 300 automobile engine valves

Engineering Design Number: JJJ-100

JOB COST RECORD

Question 1:

On the basis of information given below calculate the total direct material cost

I- Quantity 720 units @ SR 11.50 per units for job number 47624.

II- Quantity 290 units @ SR 38.00 per units for job number A35161.

JOB COST RECORD

Solution 1:

Material Requisition

Number	Description	Quantity	Rate	Amount
47624	Bar steel stock 3”	720 units	SR11.50	SR 8,280
A35161	Subassemblies	290 units	SR38.00	11,020
TOTAL DIRECT MATERIALS COST:				SR19,300

JOB COST RECORD

Question 2:

On the basis of information given below calculate the total direct Labour cost

I- Hours 24@ SR 28 per units for job number M16.

II- Hours 64@ SR 26 per units for job number M18,19,20.

III-Hours 120@SR18 per units for job number A25,26,27

IV- Hours 61@ SR17 per units for job number A32,34,35

JOB COST RECORD
Solution-2

Dates	Number	Hours	Rate	Amount
8/2,3,4,5	M16	24	@ 28	SR 672
8/2,3,4,5	M18, M19, M20	64	@ 26	1,664
8/6,7,8,9,10	A25, A26, A27	120	@ 18	2,160
8/6,7,8,9,10	A32, A34, A35	61	@ 17	1,037
TOTAL DIRECT LABOR COST :		269		SR5,533

JOB COST RECORD

Question 3:

- On the basis of information given below calculate the Total overhead cost:
- 118 machine hours @ $40 per hour

269 direct labor hours @ 36 per hour

JOB COST RECORD

Manufacturing Overhead	Amount
118 machine hours @ $40 per hour	$ 4,720
269 direct labor hours @ 36 per hour	9,684
Total overhead/ Expenses cost:	$14,404

JOB COST RECORD

Question 4:

On the basis of information given below calculate the Total cost & Unit price: (Unit Completed- 12)

Direct material:

6,Bars - Quantity 24 units @ SR 5per units Job No- N41

Casings- Quantity 12units @ SR 28.33 per units Job No K56

Direct Labour:

Hours 7@ SR 15 per units for job number -7Z4

Hours 5.5@ SR 15 per units for job number -7A5

Hours 4@SR20 per units for job number – 9Z2

Overhead:

9 machine hours @ SR 20 per hour

JOB-COST RECORD

Date Started: 1/7/20X7 Job Number: 963
Date Completed: 1/14/20X7 Units completed: 12

Cost	Date	Ref.	Quantity	Amount	Summary
Direct Materials:					
6” Bars	1/7	N41	24	120.00	
Casings	1/9	K56	12	340.00	460.00
Direct Labor:					
Drill	1/8	7Z4	7.0	105.00	
	1/9	7Z5	5.5	82.50	
Grind	1/13	9Z2	4.0	80.00	267.50
Overhead:					
Applied	1/14		9.0 mach. hrs.	180.00	180.00
Total cost					907.50
Unit cost					75.625

JOB COST RECORD

Question-5:

The information given below has taken from the cost records of an engineering works in respect of job No-202:

Material SR 6040

Wages:

Department I: 80 hours@ SR 4 Per Hours

Department II: 60 hours@ SR 3 Per Hours

Department III: 40 hours@ SR 2 Per Hours

The Overheads expenses are as follows:

JOB COST RECORD

Variable Overheads:

Department I: SR 8000 for 4000 Hours

Department II: SR 4000 for 2000 Hours

Department III: SR 3000 for 1000 Hours

Fixed expenses are estimated at SR 30000 for 12000 working hours

Working Notes:

1- Calculation of variable overhead rate per labour hour

Department I: SR 8000/ 4000 Hours = SR 2 per Hour

JOB COST RECORD

Department II: SR 4000/ 2000 Hours = SR 2 per Hour

Department III: SR 3000/ 1000 Hours = SR 3 per Hour

2.Calculation of fixed overhead rate per hour:

SR 30000/ 12000 Hours = SR 2.50 Per Hour

JOB COST RECORD

Cost Sheet of Job Number 202

Material		6040
Wages:		
Department I (80 hours@ SR 4)	320	
Department II (60 hours@ SR 3)	180	
Department I (40 hours@ SR 2)	80	
Overheads		580
Variable Overheads:		
Department I (80 hours @ SR 2)	160	
Department II (60 hours @ SR 2)	120	
Department III (40 hours @ SR 3)	120	
		400
Fixed Overheads:		
(180 Hours @ SR 2.50)		450
Total Cost		7470

JOB-ORDER COSTING BASIC RECORDS

- Job-cost records contain all costs for a particular product, service, or batch of products
- Materials requisitions are records of materials used in particular jobs.
- Labor time cards record the time a particular direct laborer spends on each job.

ACCOUNTING FOR ELEMENTS OF COST

- The main objective of job costing is to ascertain the cost of each job correctly
- The various elements of cost, i.e. material, labour, direct expenses and overheads have to be collected and charged to be each job.
- The procedure of collecting and accounting for various elements of cost is summarized as

ACCOUNTING FOR ELEMENTS OF COST

- Materials: When the materials are needed for a job, the authorized person requisitions the material from stores through a materials requisition slip;
- The following accounting journal entry will be made:

work in progress A/c .....Dr

To stores ledger control A/c

ACCOUNTING FOR ELEMENTS OF COST

- Labour: The cost of labor incurred on a particular job is collected through time tickets, operation schedule, job card or wages analysis sheet.
- The analysis of time cards provides basic information to calculate the amount of labour cost on particular job:

work in progress A/C……Dr

To Wages control A/C

ACCOUNTING FOR ELEMENTS OF COST

- Direct Expenses: The expenses incurred specifically for a particular job are collected through direct expenses vouchers and are posted in the job cost sheet in the same way as direct material and labour. The following journal entry is made;

Work in progress A/C……..Dr

To general ledger Adjustment A/C

ACCOUNTING FOR ELEMENTS OF COST

- Overheads: Overheads are charged to various job either at the actual overhead rate calculated at the end of particular period on the basis of costs actually incurred or
- At a predetermined overhead rate calculated on the basis of budgeted overheads divided by budgeted activity.

ACTUAL COSTING V/S NORMAL COSTING

Actual Costing: Actual costing is a system that uses actual costs to determine the cost of individual jobs.

- Actual costing uses *actual* indirect cost rates
- It allocates indirect costs based on the actual indirect- cost rates times the actual quantities of the cost allocations basis.
- In its job costing system, Waleed accumulates costs incurred on a job in different parts of the value chain

ACTUAL COSTING V/S NORMAL COSTING

- Example: Manufacturing, Marketing and customer service.
- Waleed's manufacturing function(Which also includes product installation) . To make machine, Waleed purchases some components from outside suppliers and make other itself.

NORMAL COSTING

Normal Costing:

Normal costing is a method that allocates indirect costs based on the budgeted indirect-cost rate(s) times the actual quantity of the cost allocation base(s)

- Normal costing uses *budgeted* indirect- cost rates

HOME ASSIGNMENT-2

Q1.What is Job Costing? Explain its procedure.

Q2. Difference between Actual Vs. Normal Costing