

## ACCT5002 Summary of Final Exam

### WEEK 3

### BROAD AVERAGE COSTING USING JOB ORDER COSTING

#### (Chapter 4 Job Costing)

4-1 Define cost pool, cost tracing, cost allocation, and cost-allocation base.

- **Cost pool**—a grouping of **individual cost items**.

Cost items are often grouped. By convention we tend to reserve "**cost pool**" for **indirect costs**. **Direct costs** also can be grouped and we might call them **cost categories**. The common direct cost categories are direct materials and direct labour.

- **Cost tracing**—the assigning of **direct costs** to the chosen **cost object**.
- **Cost allocation**—the assigning of **indirect costs** to the chosen **cost object**.
- **Cost-allocation base**—a factor that links in a **systematic way** an indirect cost or group of **indirect costs** to a **cost object**.

4-3 Why might an advertising agency use job costing for an advertising campaign by Pepsi, whereas a bank might use process costing to determine the cost of checking account deposits?

An **advertising campaign** for Pepsi is likely to be very **specific to that individual client**. **Job costing** enables all the **specific aspects of each job to be identified**.

In contrast, the **processing** of checking account withdrawals **is similar for many customers**. Here, **process costing** can be used to compute the cost of each checking account withdrawal.

4-5 Give examples of two cost objects in companies using job costing?

Two major cost objects that managers focus on in **companies** using job costing are

- (1) **products or jobs**, and (2) **responsibility centers or departments**.

Major cost objects that managers focus on in companies using job costing are **a product** such as a **specialized machine**, **a service** such as **a repair job**, **a project** such as **running the Expo**, or **a task** such as an **advertising campaign**.

4-7 What is the advantage of using computerized source documents to prepare job-cost records?

The **main concern** with the source documents of job cost records is the **accuracy** of the records. Problems occurring in this area include **incorrect recording of quantity or dollar amounts**, materials recorded on one job **being "borrowed" and used on other jobs**, and erroneous job numbers being assigned to materials or labor inputs.

The main advantages of using computerized source documents for job cost records are the **accuracy** of the records and the ability to provide managers with **instantaneous feedback** to help **control job costs**.

4-9 Distinguish between actual costing and normal costing.

**Actual costing** and **normal costing** differ in their use of **actual or budgeted indirect cost rates**:

	<b>Actual Costing</b>	<b>Normal Costing</b>
Direct-cost rates	Actual rates	Actual rates
Indirect-cost rates	Actual rates	Budgeted rates

Each costing method uses the **actual quantity of the direct-cost input** and the **actual quantity of the cost-allocation base**.

4-13 Describe three alternative ways to dispose of under-or overallocated overhead costs.

Alternative ways to make **end-of-period adjustments** to dispose of **underallocated or overallocated overhead** are as follows:

- (i) **Proration** based on the **total amount of indirect costs** allocated (before proration) in the ending balances of work in process, finished goods, and cost of goods sold.
- (ii) **Proration** based on **total ending balances** (before proration) in work in process, finished goods, and cost of goods sold.
- (iii) **Year-end write-off** to Cost of Goods Sold.
- (iv) The adjusted allocation rate approach that **restates all overhead entries using actual indirect cost rates** rather than budgeted indirect cost rates.

#### 4-17 Actual costing, normal costing, accounting for manufacturing overhead.

Destin Products uses a job-costing system with two direct-cost categories (direct materials and direct manufacturing labor) and one manufacturing overhead cost pool. Destin allocates manufacturing overhead costs using direct manufacturing labor costs. Destin provides the following information:

	<b>Budget for 2011</b>	<b>Actual Results for 2011</b>
Direct material costs	\$2,000,000	\$1,900,000
Direct manufacturing labor costs	1,500,000	1,450,000
Manufacturing overhead costs	2,700,000	2,755,000

1. Compute the actual and budgeted manufacturing overhead rates for 2011.
2. During March, the job-cost record for Job 626 contained the following information:

Direct materials used	\$40,000
Direct manufacturing labor costs	\$30,000

Compute the cost of Job 626 using (a) actual costing and (b) normal costing.

3. At the end of 2011, compute the under- or overallocated manufacturing overhead under normal costing. Why is there no under- or overallocated overhead under actual costing?

$$\begin{aligned}
 1. \quad \text{Budgeted manufacturing overhead rate} &= \frac{\text{Budgeted manufacturing overhead costs}}{\text{Budgeted direct manufacturing labor costs}} \\
 &= \frac{\$2,700,000}{\$1,500,000} = 1.80 \text{ or } 180\% \\
 \\ 
 \text{Actual manufacturing overhead rate} &= \frac{\text{Actual manufacturing overhead costs}}{\text{Actual direct manufacturing labor costs}} \\
 &= \frac{\$2,755,000}{\$1,450,000} = 1.9 \text{ or } 190\%
 \end{aligned}$$

2. Costs of Job 626 under actual and normal costing follow:

	<b>Actual Costing</b>	<b>Normal Costing</b>
Direct materials	\$ 40,000	\$ 40,000
Direct manufacturing labor costs	30,000	30,000
Manufacturing overhead costs		
\$30,000 × 1.90; \$30,000 × 1.80	<u>57,000</u>	<u>54,000</u>
Total manufacturing costs of Job 626	<u>\$127,000</u>	<u>\$124,000</u>

$$\begin{aligned}
 3. \quad \text{Total manufacturing overhead allocated under normal costing} &= \text{Actual manufacturing labor costs} \times \text{Budgeted overhead rate} \\
 &= \$1,450,000 \times 1.80 \\
 &= \$2,610,000 \\
 \\ 
 \text{Underallocated manufacturing overhead} &= \text{Actual manufacturing overhead costs} - \text{Manufacturing overhead allocated} \\
 &= \$2,755,000 - \$2,610,000 = \$145,000
 \end{aligned}$$

There is no under- or overallocated overhead under actual costing because overhead is allocated under actual costing by multiplying actual manufacturing labor costs and the actual manufacturing overhead rate. This, of course equals the actual manufacturing overhead costs. All actual overhead costs are allocated to products. Hence, there is no under- or overallocated overhead.