**Week 5 Folders – Job Costing, Process Costing, and Operations Costing**

Weekly Schedule

1) Read Lecture

2) DB 5 Wed **Due: Wed**

3) Collaborate online session

4) Assign #8 **Due: Thur**

5) DB 5 Sat **Due: Sat**

6) Assign #9 **Due: Sun**

**Lecture / Reading**

Read pages 56-66

Over the next two weeks we will be discussing three specific costing systems: Job Order Costing, Process Costing, and Operations Costing. The key to all three methods is to think of the type of products produced and the way they are produced.

Job order costing compile cost by a specific job because each job in unique or different. It’s important to catch the actual cost in order to measure profitability of the job. If you are making custom jewelry you would need to compile the DM, DL, and overhead for jobs because the cost of diamonds and other jewels vary widely. Companies in construction also use job order costing. The key is the customer orders and initiates the process.

Now think of an assembly line product: Krispy Kreme doughnuts. The work of making donuts nevers ends, the product is uniform / homogeneous, and there are specific departments or areas of production. In this case you would compile DM, DL, and overhead by specific departments rather than by a job. The key is production is continuous.

The final system is Hybrid combination of Job Order and Process Costing: Operations costing. The factory make many items but make large orders of specific products that are identical. The direct material is compiled by batch (Job Order) and the labor and overhead are compiled by department (Process Costing.)

Regardless of the costing method used manufacturing overhead must be applied. The overhead is applied based on an estimate of the total overhead cost, an estimate of a cost driver, and an estimate of production. If the company waits for the actual amount of overhead it will be too late to make decisions and the overhead would vary too much from job to job. In order to estimate Manufacturing Overhead we need to find an allocation base or a cost driver. What is the main cost that drives the amount of overhead? We can use Direct Labor Hours, Direct Labor Dollars, Machine Hours, or another relevant allocation base.

**Predetermined Overhead Rate** = Estimated Manufacturing Overhead

Estimate Units of the Cost Driver

This week we will focus on Job Order Costing but remember many of the lessons will transfer over to the discussion on process costing. As I mentioned before Job Costing requires that Direct cost are allocated to the job. These cost are recorded directly to Work In Process (WIP). All the ACTUAL manufacturing cost are posted to a Manufacturing overhead account and the estimated manufacturing overhead is posted to WIP.

**Overhead applied per job** = Overhead Rate x Actual Activity

There will always be a difference between actual overhead and applied overhead. This amount is referred to as underapplied or overapplied overhead.

As you work through the homework keep in mind the journal entries are the same as we learned in Week Two. Job order costing just requires a few tweaks! If you would like another example of the entries please go to this website and scroll down to the Zen Apparael Example:

<http://denniscaplan.fatcow.com/Chapter08.htm>

Other sources of information

Susan Crosson - Job Order Costing - 1 Job & Process Costing<http://www.youtube.com/watch?v=9UUydo7aMxU>

Susan Crosson - Job Order Costing - 2 Flows by T a/c

<http://www.youtube.com/watch?v=A60YOYlRDBo>

(Be careful she assumed you understand the basic journal entries.)

Susan Crosson - Job Order Costing - 3 Job Order Cost Card

<http://www.youtube.com/watch?v=LEKqrFM31jU>

**Actual practice problem - journal entries / T-accounts:**

Susan Crosson - Job Order Costing - 4 P6 Sept 1-4

<http://www.youtube.com/watch?v=PsW-c6G6WDw>

Susan Crosson - Job Order Costing - 5 P6 Sept 8-10

<http://www.youtube.com/watch?v=IsDDErrLE_A>

Susan Crosson - Job Order Costing - 6 P6 Sept 15

<http://www.youtube.com/watch?v=IFbfaHBSe70>

Susan Crosson - Job Order Costing - 7 P6 Sept 22-27

<http://www.youtube.com/watch?v=rHI63ByXs6E>

Susan Crosson - Job Order Costing - 8 P6 Sept 30a

http://www.youtube.com/watch?v=OhfUs1tcBWs

Susan Crosson - Job Order Costing - 9 P6 Sept 30B

<http://www.youtube.com/watch?v=Q9NDLW2f6rM>

Susan Crosson - Job Order Costing - 10 P6 Sept 30C

http://www.youtube.com/watch?v=gUIaVkSSgR8

Susan Crosson - Job Order Costing - 11 P6 Close OH

<http://www.youtube.com/watch?v=RyQkKZaRYek>

If you don’t like Susan Crosson google Job Order Costing and see what you find!

If you need help - just ask!

**Homework and Discussion Forum***.*

1) **DB 5 Wed**

You must have a MINIMUM of three posts. I expect a mix or original posts and response post.

***Topic:*** Find a company that uses job order costing or find a job order costing report, article, etc. on-line. Using your own words explains what the company, report, or article means. Do not forget to cite your source.

2) **Assign #8 E**

3) **DB Week 5 Sat**

You must have a MINIMUM of three posts. I expect a mix of original and response post.

***Topic:*** Discuss the homework. Your post must have content that shows you are WORKING on the chapter homework.

**4) Assign #9**



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