

Job Costing



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Job Costing

- Job costing journal entries use the same concept as process costing journal entries with the exception of debiting Work In Process (WIP) without departmental identity.
- Values are transferred in the same order – Direct materials, Direct labor, and FOH / MOH.

Job Costing

- Materials, labor, and FOH / MOH may be added numerous times during the manufacturing process.
- Factory / Manufacturing Overhead (FOH / MOH) may be applied at various times utilizing different drivers as those indirect costs are incurred.

Job Costing

- Jimmy Joe Ray Jimbob comes into our company and wants a special hotrod chassis part manufactured.
- We estimate the manufacturing process as \$2,250 - \$2,500 and the contract is signed for an estimate of \$3,000 - \$3,250.
- So we start the manufacturing process.

Job Costing

- The first step, logically, in manufacturing is to supply materials to the workbench or assembly line.
- The journal entry is shown here moves \$250 from raw materials inventory into work in process.

01/01/15	Work in Process Inventory	250.00	
	Raw Materials		250.00
Transferred raw materials to WIP			

Job Costing

- With materials on the bench our technicians beginning the manufacturing process.
- At the end of this production phase it is determined that the direct labor costs are \$475.
- This would be the journal entry.

01/02/15	Work in Process Inventory	475.00	
	Wages Payable		475.00
To record direct labor to WIP			

Job Costing

- FOH / MOH costs are recorded with journal entries debiting the special asset account Factory or Manufacturing Overhead and crediting an appropriate account.
- I have inserted explanation lines for clarity.

01/03/15	Manufacturing Overhead	1,075.00	
	Wages Payable		130.00
To record wages earned by indirect labor			
	Accumulated Depreciation - Equipment		745.00
To record depreciation on mfg. equipment			
	Raw Materials		75.00
To record raw materials used by maintenance			
	Prepaid Insurance		125.00
To record the expiration of insurance on factory assets			

Job Costing

- The computation of the overhead rate is the sum of the estimated indirect costs divided by the estimated number of drivers.
- In this example we are using direct labor hours as a driver.

Computation of FOH / MOH rate and applied amount for Work in Process Inventory	
Estimated total FOH / MOH costs for the fiscal period:	\$4,500.00
Estimated total number of direct labor hours for the fiscal period:	35.00
Calculated rate per direct labor hour:	\$128.57
Number of direct labor hours for this production run:	6.75
Direct labor hour driver rate:	\$128.57
Amount of FOH / MOH to be applied to this production run:	\$867.86

Job Costing

- With the driver rate of \$128.57 and 6.75 direct labor hours we apply \$867.86 to the work in process inventory account with a journal entry such as this one.

	Number of direct labor hours for this production run:	6.75	
	Direct labor hour driver rate:	\$128.57	
	Amount of FOH / MOH to be applied to this production run:	\$867.86	
01/04/15	Work in Process Inventory	867.86	
	Manufacturing Overhead		867.86
To record FOH / MOH on production			

Job Costing

- The job requires required additional materials as shown in this journal entry.

01/06/15	Work in Process Inventory	35.00	
	Raw Materials		35.00
Transferred raw materials to WIP			

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- With the additional materials we can add the additional direct labor costs of \$225 with this journal entry.

01/07/15	Work in Process Inventory	225.00	
	Wages Payable		225.00
To record direct labor WIP			

Job Costing

- As manufacturing progresses we incur additional indirect costs with journal entries such as this one.

01/08/15	Manufacturing Overhead	230.00	
	Wages Payable		95.00
To record wages earned by indirect labor			
	Accumulated Depreciation - Equipment		55.00
To record depreciation on mfg. equipment			
	Raw Materials		15.00
To record raw materials used by maintenance			
	Prepaid Insurance		65.00
To record the expiration of insurance on factory assets			

Job Costing

- In this phase of production we are using machine hours as a driver.
- The computed rate is \$133.04 per machine hour.
- This job incurs 1.75 machine hours.

Computation of FOH / MOH rate and applied amount for Work in Process Inventory	
Estimated total FOH / MOH costs for the fiscal period:	\$3,725.00
Estimated total number of machine hours for the fiscal period:	28.00
Calculated rate per machine hour:	\$133.04
Number of machine hours for this production run:	1.75
Machine hour driver rate:	\$133.04
Amount of FOH / MOH to be applied to this production run:	\$232.81

Job Costing

- With the machine hour driver rate of \$133.04 and the job utilizing 1.75 machine hours we can apply \$232.81 in FOH / MOH to the job with this journal entry.

Number of machine hours for this production run:		1.75	
Machine hour driver rate:		\$133.04	
Amount of FOH / MOH to be applied to this production run:		\$232.81	
01/09/15	Work in Process Inventory	232.81	
	Manufacturing Overhead		232.81
To record FOH / MOH on production			

Job Costing

- With the last application of FOH / MOH the job is complete and ready for sale.
- The general ledger account for Work in Process Inventory shows a balance of \$2,085.67 for this job.

General Ledger Account					
Work in Process Inventory			Balance:	2,085.67	
Date:	Memo:	Amount:	Date:	Memo:	Amount:
01/01/15	Direct materials	250.00			
01/02/15	Direct labor	475.00			
01/04/15	FOH / MOH	867.86			
01/06/15	Direct materials	35.00			
01/07/15	Direct labor	225.00			
01/09/15	FOH / MOH	232.81			

Job Costing

- With the last application of FOH / MOH the job is complete and ready for sale.
- It can be transferred to Finished Goods with this journal entry.

01/10/15	Finished Goods	2,085.67	
	Work in Process		2,085.67
Transferred WIP to Finished Goods			

Job Costing

- Jimmy Joe Ray Jimbob comes in to pick up his chassis part and pays cash.
- The compound journal entry for the sale would look like this.

01/11/15	Cash	2,750.00	
	Manufacturing Revenues		2,750.00
	Cost of Goods Sold	2,085.67	
	Finished Goods		2,085.67
Goods are sold for cash			

Job Costing

- With this journal entry our general ledger account looks like this.

General Ledger Account					
Work in Process Inventory			Balance:	(0.00)	
Date:	Memo:	Amount:	Date:	Memo:	Amount:
01/01/15	Direct materials	250.00	01/04/15	Xfer to FG	2,085.67
01/02/15	Direct labor	475.00			
01/04/15	FOH / MOH	867.86			
01/06/15	Direct materials	35.00			
01/07/15	Direct labor	225.00			
01/09/15	FOH / MOH	232.81			

Job Costing

- Job costing parallels process costing journal entries.
- The sequence should always be the same – direct materials, direct labor, FOH / MOH.

Job Costing

The end.