








PRINCIPLES OF FINANCIAL AND MANAGERIAL ACCOUNTING II
Manufacturing – Process Costing

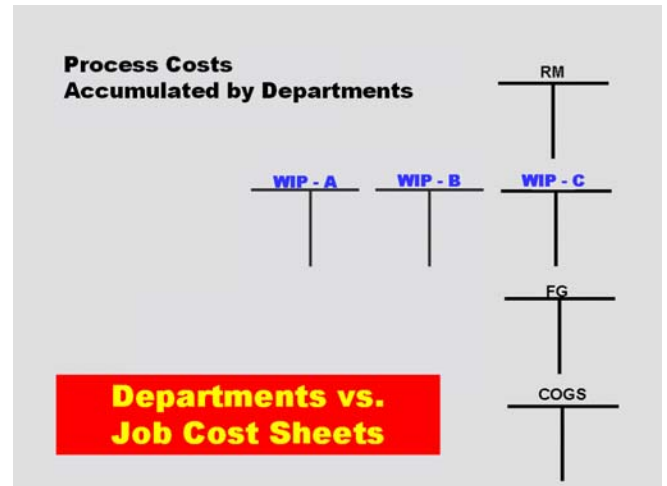
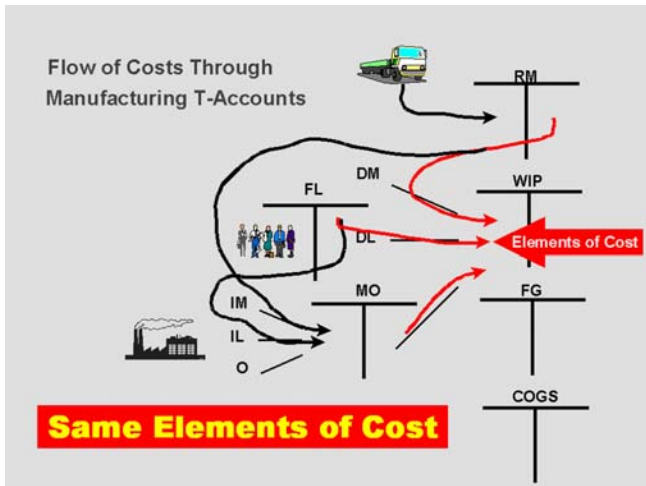
Overview

1. Contrasting Job Order and Process methods
 - a. Which method for which industry?
 - b. Similarities and differences
2. Allocation of Process Costs
 - a. Equivalent Units of Production
 - b. FIFO vs. Weighted Average
 - c. Steps in cost allocation
3. Cost of Goods
 - a. Finished
 - b. Not Finished

Job Order vs. Process

<u>Job Order</u>	<u>Process</u>
Wide variety of _____ products	_____ products
Costs accumulated by _____	Costs accumulated in _____
Unit cost determined by dividing cost of job by _____	Unit cost determined by dividing process costs of period by units produced during period

<u>Job Order</u>	<u>Process</u>
	
	
 	



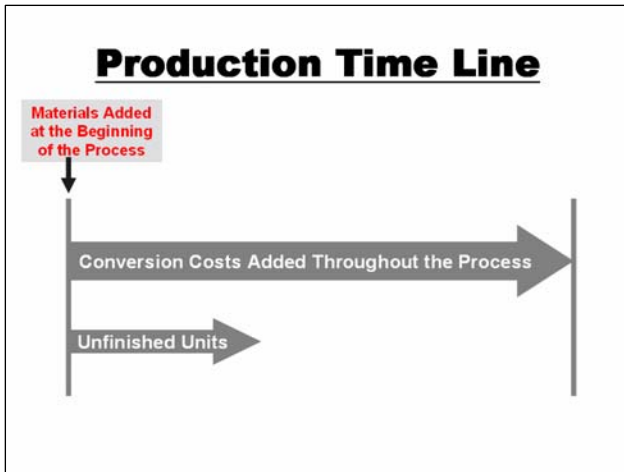
Conversion Costs

_____ plus _____ are “conversion costs.”

All costs entering production other than direct materials are considered conversion costs.


Equivalent Units of Production

- a measure of productive effort measured in _____
- Becomes the basis for allocation of costs



Allocating Process Costs

1. Determine “physical flow” in units
2. Determine EUP
 - for materials and
 - for conversion costs
3. Determine unit costs
 - for materials
 - for conversion costs
 - and total
4. Allocate costs incurred to goods
 - Finished and
 - Not Finished



Illustration

X Company has several processing departments. Costs charged to Department 1 for February totaled \$258,600 as follows:

Work in Process, 2/1			
Materials	\$12,000		
Conversion Costs	<u>9,000</u>	\$21,000	
Materials added		72,000	
Labor		103,500	
Overhead		62,100	

Records indicate that 3,000 units were in beginning Work in Process 30% complete as to conversion costs, 18,000 units were started into production, and 4,000 units were in ending work in process 60% complete as to conversion costs. Materials are entered at the beginning of each process.

Instructions:

- (a) Determine the equivalent units of production and the unit costs for Department 1.
- (b) Determine the assignment of costs to goods transferred out and in process.

Work in Process		
BI - M	12,000	to Dept 2
BI - CC	9,000	
DM	72,000	
DL	103,500	
MO	62,100	
Bal		

Step 1 – Determine “physical flow” in units

	A	B
2		(Step 1)
3		Physical
4		Units
5	Beg Inv	
6	Started	
7	Units TO account for	21,000
8		
9	Finished	
10	Not Finished	
11	Units ACCOUNTED for	21,000

Step 2 – Determine EUP for Materials and for Conversion Costs

	A	B	C	D	E
13				(Step 2)	
14				Equivalent Units	
15			Direct		Conversion
16			Materials		Costs
17	Finished			100%	
18	Not Finished				
19	Total EUP		21,000		

Step 3 – Determine unit costs for materials, conversion costs, and total

	A	B	C	D
21			Direct	Conversion
22	(Step 3)		Materials	Costs
23	Beg Inv			
24	Incurred this month			
25	Total costs to account for		\$ 84,000	\$ 174,600

Step 4 – Allocate costs incurred to 1) goods finished (and journalize and post) and 2) not finished

	A	B	C	D	E
36	(Step 4)				
37	Assignment of Costs:	<u>Units</u>	<u>Per Unit</u>		<u>Total</u>
38	Finished				

General Journal

Step 4 – part 2)

	A	B	C	D	E
36	(Step 4)				
37	Assignment of Costs:	<u>Units</u>	<u>Per Unit</u>		<u>Total</u>
38	Finished	17,000	\$13.00		\$221,000
39	Not Finished				
40	Materials				
41	CC				
42	Total costs accounted for				<u>\$258,600</u>

