

ACC2002 – Managerial Accounting

LECTURE 4

PROCESS COSTING

Recommended Text:

Managerial Accounting: An Asian Perspective

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2012 McGraw-Hill Education

Relevant Chapter:

Chapter 9

Lectures 1 to 6: (Ms.) Anne Chia

Learning Objectives

1. Comparison between Job-order costing & Process costing
2. Process cost flow
3. The concept of 'Equivalent Units'
4. Cost computation for single department (weighted-average method)
5. Cost computation for multiple departments (weighted-average method)

Process Costing

- ❖ High volume, homogeneous products.
- ❖ Individual product units of relatively low value.
- ❖ Key feature: Not feasible to trace direct costs to individual product unit.

Process costing works well whenever relatively homogeneous products pass through a series of processes and they receive similar amount of manufacturing costs.

Examples:

Petroleum, Chemicals, Medicine, Food, Beverage.

Similarities Between Job-Order and Process Costing

- Both systems assign material, labor and overhead costs to products and they provide a mechanism for computing unit product costs.
- Both systems use the same manufacturing accounts, including Manufacturing Overhead, Raw Materials, Work in Process, and Finished Goods.
- The flow of costs through the manufacturing accounts is basically the same in both systems.

Differences Between Job-Order Costing and Process Costing

Job-order costing

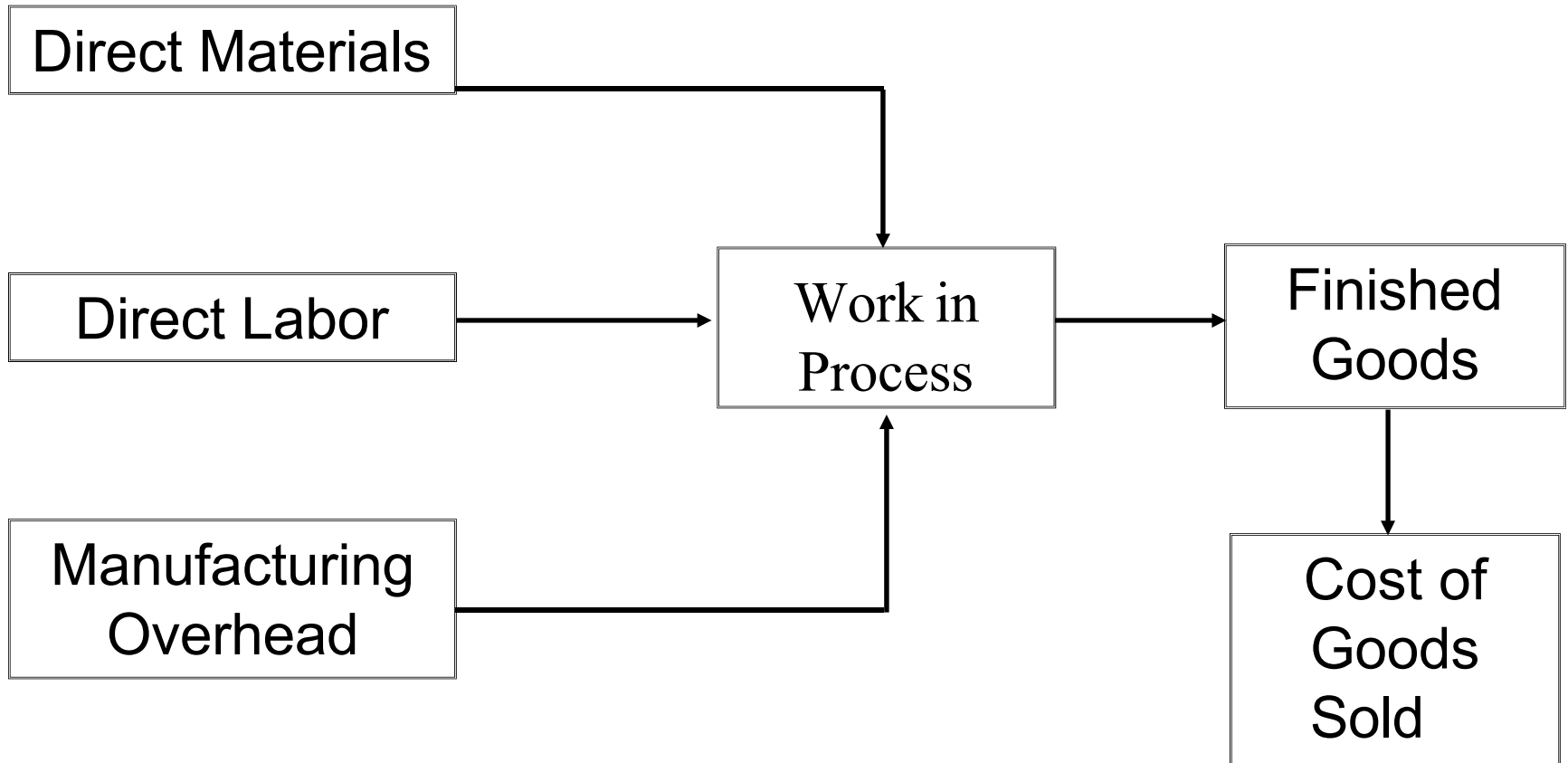
- Costs accumulated by the job.
- Work in process has a job-cost sheet for each job.
- Many unique, high cost jobs.
- Jobs built to customer order.

Process costing

- Costs accumulated by department or process.
- Work in process has a production report for each batch of products.
- A few identical, low cost products.
- Units continuously produced for inventory in automated process.

Comparing Job-Order and Process Costing

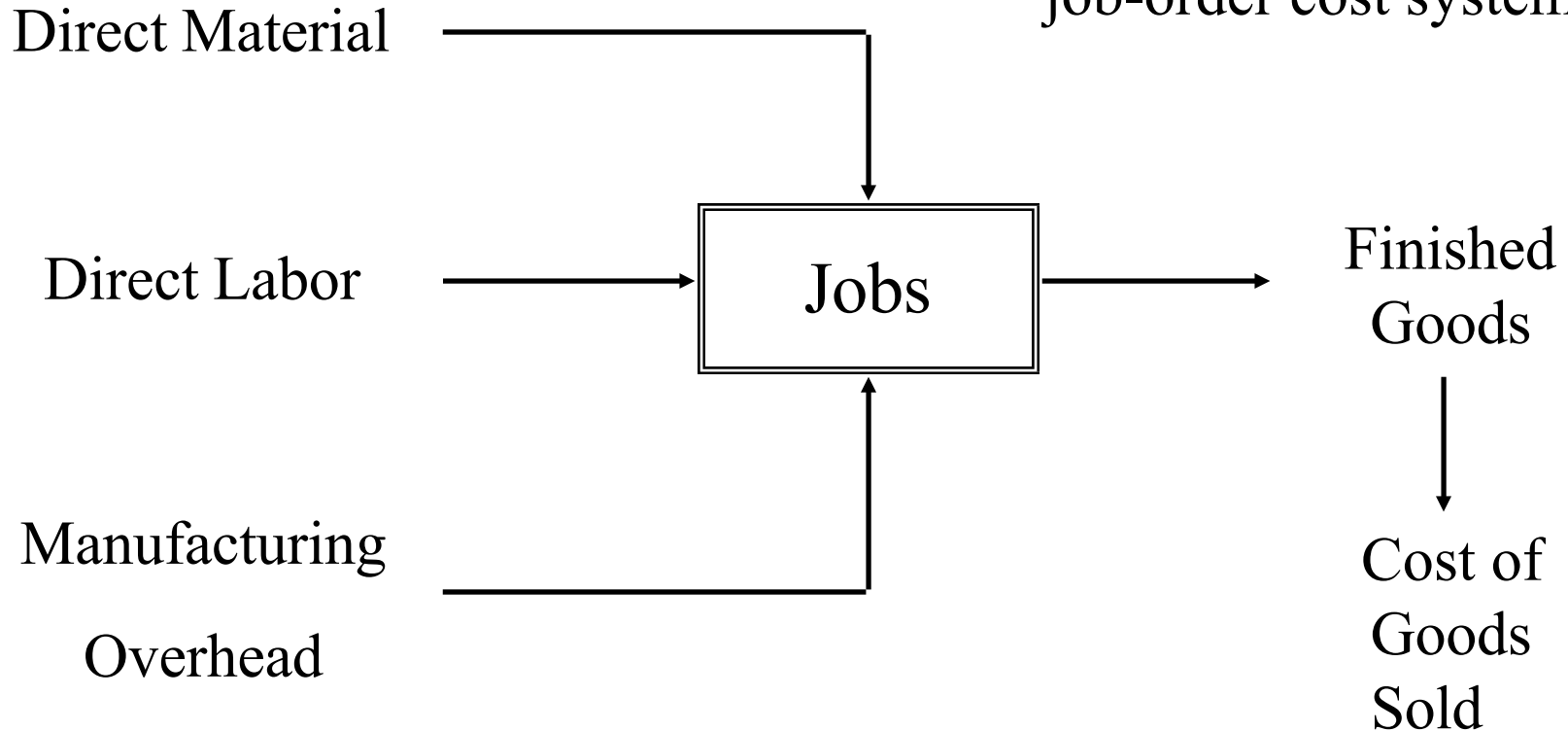
Similarity



Comparing Job-Order and Process Costing

Difference

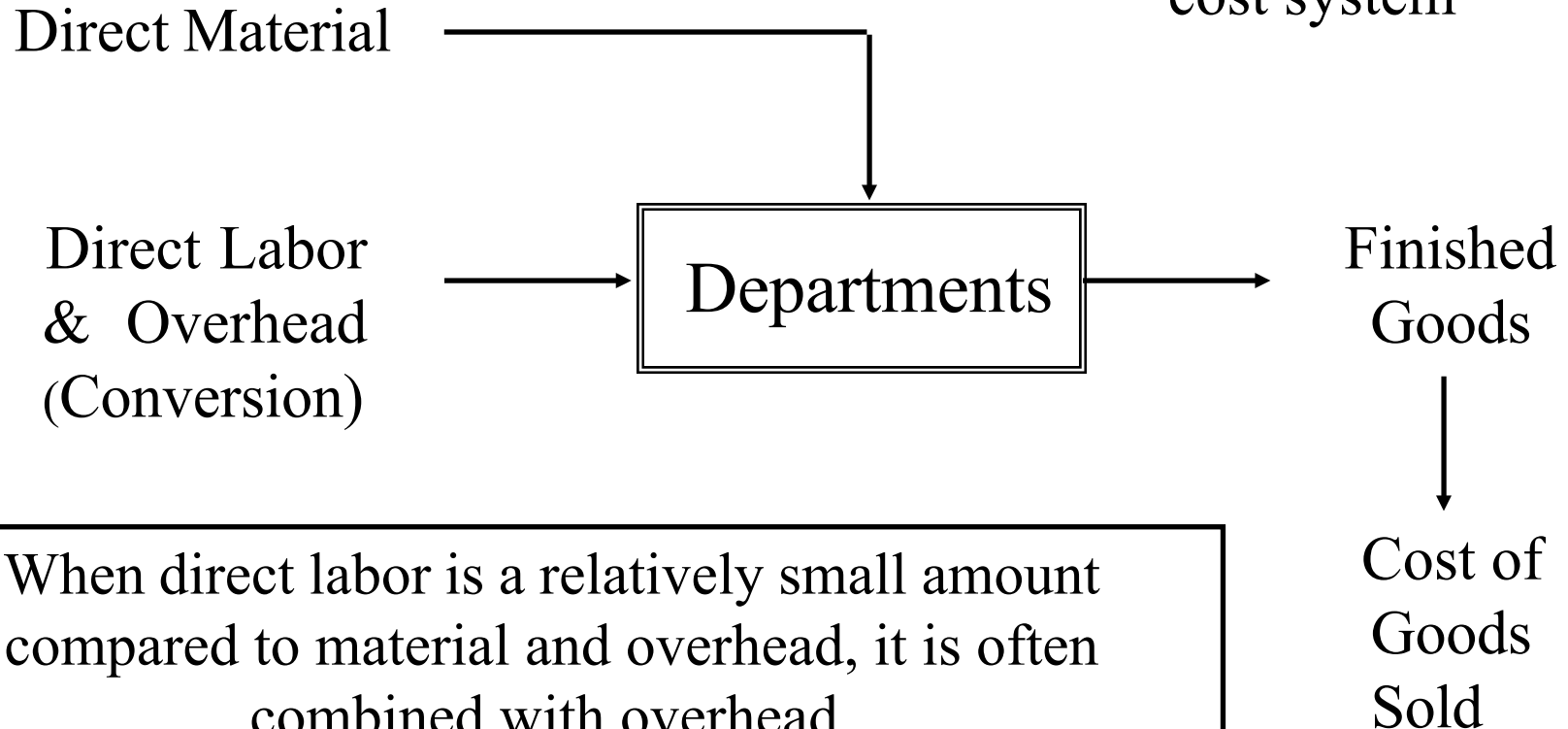
The work-in-process account consists of individual jobs in job-order cost system



Comparing Job-Order and Process Costing

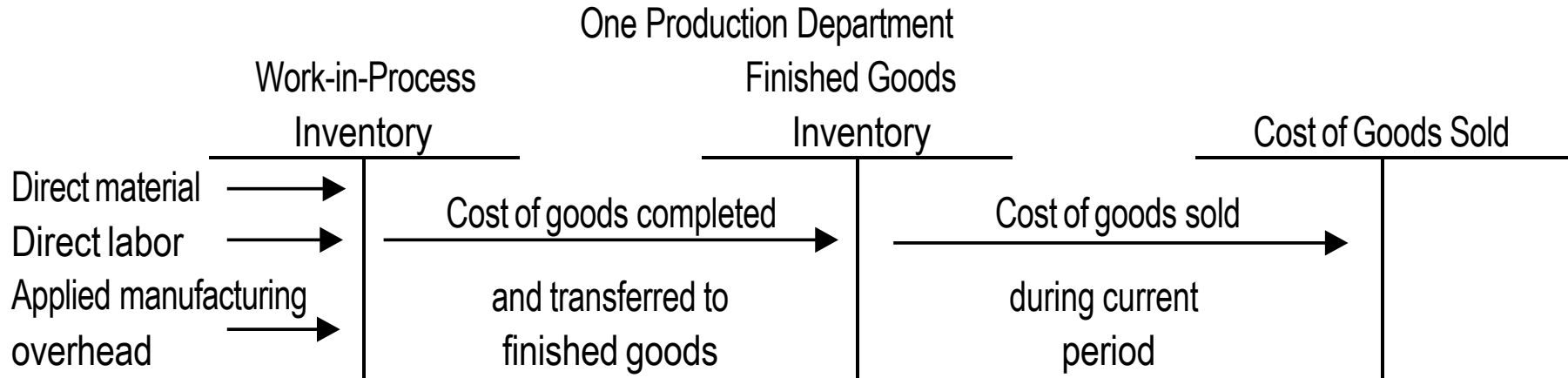
Difference

Costs are traced and applied to departments in a process cost system



When direct labor is a relatively small amount compared to material and overhead, it is often combined with overhead.

Process Cost Flows



Equivalent Units: A Key Concept

- ❑ Costs are accumulated for a period of time for products in work-in-process inventory.

- ❑ Products in work-in-process inventory at the beginning and end of the period are only partially complete.

- ❑ Equivalent units is a concept expressing these partially completed products as a smaller number of fully completed products.

Equivalent Units: A Key Concept

Equivalent units are the product of the number of partially completed units and the percentage completion of those units.

We need to calculate equivalent units because a department usually has some partially completed units in its beginning and ending inventory. These partially completed units complicate the determination of a department's output for a given period and the unit cost that should be assigned to that output.

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