

Accounting 310 unit 3db activity based costing and process costing

[Business](#), [Accounting](#)



Compare and contrast job order costing to process costing methods.

Comparison: These systems are to determine the manufacturing costs of products. Both costing systems combine direct materials, direct labor and overhead which is indirect costs or could be considered a direct cost in the process costing method nonetheless both systems use this in the process of producing products. The manufacturing accountants assign cost objectives to raw materials inventory, work in process inventory and finished goods.

These systems are necessary to determine inventory, profit and the units that are sold and the price for them. The cost flows through the general ledger accounts for direct materials, direct labor and overhead is also the same. Contrast: Job order costing is for customized orders to meet the specific needs of a customer. This type of manufacturing doesn't take place until the customer puts in a request for items. This process involves the company predicting the cost to get the job done, negotiating a price with the customer and then set out a timeframe to start and complete the job order. (Wild & Shaw, 2012) Job order costing tracks specific costs to specific jobs it could be a single unit or a small amount of similar units. Records are maintained on a job cost sheet for each job. The job cost sheet shows the customer the job number assigned, product and key dates. (Wild & Shaw, 2012) In essence, job order costing is for companies that produce different products in small amounts. Process costing method focal point is for high volume of one type of product or many similar products. Manufacturing of products takes place through a synchronized process.

Processing is based on demand that is forecasted by managers not based on customized orders like job order processing. For example, Avon Products, Inc manufacturing facility is located in a suburb of Chicago and they use process costing method to produce lotion and makeup. Also, worth mentioning is that direct materials, labor and overhead are assigned to departments. It focuses on departmental functions and the job cost sheet tracks cost for units within several related departments. What kind of system works best in what kinds of companies?

Job order processing system works best for companies that are producing multiple items that may vary in size or color and is used best for customized production. Companies that produce t-shirts, wedding invitations or airplane manufacturers are good examples of businesses that use this type of system. This system worked well for a previous plumbing company I worked for, the client will tell the plumber the problem, he would then negotiate a price and sometimes the client wouldn't be happy with the price and he would have to decline the offer or possibly lower his offer.

Afterwards, he would setup a time and date to get started and would tell them when he would be finished, however he required his payment upfront sometimes and with larger jobs the client would pay a deposit upfront and he would use that to purchase materials or pay his laborers and the remaining balance was due once the work was complete. Cost processing system works well with companies that have a series of steps that has to be done repetitively in order to complete a task.

Companies like Avon that produces cosmetics, Pepsi that produces soft drinks and Hershey that produces chocolate use this type of system. What kind of system makes sense for your company, given that you plan to start with only one version of your product but at some point in the future may offer a variety of options? Since there is a standard design, one type of product at this time the processing cost method would be the best fit so that one product is no different from the other. It will be able to produce large number of units on a continuous basis and all units will pass through a similar process. Wild & Shaw, 2012) This methodology makes more sense for my company because it is producing homogenous products, there is no need for flexibility and a high volume needs to be produced quickly. Each department will be responsible for producing a certain output that will then become input for another department and this will happen in sequence. In the future we will continue with process as well just like with Pepsi and Avon they started out with one product and overtime added additional products to their line of service. References AIU Online. (2010).

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