

# [Consider the following scenario](https://assignbuster.com/consider-the-following-scenario/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

Finance & Accounting Finance & Accounting Job order costing system and process costing system are cost analyzing techniques used by companies to ascertain the costs of producing units through a particular manufacturing process. Both these systems tend to accumulate all the costs pertaining to the production of a product. The costs include Direct Material, Direct Labor and Overhead costs.
Both these techniques tend to use a predetermined overhead rate while allocating overhead costs to the product units being produced. A well maintained perpetual inventory system is also kept while analyzing the costs of the units produced. The distinctive ledgers which ledgers used within inventory recording system include Raw Materials, Work in Process and Finished goods accounts.
Differences between the two costing techniques arise as costs are added up with respect to their jobs in job order costing system while in process costing system; these costs are pooled in with respect to a department’s cost incurred with respect to a specified time period.
Further differences between the two costing system occur because of the nature and types of production methods employed to manufacture goods. Process costing system is used in production organizations which tend to have similar ongoing procedures to manufacture their goods while job order costing is used in companies which tend to produce special or customized goods in batches.
Since our company would be producing a single version of a product, a process costing system would be best suited to analyze the costs of the product. This system would also be carried out in future as well if the production is carried out in large quantities of identical pattern in an ongoing flow. Job order costing would only be employed if the company produces tailor-made products for their customer or it manufactures standard products in batches (Lucey, 2009).
References
Lucey, T. (2009). Costing. London: Cengage Learning.