

Topic Overview	
Topic	BAFS Elective Part – Accounting Module – Cost Accounting A07: Job Costing
Level	S5 / S6
Duration	2 lessons (40 minutes per lesson)

Learning Objectives:

1. To understand job costing characteristics;
2. To identify cost components and design a job cost sheet;
3. To demonstrate the costing processes and accounting entries in recording costs;
and
4. To understand the final output of job costing and related accounting entries.

Overview of Contents:

- Lesson 1 Characteristics of Job Costing
Lesson 2 Cost Recording and Costing Processes

Prior Knowledge:

Students should have a basic understanding of job costing.

Resources:

- Topic Overview, Teaching Plan and Answers to Student Worksheet
- PowerPoint Presentation
- Student Worksheet

Suggested Activities:

- Case Studies
- Group Discussion
- Simulation
- Problem Solving

Lesson 1	
Theme	Characteristics of Job Costing
Duration	40 minutes

Expected Learning Outcomes:

Upon completion of this lesson, students will be able to:

1. Identify the characteristics of job costing; and
2. Define the cost components and describe the design of a job cost sheet.

Teaching Sequence and Time Allocation:

Activities	Reference	Time Allocation
Part I: Introduction		
<ul style="list-style-type: none"> ✧ Teacher begins lesson introducing a case study of Wonder Moment Limited. ✧ Teacher reviews the characteristics of job costing and the benefits. 	PPT #1-2	5 minutes
Part II: Content		
<ul style="list-style-type: none"> ✧ Activity 1 – Is job costing suitable for Wonder Moment Limited? <ul style="list-style-type: none"> ■ Using the example of an Events Organiser business to illustrate job costing. ■ Students are divided into groups to discuss the appropriateness for adopting job costing to the case. ■ After discussions, job costing characteristics and costing benefits are reviewed. 	PPT #3-7 Student Worksheet pp. 1-3	15 minutes
<ul style="list-style-type: none"> ✧ Activity 2 – Using job costing in a wedding party <ul style="list-style-type: none"> ■ Students are divided into groups to discuss the cost components for organising a wedding party. 	PPT #8-9 Student Worksheet pp. 4-5	8 minutes
<ul style="list-style-type: none"> ✧ Teacher introduces and illustrates cost components in a job cost sheet. 	PPT #10-13	6 minutes
<ul style="list-style-type: none"> ✧ Teacher introduces and explains the time sheet and job ticket. 	PPT #14-15	3 minutes
Part III: Conclusion		
<ul style="list-style-type: none"> ➤ Teacher concludes lesson by highlighting the key points covered in this lesson. 		3 minutes

Lesson 2	
Theme	Cost Recording and Costing Processes
Duration	40 minutes

Expected Learning Outcomes:

Upon completion of this lesson, students will be able to:


1. Demonstrate cost recording and costing processes.
2. Complete a job cost sheet and related accounting entries.

Teaching Sequence and Time Allocation:

Activities	Reference	Time Allocation
Part I: Introduction		
<ul style="list-style-type: none"> ◇ Teacher begins lesson by referring to the recording of costs and the process of job costing. ◇ The case study of Wonder Moment Limited is used for illustration. 	PPT #16-17	5 minutes
Part II: Content		
<ul style="list-style-type: none"> ◇ Activity 3 – Prepare accounting entries for the wedding party <ul style="list-style-type: none"> ■ Teacher covers the accounting entries for recording costs. ■ Students must remain in the same groups and prepare the accounting entries of the wedding party. ■ A job cost sheet is provided to complete the entries of the job. 	PPT #18-20 Student Worksheet pp. 6-9	10 minutes
<ul style="list-style-type: none"> ◇ Activity 4 – Planning for a school picnic <ul style="list-style-type: none"> ■ Students must apply job costing to plan for a school picnic. ■ They should consider the planning and sharing of costs, and the calculation of contributions by each participant. 	PPT #21-22 Student Worksheet p. 10	10 minutes
<ul style="list-style-type: none"> ◇ Teacher covers the topic of job completion. <ul style="list-style-type: none"> ▪ Overhead absorption is reviewed. ▪ Teacher demonstrates the accounting entries of a completed job. ▪ An example is used to illustrate how to calculate the unit cost in job costing. 	PPT #23-27	10 minutes
Part III: Conclusion		
<ul style="list-style-type: none"> ◇ Teacher concludes lesson by highlighting the key points covered in the lesson. 	PPT #28-29	5 minutes

Suggested solution for Activity 3: accounting entries in Job Costing.

Journal			Jun	
Date	Details	Folio	Dr	Cr
<u>Direct Materials</u>				
<u>Direct Labour</u>				
Jun 30	WIP - Job: 0808091 Salaries & wages Direct labour of Jun 08		950.00	950.00
<u>Direct Expenses</u>				
<u>Overheads</u>				
Jun 30	WIP - Job: 0808091 Overhead absorption Administration overhead of Jun 08		800.00	800.00

Journal				
Date	Details	Folio	Dr	Cr
<u>Direct Materials</u>				
Jul 25	WIP - Job: 0808091 Creditor		1,700.00	1,700.00
	Purchases of souvenirs			
Jul 25	WIP - Job: 0808091 Inventory		200.00	200.00
	Requisition for packing materials			
<u>Direct Labour</u>				
Jul 31	WIP - Job: 0808091 Salaries & wages		1,150.00	1,150.00
	Direct labour of Jul 08			
<u>Direct Expenses</u>				
<u>Overheads</u>				
Jul 31	WIP - Job: 0808091 Overhead absorption		400.00	400.00
	Administration overhead of Jul 08			

Journal			Aug	
Date	Details	Folio	Dr	Cr
<u>Direct Materials</u>				
Aug 1	WIP - Job: 0808091 Inventory		100.00	100.00
	Requisition for DVD			
Aug 2	WIP - Job: 0808091 Creditor		196.00	196.00
	Production of banner up			
Aug 7	WIP - Job: 0808091 Inventory		250.00	250.00
	Requisition for decoration materials			
<u>Direct Labour</u>				
Aug 31	WIP - Job: 0808091 Salaries & wages Direct labour of Aug 08		8,600.00	8,600.00
<u>Direct Expenses</u>				
Aug 9	WIP - Job: 0808091 Creditor		2,000.00	2,000.00
	Rental of audio equipment			
Aug 9	WIP - Job: 0808091 Cash		200.00	200.00
	Transportation fees			
<u>Overheads</u>				
Aug 31	WIP - Job: 0808091 Overhead absorption Depreciation of Aug 08		300.00	300.00
Aug 31	WIP - Job: 0808091 Overhead absorption Administration overhead of Aug 08		2,000.00	2,000.00
<u>Cost of Sale</u>				
	Cost of sales WIP - Job: 0808091 Completion of Job 0808091		18,846.00	18,846.00

BAFS Elective Part Accounting Module – Cost Accounting

Topic A07: Job Costing

Technology Education Section
Curriculum Development Institute
Education Bureau, HKSARG
April 2009



Introduction

This session aims to help students summarise what they have learnt in the topic of job costing. Characteristics and the process of job costing will be discussed for students' revision. Case studies on job costing will also be introduced.

Duration

Two 40-minute lessons

Contents

Lesson 1 - Characteristics of Job Costing

Lesson 2 - Cost Recording and Costing Processes

Learning Objectives for Lesson One



- To understand the characteristics of Job Costing.
- To identify cost components and design of a job cost sheet.

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Job Costing

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BAFS Elective Part
Learning and Teaching Example

Lesson 1

First, students must understand the distinguishing characteristics of job costing.

Secondly, the cost components concept will be enhanced and an example will be given to illustrate the costs recording. The Wonder Moment Limited case study will be used for illustration.

Case Study

Wonder Moment Limited



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BAFS Elective Part
Learning and Teaching Example

A case study of Wonder Moment Limited, an event organiser, is used to identify the distinguishing characteristics of job costing. The benefits of job costing will also be introduced.

Duration: 15 minutes

Wonder Moment Limited

- Wonder Moment is an event and trade fair organiser.
- It receives orders to organise an event or trade fair.

- **Events:**

- Wedding/ Birthday Parties
- Seasonal/ Festival Parties



- **Trade Fairs:**

- Business Meetings
- Product Shows
- Seminars and Forums



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Learning and Teaching Example

Brief introduction of Wonder Moment Limited is given in Student Worksheet page 1.

Suggested allowing 5 minutes for students to read the company background in the student workshop.

Teacher discusses the major points about Wonder Moment Limited.

Activity 1 – Group Discussion

Is Job Costing appropriate for a business such as Wonder Moment Limited?



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BAFS Elective Part
Learning and Teaching Example

Students divide into groups of four to six to discuss whether Wonder Moment Limited should use the job costing method when recording the cost of a job.

Teacher guides students to discuss job costing characteristics and the benefits of using the method. Students can also refer to student Worksheet pages 2-3 for details.

Students are given 10 minutes to discuss and are required to briefly present their views.

Remarks:

- Job Costing is applicable not only for a goods manufacturer but also for service providers.
- The Event Organiser is a job/order based business. Therefore, Job Costing is most appropriate.
- Slides #6 - 7 discuss the details, characteristics and benefits of job costing.

Characteristics of Job Costing

- Products are built to order rather than mass-produced.
- Each job is given a unique number to distinguish it from other jobs.
- Costs can be directly traced to each job.
- **Production**
 - large, unique, and high-cost items.
 - manufactured to different specifications.
 - e.g. printing, fashion, etc.
- **Services**
 - professional service, audit firms, consultancy, etc.



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BAFS Elective Part
Learning and Teaching Example

Two questions are discussed to help students consider the suitability of using Job Costing.

Characteristics of Job Costing are the suggested answers for Discussion Question 1.

Job Costing is suitable for Wonder Moment Limited because:

- Each job or event is unique. No two events to be organised are exactly the same.
- The services provided have to meet each customer's unique and specific requirements.
- Costs can be directly linked to each job or event.

Benefits of Job Costing

- Costing information is essential to every business irrespective of the scale of operation.
- Information for:
 - Planning
 - Organising
 - Pricing
 - Performance measurement
 - Problem solving
 - Decision making



Collection of cost data:

- The **materials requisitions** indicate the cost of direct materials and the cost of indirect materials.
- The **employee time tickets** indicate the cost of direct labour and the cost of indirect labour.
- The overhead costs are absorbed into the costs of jobs using **predetermined overhead application rates**.
- The costs for each job are collected on a **job cost sheet**.

The management uses the information provided by cost accounting systems (including job costing system) to:

- determine unit manufacturing costs or particular job costs which assist management in setting prices.
- provide information to managers for planning and cost controls.
- evaluate and rewards employee performance.



Case Study: Wonder Moment Limited

Man wants to use job costing
in her first job: a wedding party.
But, how?



Man wants to apply job costing on a job, a wedding party. However, she does not know what the cost components are and how to use a job cost sheet.

Students are required to complete Student Worksheet Activity 2 on page 4 to help Man.

Activity 2 – Group Discussion

- What are the cost components?
- Examples of cost components to organise a wedding party.



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Learning and Teaching Example

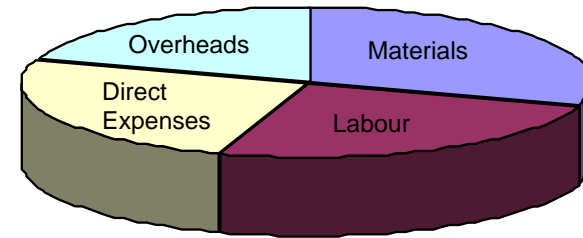
Students are required to remain in the groups to discuss what are cost components.

They can refer to Worksheet page 4 for hints and have 5 minutes to complete the answer.

Slides #10 – 11 demonstrate the answer.

Duration: 8 minutes

Cost Components



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Job Costing

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Learning and Teaching Example

Normally, there are four cost components under job costing. They are materials, labour, direct expenses and overheads.

Examples of cost elements in organising a wedding party



<i>Cost Components</i>	<i>Examples</i>
Materials	Souvenirs, decoration, packing materials
Labour	Master of ceremony, cameraman, technician, helpers
Direct Expenses	Hiring of equipment, transportation
Overheads	Depreciation, administration

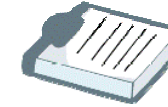
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Job Costing

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BAFS Elective Part
Learning and Teaching Example

Students can refer to Student Worksheet P.4 for details. On page 4, a procedure for organising a wedding party is provided to help students uncover potential cost components involved.

Recommended that teacher go through the procedure once and provide hints to complete the task.



Job Costs Sheet



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Learning and Teaching Example

Teacher introduces and illustrates the cost elements included in a job cost sheet. Students can refer to Student Worksheet p.6 for a job cost sheet.

Information captured and recorded in a job cost sheet includes:

- Job number – Every job cost sheet refers to one job with an assigned number.
- Customer – Name is included on a job cost sheet for easy referencing.
- Date started and completed – The starting and completed dates are shown to calculate the duration of each job.
- Cost components – Including direct materials, direct labour, direct expenses and overhead details are displayed on a job cost sheet to calculate total costs and for analytical use.
- Total costs – This is the total cost of the job.

Job Ticket

- Job based
- Time spent on a specific job by a worker or a team
- For costing purpose only and not for wages calculation
- Commonly used in assembly line
- Data elements:
 - Job no.
 - Employee no./ Work group no.
 - Charge rate
 - Time start / end

Job Ticket

Job No. _____

Employee/ Group No. _____

Charge Rate _____

Time Start _____

Time End _____

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BAFS Elective Part
Learning and Teaching Example

Job Tickets are applied for goods manufacturing and used for organising job orders.

Job tickets are a tag attached to a job order recording data about the work completed. Sometimes, keeps track of the job progress and the costs incurred.

Apart from the above uses, teacher can also introduce the data elements inside a job ticket to students.

End of Lesson 1.

Learning Objectives for Lesson Two

- To understand the costing processes and accounting entries in recording costs.
- To understand the final output of Job Costing and related accounting entries.

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Learning and Teaching Example

Lesson 2

Students must be familiar with accounting entries of Job Costing and know how to complete them.

Also, students must understand the outputs of Job Costing and the accounting entries for goods manufacturer and service provider.



Cost recording and costing processes

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Learning and Teaching Example

In this lesson, Wonder Moment Limited will also be used to illustrate job costing.

Teacher begins reviewing how to record costs by using accounting entries and illustrates the costing processes through different cases.



Activity 3 – Prepare the accounting entries for the wedding party

Prepare the accounting entries based on the example of Job Cost Sheet.

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BAFS Elective Part
Learning and Teaching Example

Students must remain in their groups and are guided to prepare the accounting entries of the job: a wedding party.

Students can refer to Student Worksheet page 6 for details and have 10 minutes to complete the task.

The emphasis is on the accounts to be posted NOT actual posting.

Suggested teacher to review accounting entries with students first (Slides #19-20).

Duration: 10 minutes

Recording Costs



Materials	<u>Perpetual Inventory Method</u> Dr Work-in-Progress Cr Inventory – Materials
	<u>Periodic Inventory Method</u> Dr Work-in-Progress Cr Purchases – Inventory
Labour	Dr Work-in-Progress Cr Salaries and wages

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BAFS Elective Part
Learning and Teaching Example

Accounting entries for cost recording are reviewed.

For material costs, as we have two types of inventory methods, they are entered into different accounts.

Perpetual Inventory Method

Dr Work-in-Progress
Cr Inventory – Materials

Periodic Inventory Method

Dr Work-in-Progress
Cr Purchases – Inventory

Recording Costs



Direct expenses	Dr Work-in-Progress Cr Cash/Creditors
Overheads	Dr Work-in-Progress Cr Departmental overhead absorption

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BAFS Elective Part
Learning and Teaching Example

Review accounting entries for cost recording.

Activity 4 – Planning for a Picnic

- Assuming the school picnic will be held 2 weeks from now, the class club decides to have a BBQ on that day.
- Form a working group to plan for the BBQ event.
 - What are the cost components?
 - Which items will be included in each cost component?
 - Discuss the processes in organising such event.



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BAFS Elective Part
Learning and Teaching Example

Activity 4 is used for students' revision. They must apply job costing to plan a school picnic.

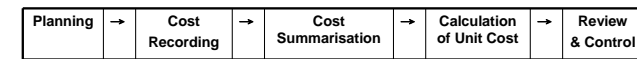
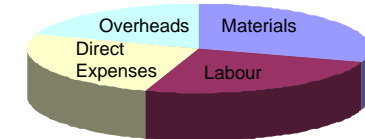
Students must remain in same group to discuss cost components, the items included and the process to organise such an event. Students can write down their answers on Worksheet page 10.

Planning a picnic is also an event planning similar to the works of an event organiser.

Duration: 10 minutes

Activity 4 – Planning for a Picnic

- Cost components
- Process



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BAFS Elective Part
Learning and Teaching Example

Teacher cites cost components examples for students' reference.

- Materials: foods, drinks, snacks, charcoal, etc
- Labour: share of work among classmates
- Direct expenses: lighter, gloves, garbage bags and other accessories
- Overheads: cookware and kitchen utensils from home

After planning and recording costs, the costs must be summarised and each participant's share calculated.

Students should complete the Job Cost Sheet and related accounting entries as homework.

Job Completion

Accounting entries for a completed job are reviewed.

Duration: 5 minutes

Overhead Absorption

- Method to charge overhead to a product or service.
- Predetermined overhead absorption rate:
$$\frac{\text{Budgeted total overheads of a cost centre}}{\text{Budgeted total number of units of absorption base}}$$
- Common absorption bases:
 - By units
 - By selling prices
 - By labour hours
 - By machine hours

Overhead absorption is normally the last accounting entry of cost recording.

Calculation of predetermined overhead absorption rate is reviewed.

Don't spend too much time on predetermined overhead absorption rate because it will be covered in Absorption Costing.

Accounting Entries of Completed Jobs



- Goods manufactured
Dr Inventory – Finished goods
Cr Work-in-Progress
- Services provided
Dr Cost of Sales
Cr Work-in-Progress

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Learning and Teaching Example

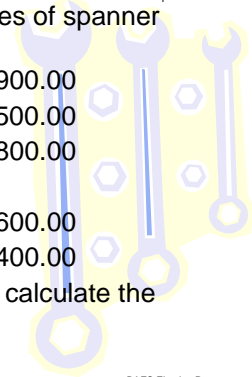
When a job is completed, the Work-in-Progress account has to be balanced and closed.

The accounting entries are different according to the nature of business.

Example



- The costs of producing 10,000 pieces of spanner are as follows:
 - Materials 300kg @ \$3.00 = \$900.00
 - Labour 20hrs @ \$25.00 = \$500.00
 - Electricity \$800.00
 - Overheads
 - ✓ Production \$600.00
 - ✓ Administration \$400.00
- Prepare the accounting entries and calculate the unit cost of a spanner.



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BAFS Elective Part
Learning and Teaching Example

An example is used to illustrate the accounting entries for goods manufacturing.

Teacher can ask students to complete it by themselves. Suggested answer is on the next slide.

Accounting Entries

Costs	Debit		Credit	
Materials	Work-in-Progress	900	Inventory - Materials	900
Labour	Work-in-Progress	500	Salaries & wages	500
Direct expenses	Work-in-Progress	800	Electricity	800
Overhead				
Production	Work-in-Progress	600	Production overhead absorption	600
Administration	Work-in-Progress	400	Administration overhead absorption	400
Completion	Inventory - Finished goods	32,000	Work-in-Progress	32,000

- Total costs for 10,000 pieces are \$32,000
- Unit cost is \$3.20

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BAFS Elective Part
Learning and Teaching Example

Perpetual Inventory Method is adopted.

Recalling

In Activity 4, you are required to plan a school picnic.

Can you now demonstrate how to calculate the contribution of each participant?



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BAFS Elective Part
Learning and Teaching Example

Verbal answer is preferred. Students are required to explain the calculation processes verbally.



The End

End of Lesson 2.

BAFS Elective Part – Accounting Module – Cost Accounting
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Activity 1 - Case Study: Wonder Moment Limited

Review company background.

Wonder Moment Limited

Water (husband) and Man (wife) founded the Company two years ago. The business is directly managed by them. They have two assistants and a team of twenty part-time staff.



Wonder Moment Limited is an event and trade fair organiser. They generate 70% of business from wedding parties and 20% from business events including business meetings, product shows, seminars and forums which are major income sources during the low season. They are also engaged in other activities such as anniversaries, birthday parties, Christmas parties, etc.

Before they started the business, Water was a video producer while Man was a set designer. They love the business very much as it allows them to share the happiness with every couple during the greatest moment of their lives.

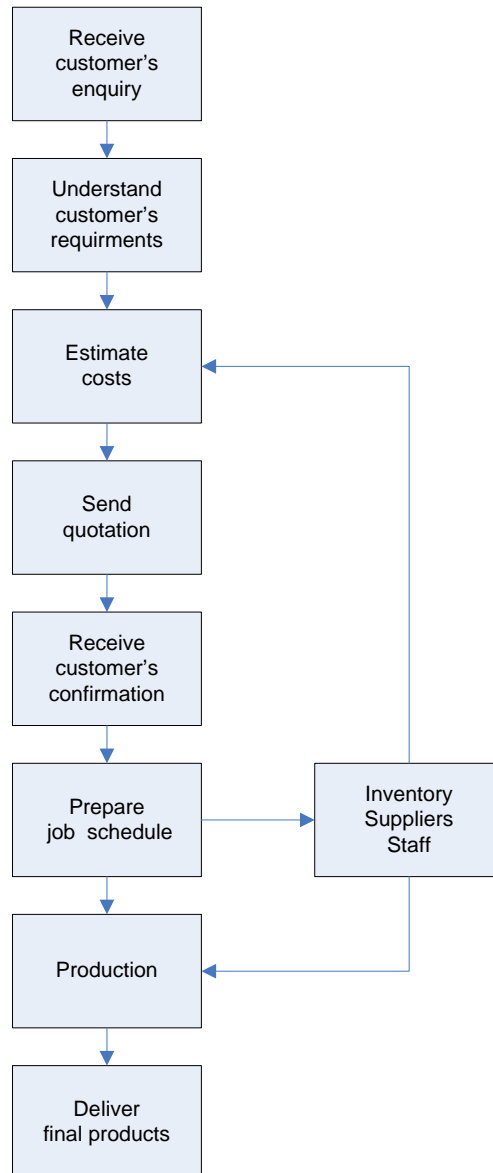
The business operations rely heavily on part-time staff and the personal involvement of Water and Man. They have to direct the program of every event. As the business grows, they want to employ more full-time staff so that they can train their assistants as a producer and a set designer. Then, they can spend more time concentrating on business development and customer service. Increase the number of full-time staff also increases overhead costs. Due to strong competition, the Company cannot easily increase prices creating a business dilemma for the couple.

Activity 2: Using job costing in a wedding party

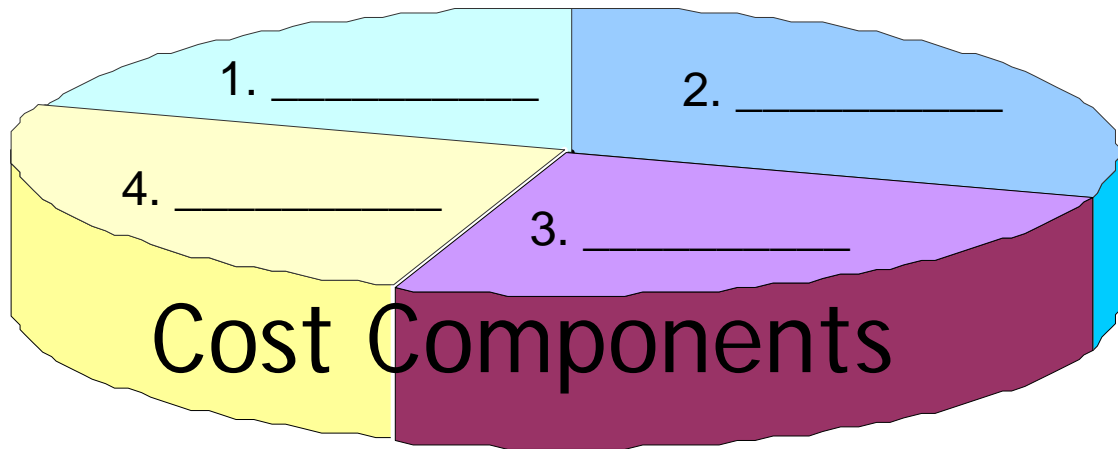


Man wants to use Job Costing. She is designing a job cost sheet and wants to apply to a wedding party. Since she is not trained in accounting and costing, she is confused by the cost entries on the job cost sheet.

Procedures for organising a wedding party are:



Discussion Question 1:
What are the cost components?



Discussion Question 2:
Give examples of cost components for organising a wedding party.

Cost Components	Examples
1. _____	_____ _____ _____
2. _____	_____ _____ _____
3. _____	_____ _____ _____
4. _____	_____ _____ _____

Activity 3: Prepare accounting entries for the wedding party

Using the Job Cost Sheet, Man can quickly review the costs of each job. She can now easily calculate the profit thereby allowing her better control of the costs. However, upon reviewing the job cost sheet, she is unfamiliar with how to record the data using correct accounting entries. Can you help her complete this task?



Job Cost Sheet of a wedding party

JOB COST SHEET

JOB NO: **0808091**
 CUSTOMER: **Karen & Tim Chan**

Date Started: 1/6/2008
 Date Completed: 25/8/2008

DIRECT MATERIALS

<u>Date Received</u>	<u>Requisition No.</u>	<u>Item</u>	<u>Quantity</u>	<u>Unit Cost</u>	<u>Total Costs</u>
25/7/2008	M0800301	Souvenirs	200 pcs.	8.50	1,700.00
25/7/2008	M0800352	Packing materials	10 packs	20.00	200.00
1/8/2008	M0800368	DVD	5 pcs.	20.00	100.00
2/8/2008	M0800369	Banner Up	2 pcs.	98.00	196.00
7/8/2008	M0800388	Decoration	1 lot	250.00	250.00
Total					<u>2,446.00</u>

DIRECT LABOUR

<u>Period Covered</u>	<u>Time Sheet No.</u>	<u>Employee</u>	<u>Hours</u>	<u>Hourly Rate</u>	<u>Total Costs</u>
Jun 08	0602	Man	4.00	200.00	800.00
Jun 08	0604	Mary	2.00	75.00	150.00
Jul 08	0701	Water	2.00	200.00	400.00
Jul 08	0703	Stephen	8.00	75.00	600.00
Jul 08	0704	Mary	2.00	75.00	150.00
Aug 08	0801	Water	6.00	200.00	1,200.00
Aug 08	0802	Man	4.00	200.00	800.00
Aug 08	0803	Stephen	8.00	75.00	600.00
Aug 08	0806	Hong	16.00	150.00	2,400.00
Aug 08	0809	Peter	16.00	150.00	2,400.00
Aug 08	0810	Paul	6.00	200.00	1,200.00
Total			<u>74.00</u>		<u>10,700.00</u>

DIRECT EXPENSES


<u>Date</u>	<u>Supplier Invoice No.</u>	<u>Description</u>	<u>Quantity</u>	<u>Unit Cost</u>	<u>Total Costs</u>
9/8/2008	I0208	Rental of audio equipment	1 day	2,000.00	2,000.00
9/8/2008	C817	Transportation	Hotel * office	200.00	200.00
Total					<u>2,200.00</u>


OVERHEAD

<u>Date</u>	<u>Cost Pool Category</u>	<u>Allocation Base</u>	<u>Quantity Used</u>	<u>Allocation Rate</u>	<u>Total Costs</u>
30/6/2008	Administration	hourly rate	4 hours	200.00	800.00
31/7/2008	Administration	hourly rate	2 hours	200.00	400.00
31/8/2008	Depreciation	daily rate	1 day	300.00	300.00
31/8/2008	Administration	hourly rate	10 hours	200.00	2,000.00
Total					<u>3,500.00</u>

TOTAL COST OF JOB**18,846.00**


Please help Man to prepare the Job Costing accounting entries.

<h1>Journal</h1>					
Date	Details	Folio	Dr	Cr	
	<u>Direct Materials</u>				
	<u>Direct Labour</u>				
	<u>Direct Expenses</u>				
	<u>Overheads</u>				

Journal					
Date	Details	Folio	Dr	Cr	
	<u>Direct Materials</u>				
	<u>Direct Labour</u>				
	<u>Direct Expenses</u>				
	<u>Overheads</u>				

Journal				Aug	
Date	Details	Folio	Dr	Cr	
	<u>Direct Materials</u>				
	<u>Direct Labour</u>				
	<u>Direct Expenses</u>				
	<u>Overheads</u>				

Activity 4: Planning for a picnic



Assuming the school picnic will be held 2 weeks from now, the class club decides to have BBQ on that day. A working group is formed to plan the BBQ event.

Applying the Job Costing concepts --- discuss the process to organise such an event.

What are the cost components?

What items will be included in each component?

Procedures of organising the event. (Use flowchart to present your answer.)
