

**CHAPTER 20****JOB ORDER COST ACCOUNTING**2001 GENERAL200101. Purpose

A. The purpose of a job order cost accounting system is to assign and accumulate costs for each job, i.e., an order, a contract, a unit of production, or a batch. Job order costing should be used if the production or service is being performed to meet customer specifications or requirements, if different components are made for inventory, or projects are undertaken to construct real property. Job order costing allows more control, less estimation, and more direct and reliable allocation of costs.

B. The determination as to the need for a formal job order cost accounting module is necessarily a management decision. The decision to establish such a module should be based upon a recurring need for cost accounting information. This chapter discusses how to establish a job order cost accounting module, the type of source documents required, typical management reports produced by the module, and possible uses of the reports.

200102. Overview

A. A formal job order cost accounting module provides cost identification for determining the cost of accomplishing a specific task, such as the cost incurred to overhaul a truck, repair a roof, launch a test vehicle, perform an R&D project, or overhaul 100 generators. The decision to assign a job number to single or multiple units, or single or multiple tasks, depends upon the dollar value of the costs to be incurred, the location at which the task is to be performed, and the commonality of effort to be performed. For example, when tanks are being overhauled, each tank may be assigned a job order number. However, when the job is to overhaul tank treads, hundreds of treads may be included in a single job order.

B. The management information provided by a job order cost accounting system is a tool that aids management in the guidance of activities and in the attainment of the objective of producing a maximum of goods and services at minimal costs. The formal cost accounting module is normally designed to accumulate those costs that are under the control of local management. Typically, management controls all costs that are funded by appropriations or funds provided to the accounting entity. These costs are referred to as funded costs. If a formal cost accounting module is to be used as a basis for billings to other Federal Agencies, or the public, provision must be made for the addition of unfunded costs such as military labor, items obtained from inventory on a free issue basis, and civilian retirement costs not financed by the employee or the Department of Defense.

## 2002 JOB ORDER COST ACCOUNTING SYSTEM

200201. The job order cost accounting system is subsidiary to, and must be integrated with, the general accounting system. For example, the system's subsidiary job cost ledger (job order cost sheets see paragraph 200404, below) is controlled by general ledger accounts.

200202. The principal general ledger control accounts are the Work in Process-In-House, Construction in Progress-In House, and Cost of Goods Sold accounts. Table 20-1 illustrate typical general ledger account entries.

## 2003 ESTABLISHING THE JOB ORDER

200301. Job Orders Categories. Job orders are established in terms of the nature and type of work to be performed. Following are examples of the criteria that may be used to establish job order categories.

A. End Items. A separate job order should be established for work performed on stand alone end items such as airplanes or trucks.

B. Real Property Construction. A separate job order should be established for each real property construction project.

C. Real Property Maintenance. A separate job order should be established for each real property maintenance project.

D. Low Dollar Like Items. A job lot is normally used when low dollar like items are placed into the process at the same time. However, the estimated cost of any job lot order may not exceed \$750,000. If the estimated cost is greater than \$750,000, a separate job order should be established for each \$750,000 increment.

200302. Identification of Job Order. Management determines the services or products to be costed, schedules work in the production departments, and forwards the order to cost accounting. The cost accounting department then assigns a job order number to each identified cost objective. The job order number is a control feature for identifying each job and is a means of accumulating departmental labor, material, and overhead cost by job order. As work progresses production departments report costs incurred by job order number. The information is forwarded to the cost accounting department where the costs are recorded on separate job order cost ledgers (subsidiary job cost ledger). A summary work in process cost schedule for all open job order numbers will be

<p style="text-align: center;"><b>JOB ORDER COST GENERAL ACCOUNTING INTERFACE</b></p>
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- A. Dr 1581      Work in Process-In-House  
      Dr 1721      Construction in Progress-In House  
              Cr 2211      Accrued Payroll-Civilian

To record labor cost incurred for work in process.

- B. Dr 1581      Work in Process-In-House  
      Dr 1721      Construction in Progress-In House  
              Cr 1521      Inventory Held for Sale

To record material and supplies issued to specific job orders.

- C. Dr 1581      Work in Process-In-House  
      Dr 1721      Construction in Progress-In House  
              Cr 6600      Applied Overhead

To record applied overhead.

(NOTE: This entry normally would be used only by Defense Business Operations Fund activities which used standard overhead rates. Appropriation funded activities that find it desirable to implement a job order cost accounting system for reimbursable work would apply overhead at a predetermined rate with a corresponding reduction of appropriate expense accounts. See paragraph 200403, below, for treatment of overhead.)

- D. Dr 6500      Cost of Goods Sold  
      Dr 1521      Inventory Held for Sale  
      Dr 1766      Equipment Not in Use  
      Dr 1730      Buildings  
      Dr 1740      Other Structures and Facilities  
              Cr 1581      Work in Process-In-House  
              Cr 1721      Construction in Progress-In House

To record completion and delivery to a customer.

TABLE 20-1

prepared and forwarded to the accounting department for posting to the general ledger control accounts Work in Process-In-House and Construction in Progress- In- House. The supporting detail for these accounts is identified and maintained by the job order number on individual job order cost ledgers. As production departments complete a job order, the cost accounting

department calculates the total cost for the job and prepares a summary schedule for the accounting department. The accounting department prepares the general ledger control account entry transferring the appropriate amount from Work in Process-In-House and Construction in Progress accounts to the Cost of Goods Sold or applicable asset accounts. The detail support for these general ledger accounts is identified and maintained by job order numbers assigned to completed job order cost sheets.

200303. Identifying Productive Direct Labor Hours. Management identifies those employees whose work constitute labor hours within the production department. These hours are totaled and then estimated idle time hours and leave hours are deducted. The result is total departmental productive hours that are used as a denominator in the determination of the actual shop rate (see paragraph 200305, below). The standard and actual shop rates are discussed in the following paragraphs.

200304. Standard Shop Rate

A. Management uses cost accounting and engineering studies to develop an earned standard shop rate for each production department's labor hours. As an alternative to developing this rate, management can decide to use the prior period actual shop rate as the current period standard shop rate. The purpose of the standard shop rate is threefold. First, it permits a standard cost for work performed to be billed to customers. Second, it allows for the costing of products when manufactured rather than when actual costs are determined. Third, it functions as a performance measurement tool. Management uses the standard shop rate to measure a department's cost-effectiveness or to identify its inefficiencies. The measurement compares actual shop rate cost data to standard shop rate cost data (see paragraphs 200306 and 200307, below). The resulting variance identifies cost efficiency or inefficiency.

B. Defense Business Operations Fund activities develop an annual stabilized job order shop rate. The annual adjustment for Defense Business Operations Funds includes a factor to recoup unrecovered prior year costs, if any.

C. Appropriation funded activities should develop a shop rate for each accounting period. The standard shop rate consists of direct labor, indirect labor, and indirect material cost. In addition to the standard shop rate, general and administrative expenses should be allocated to customers in order to identify all costs associated with the job order. Typically the shop rate is calculated by taking last years shop rate and accelerating it for pay wage rates giving consideration to staff changes.

200305. Actual Shop Rate

A. As part of the management and accounting process, an actual shop rate is prepared for each production department. The rate consists of direct labor, indirect labor, and indirect material costs obtained from the same data base used to prepare the general ledger control

account entries. The sum of these costs is divided by the actual productive labor hours incurred (see paragraph 200303, above), and the result is the actual shop rate.

B. Unfunded cost (see paragraph 200311, below) financed by other organizations or by prior appropriations should be added to the shop rate charges and billed to non-DoD ordering activities or considered in making cost effectiveness comparisons. In addition, general and administrative expenses (see paragraph 200309, below) should be charged customers in order to recover all cost associated with the job order. Table 20-2 illustrates the determination of a typical actual shop rate for appropriation funded activities. [Volume 11](#) of this Regulation provides guidance for determining types of costs to be recovered from customers, including indirect costs and general and administrative expenses.

<b><u>DEPARTMENTAL ACTUAL SHOP RATE</u></b>		
	<b>AMOUNT</b>	<b>SHOP RATE</b>
<b><u>FUNDED COSTS:</u></b>		
Direct Labor	\$ 4250	
Direct Material	300	
Overhead:		
Indirect Labor	250	
Indirect Material	200	
Subtotal	\$ 5000	
<b><u>UNFUNDED COSTS:</u></b>		
Military Labor	\$ 500	
Civilian Retirement	900	
Free Issue Material	523	
Subtotal	\$ 1923	
Subtotal Funded and Unfunded	\$ 6923	
Depreciation @ 4%	\$ 277	
<b>TOTAL FUNDED AND UNFUNDED</b>	<b>\$ 7200</b>	
Department's Productive Labor Hours	180 hours	= \$ 40

TABLE 20-2

200306. Variance Determination

A. As part of the management process, the cost accounting department compares the earned standard rate to the actual rate. The difference between standard and actual

rates is a variance. A favorable variance shows that the production department is operating in an efficient manner. An unfavorable variance alerts management that corrective action may be required.

B. In the event an organization processes a job order at the standard rate and a variance occurs, action must be taken to either apply the variance to the various job orders that have been processed, and if necessary, to adjust the shop rate. When the decision to adjust the shop rate is made, the recalculation must provide for the amortization of any accumulated favorable or unfavorable variances. The variance percentage is determined by dividing the job order actual cost by the earned standard cost as illustrated in the following example:

DETERMINATION OF VARIANCE

The variance is determined by dividing the actual shop rate by the earned standard shop rate.

<u>Actual Shop Rate</u>	=	Variance
Earned Standard Shop Rate		
<u>\$40</u>	=	139%
\$28.80		

EXAMPLE: The job order cost sheet for job #111 shows that 50 hours have been accumulated in the production department. The computation of the customer charge follows:

(50 hours X [\$28.80 X 139%] = \$2002)

200307. Variance Analysis

A. Activities using standard costs must analyze the variance account for each standard and determine the causes for a variance. The variances relate to direct costs, overhead, and general and administrative expenses. The variances associated with these categories are discussed in paragraphs 200307.B. through 200307.D, below. Table 20-7 provides a chart for identifying possible causes of variances.

B. Direct costs. Normally, there are four distinct reasons for a direct cost variance that must be analyzed. Labor rate variances, labor time variances, material price variance and material quantity variances may occur whenever labor or material resources are charged to a job on a standard cost basis. Careful analysis is necessary because of the interrelationships of the variances. For example, a lower labor rate might result in higher labor

hour content, or it might result in excessive material usage because lower skilled workers spoil more material. Thus, it is important when conducting a variance review to identify all of the possible interrelationships.

C. Overhead. Overhead variances may be classified as to overhead spending and overhead volume. Careful analysis is necessary because of the interrelationships of the variances. An unfavorable overhead variance may result from using equipment that is technically obsolete or which has become worn out, and requires additional maintenance to keep it operating. This would result in an unfavorable overhead expense variance.

D. General and Administrative Expenses

1. These costs can be analyzed in a manner similar to overhead. The analysis would be directed toward determining whether general and administrative expenses are in line with budget.

2. General and administrative expenses occur at three levels--the installation, the intermediate command and the headquarters command. As a general rule, not recognizing intermediate and headquarters command level general and administrative expenses in determining the cost of an end product should not result in a material understatement of cost since the amounts allocated would be comparatively insignificant (such expenses would be incurred even if the item or service were not produced). When it is necessary to recognize such expenses in developing the cost of an end item or service, the guidance contained in [Volume 11](#) of this Regulation should be followed.

200308. Subsidiary Accounts. Each production and support department shall maintain the capability to array data in sufficient detail necessary to satisfy management information requirements. Subsidiary cost accounts may be established to assist in costing a product or service. For example, it may be necessary to accumulate direct labor, direct material and overhead in separate subsidiary accounts. Accounting information is posted to the subsidiary accounts as it becomes available via labor distribution reports, material reports, and overhead worksheets.

200309. General and Administrative Expenses. The general and administrative (G&A) expenses are accumulated in the activities indirect cost centers and charged to customers by equitably prorating the expense to job orders. A rate is established in order to prorate the expense to the customer job orders. Customers are billed for the general and administrative expense allocated to their job orders when required in accordance with the guidance contained in [Volume 11](#) of this regulation. A typical allocation is illustrated in the following example:

EXAMPLE: The activities general and administrative expenses incurred by indirect cost centers during the period are:

<u>INDIRECT COST CENTER</u>	<u>AMOUNT</u>
A	\$ 100
B	50
C	100
D	<u>250</u>
Total G & A Expenses:	\$ <u>500</u>

The job order costs incurred for the accounting period are:

<u>JOB ORDER NUMBER</u>	<u>COST INCURRED</u>
101	\$ 500
102	1000
103	2500
104	1000
Total Job Order Cost:	\$ <u>5000</u>

FORMULA FOR GENERAL AND ADMINISTRATIVE RATE DETERMINATION

$$\frac{\text{General \& Administrative Expense}}{\text{Total Job Order Cost Incurred}} = \text{Rate}$$

$$\frac{\$ 500}{\$ 5000} = 10\%$$

The general and administrative rate is applied to the job order cost in order to distribute the expense to the customers as illustrated in the following example:

JOB ORDER	JOB ORDER	G & A EXPENSE
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<u>NUMBER</u>	<u>COST</u>	<u>RATE</u>	=	<u>ALLOCATED</u>
101	\$ 500	10%	=	\$ 50
102	1000	10%	=	100
103	2500	10%	=	250
104	1000	10%	=	100
Total General & Administrative Expense				\$ <u>500</u>
<u>SCHEDULE OF AMOUNTS BILLED TO CUSTOMERS</u>				
<u>JOB ORDER NUMBER</u>	<u>JOB ORDER COST</u>	<u>G &amp; A EXPENSE ALLOCATED</u>		<u>AMOUNT BILLED TO CUSTOMER</u>
101	\$ 500	\$ 50		\$ 550
102	1000	100		1100
103	2500	250		2750
104	<u>1000</u>	<u>100</u>		<u>1100</u>
TOTAL	\$ <u>5000</u>	\$ <u>500</u>		\$ <u>5500</u>

200310. Source Documents Required. The principle cost categories charged to the production departments include direct labor, direct material, contract, and overhead (includes indirect labor and material costs).

A. Labor Source Documents. Source documents for labor costs are job/labor distribution tickets. The job/labor distribution ticket is coded with the job order identification number. The ticket accumulates the total employee labor hours by job within a department. The employees' time by job and pay rate information is obtained from the job/labor distribution tickets and used to prepare the departmental shop rate. Job/labor distribution tickets can be prepared by a supervisor or by workers if initialed by a supervisor. In addition, employee hours may be recorded mechanically by a time clock on a time card as employees punch in and out as they start and stop on each job, or they may be recorded manually by a timekeeper. As an internal control procedure, job/labor distribution ticket hours are compared to total hours. At the end of each pay period, the civilian payroll system summarizes the hours worked as reported on approved time cards, obtains pay rate data from the personnel system, and calculates gross and net pay based on payroll and withholding authorizations for each employee. A labor distribution report that identifies payroll cost by department based upon the job order identification number

is prepared using the pay computed by the pay system. This distribution computation may be part of the pay system or it may be included in the cost accounting module. The responsibility for determining who shall perform the labor distribution is a management function.

B. Material Source Documents. There are many source documents that are used to identify material costs. This paragraph discusses some of the more common documents:

1. DD Form 1348, "DoD Single Line Item Requisition System Document (Manual)". This form is prepared by the department requesting material and coded with the job order/department identification number. The form is forwarded to the installation supply officer for approval and to determine the supply availability through the Military Standard Requisitioning and Issue Procedure (MILSTRIP). When the applicable material is dropped from inventory, it is charged to work in process. [Chapter 4](#) of this Volume provides guidance to be followed in determining the price of material that is released from inventory.

2. Contract Source Documents. Included in this category are contracts and purchase orders used to purchase material from vendors. When material is received, an appropriate inventory and accounts payable accounts are posted. When inventory items are requisitioned and placed into production, the material is costed to a specific job and recorded to the Work in Process-In-House account (see paragraph 200402.C, below, for the accounting treatment).

C. Overhead Source Documents. Overhead costs pertain to the allocation of supporting department costs to producing departments. Overhead costs are allocated through use of worksheets that summarizes and allocates supporting department expenses to production departments. Various methods for allocating overhead include direct labor hours, direct labor cost, machine hours, or material cost. The method chosen must be used consistently from one period to the next in order to permit meaningful comparisons.

200311. Accumulation of Unfunded Cost. The formal cost accounting module captures the costs that are funded in the current operating installation budget. Costs that are financed by another organization's or activity's appropriations are referred to as unfunded costs. This paragraph provides guidance for identifying unfunded costs for DoD components operating under direct appropriation procedures.

A. Military Labor

1. DoD Components operating a formal cost accounting system that employ military personnel shall maintain a record of the grade and number of hours worked by military personnel for each job in the department. These hours are then extended at standard military composite rates in accordance with the guidance in [Volume 11](#) of this Regulation. These costs shall be charged to non-DoD ordering activities or considered in making a cost comparison to organizations that have no assigned military personnel.

2. DoD Components performing work for non-DoD activities shall recoup military fringe benefits by applying a percentage surcharge to military pay/costs and billed as part of direct costs. The military labor costs and fringe benefit costs shall be charged to non-DoD customers in accordance with guidance contained in [Volume 11](#) of this Regulation. [Volume 11](#) also provides guidance to be followed by the Military Departments in determining the hourly rates. Guidance on the disposition of amounts collected are also contained in [Volume 11](#).

B. Unfunded Civilian Retirement Costs. DoD Components operating a formal cost accounting system that employ civilian personnel shall apply the unfunded retirement percentage rate, specified in [Volume 11](#), to the civilian labor cost when formulating the actual shop unfunded cost rate. The additional percentage rate is intended to recoup unfunded civilian retirement cost. These costs should be charged to non-DoD ordering activities or considered in making cost comparisons. Guidance on the disposition of amounts collected are also contained in [Volume 11](#).

C. Unfunded Material

1. In accordance with the guidance contained in [Volume 11](#), material includes both inventory and equipment in use. The activity losing the material or equipment shall account for the transfer by reducing the appropriate asset and equity accounts in accordance with the guidance contained in [chapters 4, 6, and 15](#) of this Volume. The accounting entry should reflect acquisition cost and any accumulated depreciation for equipment in use. If the activity receiving the material operates a production facility, it shall adhere to the following procedures and use the prescribed forms. A DD Form 1348 is the source document for requesting unfunded material. The DoD Component should insert the appropriate department code identification number and quantities ordered when preparing the form. Logistic centers or supply activities should issue material cost information to the Components via a non-interfund or unfunded pricing document. The noninterfund or unfunded pricing document provides material price and quantity information.

2. DoD Components shall classify unfunded material, also known as free issue material, received as either consumable material or equipment. Consumable material

shall be included in calculating the unfunded portion of the shop rate. DD Form 1348 is the source document for requesting unfunded material or equipment. The DoD Component shall insert the appropriate department code identification number and quantities ordered when preparing the form. Logistic centers should issue material or equipment cost information to the Components via a non-interfund or unfunded pricing document. The non-interfund or unfunded pricing document provides material or equipment cost and quantity information.

D. Unfunded Depreciation. DoD Components operating production facilities that do not have the capability to calculate depreciation on an item by item basis shall apply a 4 percent asset use charge to total costs to recoup depreciation on sales to non-federal customers in accordance with the guidance contained in [Volume 11](#).

#### 2004 PRODUCTION COST COMPONENTS

Production cost consists of direct labor, direct material, and overhead. Direct labor is labor used to transform various components into a finished product or service. The labor must be directly attributed to the job order. Direct material is that material specifically charged to the job. It has a sufficiently large value to be worth charging to the job and to be identified as a major cost element of the finished product or service. Normally, only the more significant items are classified as direct material. Production overhead consists of all indirect costs considered to be associated with the production or service processes other than general and administrative expenses. Typically, production overhead costs include, but are not limited to, indirect material or supplies, indirect labor, facility and equipment depreciation, repairs, maintenance, and occupancy costs.

##### 200401. Direct Labor

A. Labor is used to produce products or services either directly or indirectly. Direct labor costs are those that can be identified specifically with a product or service (see paragraph 200403.B, below, for a discussion of indirect labor). Civilian and military personnel labor distribution rates shall be established in accordance with the guidance contained in [Volume 11](#).

B. Job tickets and time cards are used as a means of ascertaining the labor cost and of distinguishing between direct labor and indirect labor. During each pay period, job tickets are summarized and direct labor costs are distributed to each job through use of the standard shop rate. The labor cost incurred in each department is accumulated on the job order cost ledger.

C. At the end of each pay period, the payroll is calculated, posted to general ledger accounts, and recorded in the appropriate job order cost ledgers (subsidiary job cost ledger). Table 20-3 illustrates typical general ledger account payroll entries. Indirect labor is also illustrated since it is also a part of payroll expense:

**PAYROLL ENTRIES**

1. Dr 1581     Work in Process-In-House  
    Dr 1721     Construction in Progress-In House  
       Cr 2211     Accrued Payroll-Civilian  
       Cr 2213     Accrued Payroll-Civilian Employer Share of Fringe Benefits

To record the direct labor costs incurred.

2. Dr 6600     Applied Overhead  
       Cr 2211     Accrued Payroll-Civilian  
       Cr 2213     Accrued Payroll-Civilian Employer Share of Fringe Benefits

To record the indirect labor costs incurred.

3. Dr 1581     Work in Process-In-House  
    Dr 1721     Construction in Progress-In House  
       Cr 6600     Applied Overhead

To record the indirect labor applied at standard rates.

TABLE 20-3

200402.     Direct Material

A.     Direct material costs are those incurred for raw materials, parts, subassemblies, components, and supplies that can be identified specifically for use in producing the product or performing the service. Direct materials and supplies owned by the performing activity, acquired from a Defense Business Operations Fund, or from an inventory account financed by appropriated funds, shall be charged to a job order in accordance with applicable costing procedures. Purchased materials and supplies shall be charged to a job order at acquisition cost plus the cost of transportation. Customer furnished materials should be accounted for, and reported to customers separately, and should be related to specific end products or services in such a manner as may be required by customers.

B.     Materials received are charged to a general ledger inventory control account. Individual material accounts are maintained for each class of materials in a subsidiary ledger. Materials requisitioned and transferred to production are the basis for debits to the proper job order cost sheets in the subsidiary job cost ledger and credits to the material accounts in the subsidiary ledger.

C. At the end of the accounting period, requisitions are summarized. The material requisitioned is classified as either direct material or indirect material. The direct material is debited to the control account for Work in Process-In-House or Construction in Progress-In House and credited to the general ledger inventory control account. The indirect material is debited to the applied overhead control account and credited to the general ledger inventory control account. Table 20-4 illustrates the purchase of material and the posting to the accounts. Since the material expense is usually distributed to the accounts in a compound entry, the indirect material allocation is also shown.

**DIRECT MATERIAL ENTRIES**

1. Dr 1521     Inventory Held for Sale  
    Cr 2114     Accounts Payable-Public-Current

To record the purchase of inventory.

2. Dr 1581     Work in Process-In-House  
    Dr 1721     Construction in Progress-In House  
    Cr 1521     Inventory Held for Sale

To record cost of direct material placed in production.

(NOTE: When material is requisitioned it is charged to the applicable job order. The value of material issued for all job orders should be equal to the costs recorded in the work in process account for materials issued to production.)

3. Dr 6600     Applied Overhead  
    Cr 1521     Inventory Held for Sale

To transfer actual indirect material costs.

4. Dr 1581     Work in Process-In-House  
    Dr 1721     Construction in Progress-In House  
    Cr 6600     Applied Overhead

To record applied cost of indirect material.

TABLE 20-4

200403. Indirect Labor, Materials, and Overhead

A. Indirect labor is not directly identified with a single job order, but is identified with two or more job orders. Indirect labor includes all personnel costs of the department not charged as direct labor, including supervision and administration within the department, as well as nonproductive time. The indirect costs should be accounted for by whatever organizational units are supervising the cost control of operations and are responsible for allocating costs equitably to cost objectives, products, or services (see paragraph 200401.C, above, for the accounting entry).

B. Indirect materials are not directly identified with a single job order, but are identified with two or more job orders. Indirect material includes all material and supplies not charged as direct materials and supplies to the job order. The indirect material cost is distributed to job order cost ledgers through use of the standard shop rate. Supplies and small quantities of materials, put into the production process, that cannot be charged economically to a job order, should be charged to the department as an indirect cost (see paragraph 200402.C, above, for the accounting entry).

C. Production overhead includes the cost of items such as equipment depreciation, maintenance of equipment, power, other service department charges, indirect labor, materials, or supplies not charged as direct cost to a department. Supervision costs allocable to several job orders are charged to a job order as indirect cost i.e. production overhead. Supplies and small quantities of materials that are consumed in the production process, but cannot be traced without undue difficulty directly to production, should be charged to a job order as indirect costs, i.e., production overhead.

D. Overhead is applied to work in process or construction in progress at established rates. During the accounting period actual overhead is accumulated in the Applied Overhead account. At the close of the accounting period there may be an over or under applied balance, depending on whether the rate established at the beginning of the accounting period was too high or too low. The balance is closed to the appropriate net results of operations account, and the applied overhead rate for the subsequent year is adjusted to reflect the need to recover underapplied overhead or to redistribute overapplied overhead. Table 20-5 illustrates the accumulation of actual overhead and to apply overhead to work in process or construction in progress:

<b>INDIRECT LABOR AND OVERHEAD ENTRIES</b>	
1. Dr 6600	Applied Overhead
	Cr 1521     Inventory Held for Sale
	Cr 2211     Accrued Payroll-Civilian

Cr 2213	Accrued Payroll-Civilian Employer Share of Fringe Benefits
To record indirect costs.	
2. Dr 1581	Work in Process-In-House
Dr 1721	Construction in Progress-In House
Cr 6600	Applied Overhead
To record applied cost of indirect material.	

TABLE 20-5

200404. Job Order Cost Sheets

A. The job order cost sheet is the key document for accumulating direct material, direct labor, and overhead cost in a job order cost module. As each job is accepted and scheduled, it is assigned an identification number and a separate job order cost sheet is prepared. When the work is completed, the cost accounting department calculates the job cost and transfers the appropriate cost to the Cost of Goods Sold account or to an appropriate asset account.

B. As production begins, materials are requested and a materials requisition form is prepared. The requisition form serves as the basis for posting material costs to the job order cost sheet. In addition, the various stores requisitions serves as the basis for posting entries to the materials inventory and work in process accounts (see paragraph 200402.C, above, for accounting entries).

C. Personnel working in production departments prepare job/labor distribution tickets that designate time spent on the various jobs. These tickets are the basis for recording labor costs on job order cost sheets through use of the shop rate (see paragraphs 200304 and 200305, above). At the end of the pay period, the job/labor distribution tickets are summarized and show the jobs worked on by each employee. The job/labor distribution ticket provide the basis for posting direct and indirect labor cost entries to work in process and applied overhead accounts (see paragraph 200401.C, above, for accounting entries).

D. Applied overhead is allocated to individual jobs on the basis of predetermined shop rates. The cost accounting department calculates the amount of overhead to be recorded on the job order cost sheet through use of the shop rate (see paragraphs 200304 and 200305, above).

E. The job order cost sheet is totaled when the job is completed. The job's cost is then transferred from the Work in Process-In-House or Construction in Progress-In-House

accounts to the Cost of Goods Sold or applicable asset account when the item is completed and delivered to a customer as illustrated in Table 20-6.

<b>ENTRIES AT COMPLETION OF JOB ORDER</b>	
1.	Dr 6500    Cost of Goods Sold Cr 1581    Work in Process-In-House  To record completion of job order and delivery to customer.
2.	Dr 1521    Inventory Held for Sale Dr 1766    Equipment Not in Use Cr 1581    Work in Process-In-House  To record completion of job order and transfer to an inventory or asset account.
3.	Dr 1730    Buildings Dr 1740    Other Structures and Facilities Cr 1721    Construction in Progress  To record completion of job order and transfer to the appropriate asset accounts.

TABLE 20-6

2005 MONTH END REPORTS. A month end production department cost report produced by a job order cost accounting module in operation at a Defense Component with three jobs is illustrated in Table 20-8, operating under direct appropriation procedures. The illustration is presented to clarify the concepts and methodologies previously discussed in this chapter.

<b><u>VARIANCE ANALYSIS</u></b> <b><u>POSSIBLE CAUSAL FACTORS</u></b>	
<b>TYPE OF VARIANCE</b>	<b>POSSIBLE CAUSES</b>
<u>Labor Rate</u>	Clerical errors Skill mix changes Labor rate changes Production process changes Outdated standard
<u>Labor Time</u>	Clerical errors Skill mix changes

<b><u>VARIANCE ANALYSIS</u></b> <b><u>POSSIBLE CAUSAL FACTORS</u></b>	
<b>TYPE OF VARIANCE</b>	<b>POSSIBLE CAUSES</b>
	Misclassifications of direct/indirect labor Production process changes Reorganization changes Outdated standard Uncontrollable fluctuations Acts of God (Fire, Flood, etc.) Critical plant or equipment breakdown Critical material delays
<u>Material Price</u>	Clerical errors Production process changes Price changes Outdated standard Uncontrollable fluctuations Economic conditions (Strike, inflation, etc.)
<u>Material Quantity</u>	Clerical errors Misclassifications of direct/indirect material Production process changes Outdated standard Uncontrollable fluctuations Acts of God
<u>Overhead Spending</u>	Clerical errors Labor skill mix changes Production process changes Material process changes Support service changes Outdated standard Uncontrollable fluctuations Acts of God Economic conditions

TABLE 20-7

<b><u>VARIANCE ANALYSIS</u></b> <b><u>POSSIBLE CAUSAL FACTORS (CONT'D)</u></b>	
<b>TYPE OF VARIANCE</b>	<b>POSSIBLE CAUSES</b>
<u>Overhead Volume</u>	Clerical errors Misclassifications of direct/indirect

<b>VARIANCE ANALYSIS POSSIBLE CAUSAL FACTORS (CONT'D)</b>	
<b>TYPE OF VARIANCE</b>	<b>POSSIBLE CAUSES</b>
	Labor skill mix changes Production process changes Reorganization changes Outdated standard Uncontrollable fluctuations Critical plant or equipment breakdown Critical material delays

TABLE 20-7 (Cont'd)

<b>JOB ORDER COST ACCOUNTING REPORT ASSEMBLY DEPARTMENT FOR THE MONTH OF XXXX 19XX</b>				
	<b>JOB # 1 COSTS</b>	<b>JOB # 2 COSTS</b>	<b>JOB # 3 COSTS</b>	<b>TOTAL COSTS</b>
<b>FUNDED COSTS:</b>				
Direct Labor	\$ 6000	\$ 5000	\$ 5000	\$ 16000
Direct Material	3500	2300	2500	8300
Overhead	2000	1500	1500	5000
Subtotal	\$ 11500	\$ 8800	\$ 9000	\$ 29300
<b>UNFUNDED COSTS:</b>				
Military Labor	\$ 1600	\$ 1400	\$ 1500	\$ 4500
Civilian Retirement	600	400	500	1500
Free Issue Material	1000	1000	1000	3000
Subtotal	\$ 3200	\$ 2800	\$ 3000	\$ 9000
Total Funded and Unfunded Costs	\$ 14700	\$ 11600	\$ 12000	\$ 38300
Depreciation @ 4%	\$ 588	\$ 464	\$ 480	\$ 1532
<b>TOTAL COSTS</b>	<b>\$ 15288</b>	<b>\$ 12064</b>	<b>\$ 12480</b>	<b>\$ 39832</b>

TABLE 20-8