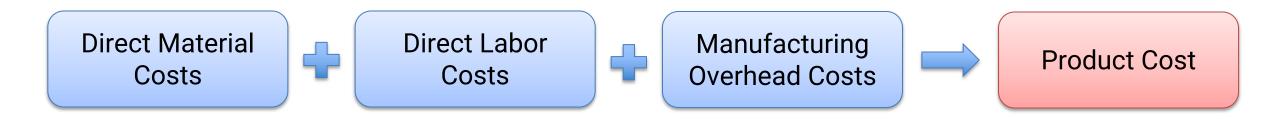
# Product Job Cost Analysis...



How much does it cost to make this?

Where do those costs come from?

### **Product Costs**



Direct Material Costs ("DM"): the costs of all those <u>materials</u> that ultimately become part of the final product.

Direct Labor Costs ("DL"): the cost of all the <u>employees</u> that turned those materials into the finished product!

Manufacturing Overhead Costs ("MOH"): all the "other" costs associated with making the product but are not part of the "direct" costs. In financial terms, these are the "indirect" manufacturing costs.

## Manufacturing Overhead Costs

Direct Material Costs



Direct Labor Costs



Manufacturing Overhead Costs



**Product Cost** 

#### **Indirect Material Costs:**

materials used to make the product but are not easily traced to the product.

- machining oil
- machining waste disposal
- cleaning rags
- ...

#### **Indirect Labor Costs:**

everyone else that works in the plant but doesn't turn a wrench!

- supervisors
- forklift drivers
- inspection technicians
- ....

### <u>"Other" Indirect Costs:</u>

plant-related costs that are also hard to trace to a specific product.

- equipment depreciation
- insurance for the facility
- plant property taxes
- ...

## Product Cost Analysis...

### Ex. Cost of an e-Bike...

Let's look at an example of how a company might build an e-bicycle and how it would determine its product cost.



# The Production Process...(somewhat simplified)

Customer places an order via a "Purchase Order" (PO).



Sales creates a Work Order to supply the product and sends it to the Production Dept.



Production looks at its Stock Inventory and determines if it needs to build any more.



It then evaluates the RM to see what is available and its WIP to see what is already in production.



Production evaluates its Bill of Materials to see what it needs to build the required units.



Production creates a schedule to build the necessary # of units to maintain the required stock inventory.



If necessary, it alerts the Purchasing Dept. to buy the necessary raw materials.



Purchasing places an order with suppliers for the necessary raw materials.



Raw materials are received by the "Receiving Dept." which confirms the order was met correctly (# and not damaged).

# The Production Process (continued)...



Production then requests the required raw materials from the warehouse.



Production converts the raw materials into finished goods.



Accounting then sends an Invoice to the Customer stating the package is on its way and its time to pay them!



The finished product goes to the FG Warehouse where it is packaged and shipped by the Shipping Dept.



Customer receives the order and sends a check

Let's see how this might play out with a product example...

## Next Time...

## Into the Weeds on the Product Job-Cost Approach



### **Credits & References**

Slide 1: Black electric bike isolated with clipping path by eshma, Adobe Stock (222853589.jpeg).

Slide 4: Black electric bike isolated with clipping path by eshma, Adobe Stock (222853589.jpeg). An excellent reference on product cost analysis can be found in "Managerial Accounting" by Braun and Tietz, Pearson (2015). Some of this lesson was adapted from this text.

Slide 7: Bicycle factory, worker holds teen bike frame by Nomad\_Soul, Adobe Stock (389654739.jpeg).