

ACCTG 2200: Q&A Ch. 3

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Process costing:

Is raw material counted twice?

- ▶ Short answer: **NO**
- ▶ There is *one* raw materials account
- ▶ There is *one* overhead account
- ▶ There are multiple *WIP* accounts and costs are transferred between them when the process is complete
 - ▶ Q: “Why do we need to transfer the total cost of goods completed in the work in process inventory to the bottling work in process inventory”
 - ▶ A: To avoid bottlenecks (not a pun) in CFA, and slack capacity in bottling
- ▶ The number of processes is determined by the manufacturing process

In our Fetzer Vinyard example:

- ▶ RMI holds: grapes, yeast, labels, bottles, corks
- ▶ There are two processes
 - ▶ CFA
 - ▶ During CFA we transfer in yeast and grapes from RMI
 - ▶ Then transfer barrels of aged and fermented wine to Bottling
 - ▶ Bottling
 - ▶ During bottling we transfer in bottles labels and corks from RMI
 - ▶ Transfer in costs of the barrels (Called 'transferred in' costs because they are still in process.)
 - ▶ Then transfer bottles of wine to FGI

Tracking costs in WIP:

We use FIFO or Weighted Average to track value of WIP when we have work that is not completed during the period

- ▶ FIFO gives better information, but is harder to calculate
- ▶ Weighted Average is easier, but gives *worse* information
- ▶ We choose between the two based on cost/benefit
- ▶ As information systems become less expensive we see more FIFO
- ▶ *Note: These do not apply to finished goods*

What about LIFO? (*Last-in-First Out*)

- ▶ Harder than Weighted Average
- ▶ Worse information than weighted average
- ▶ Not allowed under IFRS, soon to be removed from GAAP
- ▶ Remember that Tax accounting is separate from MA! So we won't consider tax benefits here.

Conversion costs:

- ▶ $DL + MOH = CC$
- ▶ Why do we combine DL with MOH?
- ▶ In process manufacturing labor is inherently indirect!
- ▶ So we just allocate it to the process.

Do we use POHR in Process costing?

- ▶ **Yes!**
- ▶ We use a version of it in *every* costing method
- ▶ In ABC we call it the activity rate