What is Process Costing?

Worksheet

Process costing assigns costs to production departments over a period, then divides total department costs by equivalent units produced to find an average cost per unit. It fits continuous, homogeneous production rather than distinct custom jobs.

Questions

1. Process costing is best suited for which type of production?

A) Custom, one-off jobs
B) Continuous mass production of identical units
C) Service-only businesses with no inventory
D) Single unique projects

2. A department spends $80,000 and produces 16,000 equivalent units. What is the cost per unit?

A) $5.00
B) $8.00
C) $0.20
D) $16.00

3. What happens to the cost per unit from one department in a multi-department process?

A) It is discarded
B) It becomes the transferred-in cost of the next department
C) It is expensed immediately
D) It is ignored in later departments

4. Which industries commonly use process costing?

A) Custom furniture makers
B) Construction contractors
C) Chemical and food processing companies
D) Law firms

5. A mixing department incurs $50,000 in total costs during the month and completes 10,000 equivalent units. What is the cost per unit?

6. The Mixing department spends $30,000 and transfers 6,000 completed units to the Packaging department. What is the transferred-in cost per unit for Packaging?

7. A bakery's process costing shows $12,000 of materials cost and $8,000 of conversion cost for 4,000 equivalent units. Find the total unit cost.

8. Define: What is process costing?

9. Define: When is process costing used instead of job costing?

10. Define: What does 'transferred-in cost' mean?

Answer Key

1. B) Continuous mass production of identical units - Process costing averages costs across large volumes of identical units in continuous production.

2. A) $5.00 - $80,000 / 16,000 = $5.00 per unit.

3. B) It becomes the transferred-in cost of the next department - Completed units carry their cost forward as transferred-in cost.

4. C) Chemical and food processing companies - Continuous, homogeneous production like chemicals or food fits process costing.

5. Cost per unit = Total costs / Equivalent units Cost per unit = $50,000 / 10,000 = $5.00 per unit

6. Cost per unit in Mixing = $30,000 / 6,000 units Cost per unit = $5.00 This $5.00 becomes the transferred-in cost per unit recorded in Packaging.

7. Materials per unit = $12,000 / 4,000 = $3.00 Conversion per unit = $8,000 / 4,000 = $2.00 Total cost per unit = $3.00 + $2.00 = $5.00

8. A costing method that averages total production costs over equivalent units for continuous, homogeneous production.

9. When identical units are mass-produced continuously (chemicals, food, paper) rather than made as distinct custom jobs.

10. The cost per unit carried from one department into the next department's process.