

systems divide the total costs of producing an identical or similar product or service by the total number of units produced to obtain a per-unit cost. This per-unit cost is the average unit cost that applies to each of the identical or similar units produced in that period.

Learning Objective 3 : Describe the Approaches to Evaluating and Implementing Job-Costing Systems

One form of a job-costing system is **actual costing**, which is a costing system that traces direct costs to a cost object based on the actual direct-cost rates times the actual quantities of the direct-cost inputs used. Indirect costs are allocated based on the actual indirect-cost rates times the actual quantities of the cost-allocation bases. An actual indirect-cost rate is calculated by dividing actual annual indirect costs by the actual annual quantity of the cost-allocation base. Moreover, as its name suggests, actual costing systems calculate the actual costs of jobs. Yet actual costing systems are not commonly found in practice because actual costs cannot be computed in a timely manner.

There are two reasons for using longer periods, such as a year, to calculate indirect-cost rates:

- **The numerator reason (indirect cost pool).** The shorter the period, the greater is the influence of seasonal patterns on the amount of costs. Moreover, levels of total indirect costs are also affected by nonseasonal erratic costs, which are the costs incurred in a particular month that benefit operations during future months;
- **The denominator reason (quantity of the cost-allocation base).** Another reason for longer periods is to avoid spreading monthly fixed indirect costs over fluctuating levels of monthly output and fluctuating quantities of the cost-allocation base.

Another form of job costing system is **normal costing**, which is a costing system that (1) traces direct costs to a cost object by using the actual direct-cost rates times the actual quantities of the direct-cost inputs and (2) allocates indirect costs based on the *budgeted indirect-cost rates* (see picture below) times the actual quantities of the cost-allocation bases.

$$\text{Budgeted indirect cost rate} = \frac{\text{Budgeted annual indirect costs}}{\text{Budgeted annual quantity of the cost-allocation base}}$$