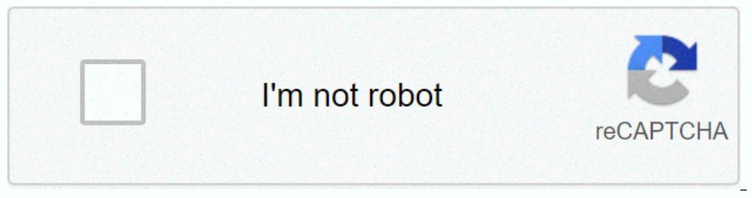

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Joint costs occur

Companies that produce multiple products need to understand accounting concepts such as joint costing and common costing. These theories show differences in cost allocation and help small businesses accurately predict costs and benefits. On the surface, joint costs are similar to common costs, but a closer look at them reveals the difference. Understanding the full scope of such concepts can help accountants and managers know which departments to charge for the costs coming in. General costs are common and are not attributed to one department or region of a small business. Companies typically use common costing information for administrative decisions, but this type of cost tracking is especially useful for external accountants. Production costs remain universal or common until the split point at which the product is affected by different processes. For example, an entire field of corn costs the same to grow, but after harvesting and distribution, these processes change when half is prepared as popcorn and designated as other corn flour. At first there was a common cost for a single product, and then, at the split point, the cost of the two products started differently. Joint costs are a type of common cost incurred after raw products such as sunflower crops go through two separate production processes. For example, the cost of fertilization and harvesting sunflowers qualifies as a general cost. When companies use kernels in two or more different processes, such as roasting and grinding, the cost becomes a joint cost. Another example of joint cost is supplying both sheep and cows. Ultimately, the two types of products will use similar shared costing up to the split-off point. Fiscal attributes are costs that are common to all production departments. These costs can't be assigned to specific areas. Typical universal costs for small businesses include the cost of electricity, transportation, and money. Common expenses such as depreciation and income tax are further examples. These shared costs include basic production and fuel costs for multiple products. General costs change with increasing or decreasing overall production. Co-costing is useful when expenses benefit two or more departments of a business at the same time. A special number or attribution in accounting indicates that the cost is a joint cost. Therefore, the accounting department assigns costs twice to the corresponding department at the appropriate rate. Joint costing can be a useful tool for encouraging budgeting cooperation between departments. While it is not always possible to accurately separate costs and contributions between beneficiaries, joint costing is an acceptable form of accounting for most small businesses. See also: Sinking Cost Inventable Costs Financial Distress Cost Agency Costs Bankruptcy Costs in Accounting, Jointis the cost incurred by the collaborative process. Joint costs may include direct materials, direct labor, and overheads incurred during the co-production process. A joint process is a production process in which one input produces multiple outputs. In the process of automatically creating one output product, other types of output products are also automatically created. Joint process example A collaborative process is a production process that creates other products in the creation of one product. The process by which a single input produces multiple outputs. Co-production processes are common in agriculture, food manufacturing and chemical industries. Take, for example, a poultry factory. The plant takes live chickens and turns them into chicken pieces used for food. Chickens produce chicken breast, drumsticks, liver, jagged, and other parts of chicken used for human consumption. They also produce motley chicken byproducts used for hot dogs, jerky sticks, or animal provers. Similarly, consider an oil refinery. Refineries take in crude oil and refine it into substances that can be used for auto gasoline, motor oil, heating oil and kerosene. All of these various outputs are obtained from crude oil, which is a single input. In these examples, multiple outputs are generated at a single input. Both of these are examples of co-production processes. Joint cost allocation Distributes joint costs to primary production products in the joint process, rather than accidental byproducts or defects. Assign using physical or monetary measures. Physical measures assign joint costs to primary products based on physical characteristics such as units produced, pounds or tons produced, barrels produced, or other physical measures suitable for the production of primary products. To use this method, you can generate a cost per unit of output by the gross production cost by the appropriate measure of the output. One type of monetary measure for joint cost allocation is the method of sales value. Use the sales value method to differentiate between key products based on the sales amount. Then split it into sales values of up to 100%. Next, the ratio is multiplied by the sum of the production costs to calculate the costs assigned for each primary product type. Joint costs are costs that benefit multiple products, and by-products are minor results in the production process and are products with low sales. Joint costing or by-product costing is used when there is a production process in which the final product is split at a later stage of production. The point at which the final product can be determined is called the split-off point. There may be more than one split point. In each,The product is clearly identifiable, physically separated from the production process and perhaps even more refined into the finished product. If manufacturing costs occur before the split point, you must specify how these costs are assigned to the final product. If an entity is costed after a split point, the cost is likely associated with a specific product, so it is easier to assign it. In addition to the split point, there may be one or more by-products. When the specificity of by-product revenue and costs is taken into account, by-product accounting tends to be a minor issue. If a cost occurs before the split point, it must be assigned to the product under the direction of both generally accepted accounting principles and international financial reporting standards. If you do not assign these costs to the product, you will charge the cost for the expenses in the current period because they must be treated as period costs. This may be a cost mishandling if the related product is not sold some time in the future because it charges a portion of the product cost before realizing the offset sales transaction. Because the resulting information is essentially based on arbitrary allocations, the allocation of joint costs is not useful for management. Therefore, the best allocation method does not need to be particularly accurate, but it should be easy to calculate and easy to defend against if reviewed by auditors. How to allocate joint costs There are two ways to assign joint costs. One method assigns costs based on the resulting product sales amount, and the other is based on the estimated final gross margin of the resulting product. Here's how it's calculated: Sum all production costs through split-off points, determine the sales value of all joint products at the same split-off point, and assign costs based on sales amounts. If there are by-products, do not assign costs. Instead, charge the proceeds from the sale against the cost of the goods sold. This is simple in two ways. Allocate based on gross margin. Sums all the processing costs incurred by each joint product after the split-off point and deducts this amount from the total revenue that each product ultimately earns. This approach requires additional cost accumulation work, but is the only viable alternative if you cannot determine the sales price for each product at the time of the split point (as is the case with the calculation method described above). Develop prices for joint and secondary products The costs assigned to joint products and by-products are the cost of costs and should not be related to the price of these productsIt has nothing to do with the value of the item sold. Before the split point, all costs incurred are s sinking costs and do not affect future decisions such as the price of the product. The situation is very different when it comes to costs incurred since the split-off point. Because these costs can be attributed to a specific product, do not set a product price below the total cost incurred after the split. Otherwise, the company will lose money on all products sold. If the product price floor is only the total cost incurred after the split-off point, this creates a strange scenario of potentially charged prices that are lower than the total cost incurred (including costs incurred before the split point). Obviously, 400 million such a low price is not a viable alternative in the long run, as companies operate continuously at a loss. This creates two pricing options: short-term pricing. In the short term, if the market price does not raise the price to a long-term sustainable level, it is necessary to allow very low product prices, even if they are close to the sum of the costs incurred after the split. Long-term pricing. In the long run, companies need to set prices to achieve revenue levels above total production costs, or risk insolvency. This means that if individual product prices cannot be set high enough to offset production costs and customers do not want to accept higher prices, production must be canceled, regardless of how costs are distributed to various joint products and by-products. What you should remember about the cost allocation associated with joint products and by-products is that distribution is just an expression and does not affect the value of the product to which you allocate costs. The only reason to use these allocations is to achieve the sales amount of goods and the effective cost of inventory valuation under the requirements of various accounting standards. Related course Accounting for the basis of counting cost accounting