Job And Batch Costing Cost Accounting -2

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Job Costing

- Job costing is also known as *job order costing*.
- It is that form of specific order costing which applies where the work is undertaken as per the customer's specific requirements and each order is of comparatively short duration

Applicability

- Job costing is applicable to concerns engaged in job-order production or services.
- It is employed by jobbing concerns.

Applicability

Illustrative list of firms which usually employ job costing method

- Job printing
- Manufacture of special types of equipments
- Repair work
- Construction companies
- Ship building companies
- Furniture markers
- Interior decoration
- Automobile garages

Applicability

- This method of costing is used in organizations, where
- Production is done on the basis of customer's own specifications,
- Products are manufactured in distinguishable lots,
- Products are not uniform, and
- It is practical to maintain a separate record of each lot from the time the production has begun until it is completed.

Features

- Work is performed in accordance with the customer's orders and specifications.
- Products are not produced for maintaining stock.
- Every job can be identified clearly.
- Every job is charged with its own cost.
- Work-in-progress depends upon the number of jobs in hand at the end of the period.



- Each job is a separate accounting unit, and separate job and production numbers are allotted to each unit
- A separate production card is maintained for recording the costs incurred on each job or each lot of production

Procedures Involved

- Production Order
- Material Costs
- Labor Costs
- Manufacturing and other Overheads
- Completion of Jobs

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Advantages

- It helps in fixing up the responsibility for inefficiency.
- It determines the trends in costs.
- It also determines the completion cost of each job.
- It supports the preparation of estimates of costs of jobs before production.
- It enables comparison of estimated costs with the actual costs.
- It makes available to the management the complete details of production orders which contain valuable statistics on cost.

Limitations

- Job costing involves a lot of clerical work in identifying materials, labour, and overheads that relate to a specific job or department.
- They are not of much utility to the management, since the costs are ascertained and compiled historically.
- It does not support to establish budgetary control system.
- It is expensive to operate due to increased clerical work.

Batch Costing

- The Terminology of CIMA defines batch cost as 'aggregated costs relative to a cost unit which consists of a group of similar articles which maintains its identity throughout one or more stages of production.'
- In batch costing, the cost unit is not a single product but some specific quantity of similar products at the same time.



- Costs are collected batch-wise
- Products of identical nature
- Convenient group

Economic Batch Quantity

E.B.Q. =
$$\sqrt{\frac{2 \times D \times S}{I \times C}}$$

Where, D = Annual Demand

- S = Setting up cost per batch
- I = Annual Rate of Interest
- C = Unit cost of Production

