

COSTING METHODS

UNIT-1

INTRODUCTION TO COSTING METHODS

INTRODUCTION

The methods or types of costing refers to the methods used in the ascertainment of cost of products and services. Several methods have been designed to suit the needs of different industries. The method of costing to be used In a particular concern depends upon the type and the nature of manufacturing activities . There are two main types of costing , they are -

- ❖ Job costing
- ❖ Process costing

All other methods are variants of either job costing or process costing .

Various methods are as follows -

I. JOB COSTING:

Under this method, each job or work order or project is identified separately to be treated as a cost unit and for which the cost are separately calculated and accumulated .According to CIMA of U.K. job costing is being defined as "**applies where work is undertaken to customers' special requirement "** .

A job may be big or small , comprises of specific quantity of product to be produced as **per customer specification** .

The industries where this method of costing is applied are -

- Printing press
- Interior decorators
- Repair shops
- Painters
- General engineering workshops , etc

CONTRACT / TERMINAL COSTING

In contract costing the work is carried as per customer's specification. Here each contract is considered as a separate cost unit. A separate contract account is opened for each contract to ascertain profit on each contract. Contract costing is most suited to -

- Civil engineering contracts such as construction of buildings, construction of dams, bridges, roads, etc ...
- Ship building, air craft's construction, etc..

BATCH COSTING

A batch represents a number of small orders or group of identical products produced in a batch. Therefore, each batch of product is treated as a cost unit for which cost is separately ascertained. This method is used in companies engaged in production of ready-made garments, toys, biscuits and chocolates, shoes, tyres and tubes, compound parts, etc ..

OPERATING / SERVICE COSTING

This method of costing is used in the undertakings which provide services. Examples of undertakings using this method are -

- Transport undertakings (road transport, airways, shipping)
- Electricity companies
- Hotels
- Hospitals
- Cinema theatres, etc .

Cost is ascertained per unit of service rendered. These are usually a compound cost unit. Example : In transport company cost is ascertained in tonne-kilometre or passenger kilometre

SINGLE / OUTPUT / UNIT COSTING -

This method of cost ascertainment is used when production is uniform and consists of single or more varieties of same product. Where the product is produced in different grades, cost are ascertained grade wise.

As the unit of output are identical, the cost per unit is calculated by dividing the total cost by the number of units produced. The cost is ascertained in the form of cost sheet for a definite period. This method is applied in mines, steel mills, flour mills, quarries, etc ..

OPERATION COSTING -

A process may consist a number of operations as explained in the last stage of textile industry which involves number of operations such as polishing, dyeing, designing, packing etc and operation costing involves cost ascertainment of each operation which is involved in process costing.

II PROCESS COSTING

Process costing method is used in mass production industries which manufacture standardised products in which raw materials pass through number of processes of manufacturing process in a particular sequence to completion stage. A process here means a stage of production. Cost are accumulated for each process or department wise. As all the units produced are alike, in order to arrive at the cost per unit, the total cost of process is divided by number of units produced. The finished product of one process is passed on to the next process in sequence as raw materials.

For example, the manufacturing of clothes in textile factory involves different processes. The first process is spinning process, i.e., yarn is produced which is used by the weavers as raw materials in the next process, i.e., in the weaving process. In the second process, the output of weaving process, i.e., cloth is determined and transported to the next process, i.e., finishing process which involves different operations like dyeing, designing and packing process. Therefore in such multiple process industry,

process costing is used to ascertain the cost of each process . **Example of industries** which employ this method are

- soap manufacturing industry ,
- refineries ,
- sugar mills ,
- chemical manufacturing industries ,
- textile industries , etc .

III MULTIPLE COSTING / COMPOSITE COST

It is an application of more than one method of cost ascertainment in respect of same product . This method is used in engineering industries where a number of components are separately manufactured in different nature to assemble into a final product .

Example : Refrigerators , automobile industries , air conditioners , computers , mobile phones , air crafts , etc .
