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COSTING

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CHP 9 JOB COSTING

Theory Chart

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JOB COSTING

Meaning of Job Costing

The category of basic costing methods which is applicable where the work consists of separate contracts, jobs or batches, each of which is authorised by specific order or contract. Method of costing used for non-standard and non-repetitive products produced as per customer specifications and against specific orders.

Example of Industries

Printing; furniture; hardware; ship-building; heavy machinery; interior decoration, repairs and other similar work.

Principles of Job Costing

The job costing method may be regarded as the principal method of costing since the basic object and purpose of all costing is to:

- Analysis and ascertainment of cost of each unit of production
- Control and regulate cost
- Determine the profitability

Process of Job Costing

- Prepare a separate cost sheet for each job
- Disclose cost of materials issued for the job
- Employee costs incurred (on the basis of bill of material and timecards respectively)
- When job is completed, overhead charges are added for ascertaining total expenditure

Suitability of Job Costing

- When jobs are executed for different customers according to their specifications.
- when no two orders are alike and each order/job needs special treatment.
- Where the work-in-progress differs from period to period on the basis of the number of jobs in hand.

ADVANTAGES AND DISADVANTAGES OF JOB COSTING

S No.	Advantages	Disadvantages
1	The details of Cost of material, labour and overhead for all job is available to control.	Job Costing is costly and laborious method.
2	Profitability of each job can be derived.	As lot of costly and clerical process is involved the chances of error is more.
3	It facilitates production planning.	This method is not suitable in inflationary condition.
4	Budgetary control and Standard Costing can be applied in job costing.	Previous records of costs will be meaningless if there is any change in market condition.
5	Spoilage and defective can be identified and responsibilities can be fixed accordingly.	

FORMAT OF JOB COST SHEET

Job Cost Card/ Sheet

- To ascertain cost of a particular job, it is necessary to record all the expenditure related with a job separately.
- Job cost card is a cost sheet, where the quantity of materials issued, hours spent by different class of employees, amount of other expenses and share of overheads are recorded.
- This is helpful in knowing the total cost, profitability etc. of a job.

JOB COST SHEET

Description: ________________ Job No.: ________________

Blue Print No.: ________________ Quantity: ________________

Material No.: ________________ Date of delivery: ________________

Reference No.: ________________ Date commenced: ________________

Date finished: ________________

Date	Reference	Details	Material	Labour	Overhead
		Total			

Summary of costs	*Estimated (₹)*	*Actual (₹)*
Direct material cost		
Direct wages		
Production overhead		
PRODUCTION COST		
Administration and Selling & Distribution Overheads		
TOTAL COST		
PROFIT/LOSS		
SELLING PRICE		

For the job ________________

Units produced ________________

Cost/unit ________________

Remarks ________________

Prepared by: ________________

Checked by: ________________

COLLECTIONS OF COSTS FOR A JOB

Collection of Materials Cost

- Direct materials and their cost must be traced to and identified with specific job or work order.
- This segregation of materials cost by jobs or work order is brought by the use of separate stores requisitions for each job or work order.
- Where a bill of material is prepared, it provides the basis for the preparation of these stores requisitions.
- After the materials have been issued and the stores requisitions have been priced, it is usual to enter the value of the stores requisition in a material abstract or analysis book.
- It serves to analyse and collect the cost of all direct materials according to job or work orders and departmental standing orders or expense code numbers.
- From the abstract book, the summary of materials cost of each job is posted to individual job cost sheets or cards in the Work-in-Progress ledger.
- If any special material has been purchased for a particular job, it is generally the practice to charge such special material direct to the job concerned without passing it through the Stores Ledger, as soon as it is purchased.

Collection of Labour Cost

- All direct labour cost must be analysed according to individual jobs or work orders.
- Similarly, different types of indirect labour cost also must be collected and accumulated under appropriate standing order or expenses code number.
- The analysis of labour according to jobs or work orders is, usually, made by means of job time cards or sheets.
- All direct labour is booked against specific jobs in the job time cards or sheets.
- The time booked or recorded in the job time and idle time cards is valued at appropriate rates and entered in the labour abstract or analysis book.
- the total or the periodical total of each job or work order is then posted to the appropriate job cost card or sheet in Work-in-Progress ledger. The postings are usually made at the end of each week or month.

Collection of Overheads

- Manufacturing overheads are collected under suitable standing order numbers and selling and distribution overheads against cost accounts numbers.
- Total overhead expenses so collected are apportioned to service and production departments on some suitable basis.
- The expenses of service departments are finally transferred to production departments.
- The total overhead of production departments is then applied to products on some realistic basis, e.g. machine hour; labour hour; percentage of direct wages; percentage of direct materials; etc.

Treatment of spoiled and defective work

- Spoiled work is the quantity of production that has been totally rejected and cannot be rectified.
- Defective work refers to production that is not as perfect as the saleable product but is capable of being rectified and brought to the required degree of perfection provided some additional expenditure is incurred.

Where a percentage of defective work is allowed in a particular batch as it cannot be avoided.	• if the actual number of defectives is within the normal limit or is near thereto the cost of rectification will be charged to the whole job and spread over the entire output of the batch. • the cost of rectification of the number which exceeds the normal will be written off as a loss in the Costing Profit and Loss Account.
Where defect is due to bad workmanship	In this case cost of rectification will be Abnormal Cost and will be charged to P&L Account unless bad workmanship is unavoidable.
Where defect is due to the Inspection Department wrongly accepting incoming material of poor quality	In this case the cost of rectification will be charged to the department and will not be considered as cost of manufacture of the batch.

DIFFERENCE BETWEEN JOB COSTING AND PROCESS COSTING

S No.	Job Costing	Process Costing
1	A Job is carried out or a product is produced by specific orders.	The process of producing the product has a continuous flow and the product produced is homogeneous.
2	Costs are determined for each job.	Costs are compiled on time basis i.e., for production of a given accounting period for each process or department.
3	Each job is separate and independent of other jobs.	Products lose their individual identity as they are manufactured in a continuous flow
4	Each job or order has a number and costs are collected against the same job number.	The unit cost of process is an average cost for the period.
5	Costs are computed when a job is completed. The cost of a job may be determined by adding al costs against the job.	Costs are calculated at the end of the cost period. The unit cost of a process may be computed by dividing the total cost for the period by the output of the process during that period.
6	As production is not continuous and each job may be different, so more managerial attention is required for effective control.	Process of production is usually standardized and is therefore, quite stable. Hence control here is comparatively easier.