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# Theory Q&A

## Chp8 Unit & Batch Costing

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# Chp8. Unit and Batch Costing

## Theory Q&A

*(c) Describe Unit Costing and Batch Costing. Give three examples of industries for each method where these are used.*

**(c)** Unit costing is that method of costing where the output produced is identical and each unit of output requires identical cost. Under this method costs, are collected and analysed element wise and then total cost per unit is ascertained by dividing the total cost with the number of units produced.

Such a method of costing is used in the industries like paper, cement, steel works, mining, breweries etc.

**Batch Costing:** Batch Costing is a type of specific order costing where articles are manufactured in predetermined lots, known as batch. Cost per unit in a batch is ascertained by dividing the total cost of a batch by the number of units produced in that batch.

Such a method of costing is used in the case of pharmaceutical or drug industries, readymade garment industries, industries, manufacturing electronic parts of T.V. radio sets etc.

(c) In Batch Costing, STATE how is Economic Batch Quantity determined?

(c) **The economic batch size or Economic Batch Quantity** may be determined by calculating the total cost for a series of possible batch sizes and checking which batch size gives the minimum cost. The objective here being to determine the production lot (Batch size) that optimizes on both set up and inventory holding costs formula. The mathematical formula usually used for its determination is as follows:

$$EBQ = \sqrt{\frac{2DS}{C}}$$

Where,

D= Annual demand for the product

S=Setting up cost per batch

C=Carrying cost per unit of production