

1. DEFINITION OF JOB COSTING

The term Job Costing may be defined as “in job costing, costs are collected according to jobs, contracts, products or work orders. Each job is treated as a separate purpose of costing. The material and labour costs are collected through the respective overheads are charged on a predetermined basis to arrive at the total cost.”

Features of Job Order Costing

Some of the important features of this method of costing are given below:

- (1) Works or production are undertaken against the order of customers.
- (2) Production is not as a continuous process because each job is accepted by a customer for stock or future sales.
- (3) Each job is treated as a separate entity for the purpose of costing.
- (4) There is no uniformity in the flow of production because of different products.

Objectives of Job Order Costing

The following are the important objectives of Job Costing :

- (1) Job costing provides accurate cost information for each job or product.
- (2) It enables management to reduce the cost by making comparison of each element of cost with estimated ones.
- (3) It helps management to measure the operational efficiency and inefficiency of various works to take effective decision making.
- (4) This method enables management to provide proper valuation of work in progress.

Advantages of Job Order Costing

The following are the various advantages of Job order costing :

- (1) It helps management to identify profitable and unprofitable jobs.
- (2) It provides required information for preparation of estimates while submitting bids for similar jobs.
- (3) It facilitates effective cost control by evaluating the operational efficiency of each job.
- (4) It helps management to fix the selling price of each order or each job.

Disadvantages

- (1) This method is relatively involve more labour intensive. Thus, it is expensiv
- (2) With increase in clerical work, there are chances for committing more errors
- (3) Job Costing is essentially historical costing. It does not provide for the contri is combined with estimated or standard costing system.
- (4) It is difficult to make cost comparison among different jobs because each features.

Pre-requisites for Job Costing

In order to ensure the successful application of Job Costing method, it is essenti following pre-requisites :

- (1) A sound production planning and controlling system.
- (2) An appropriate time booking and time keeping system to avoid idle time.
- (3) Maintenance of necessary records with regard to job tickets, work order, open

Job Costing Procedure

The procedure of job costing may be adopted for costing purposes is briefly giv

(1) **Customer's Enquiry:** Production or job order is executed on the basis of enq the customers. The routine enquiries may be related to expected estimated costs to be be maintained and duration for production planning etc.

(2) **Quotation for the Job:** As per the customer's enquiry and specifications responsible person is preparing the estimates or quotation and price is fixed for a sp same conveyed to the customer appropriately.

(3) **Customer's Order:** If the quotation is satisfactory to the customer, he may |

(4) **Production Order:** As soon as an order is received, the Production Planni Department will make out a production order. It is in the form of instructions issued to the the order and to control its physical progress. It contains all the information regard Accordingly production control department assign a production order number for each

- (a) Direct material can be identified or obtained either from Bill of Materials Slips or Invoices in the case of direct purchases.
- (b) Wages paid to direct labour is associated with a job and can be identified with the help of Time Sheet, Job Cards and Wage Analysis Sheet.
- (c) Direct expenses are identified on the basis of direct expenses vouchers.
- (d) Overheads are apportioned on some predetermined basis. It can be apportioned on the basis of standing order numbers or cost account numbers.

(6) Completion of Jobs: After completion of a job, the final report is sent to the job order with regard to charging of material, labour, and overheads are recorded on the job cost sheet. The cost recorded under each element of cost is ascertained to find out the total cost. Any profit or loss is also ascertained.

Illustration: 1

From the following details, you are required to calculate the cost of Job No.215 and find out the price to give a profit of 25% on total cost

							<i>Rs.</i>
						2000	
Wages							
	Dept.	A	-	30 hours @ Rs.3 per hour			
		B	-	20 hours @ Rs.2 per hour			
		C	-	10 hours @ Rs.5 per hour			

Overhead expenses for these three departments were estimated as follows :

Variable Overheads

Dept.	A	–	Rs. 1,000 for 1,000 labour hours
	B	–	Rs. 6,000 for 3,000 labour hours
	C	–	Rs. 2,000 for 400 labour hours

Fixed Overheads

Estimated at Rs.10000 for 5000 normal working hours.

Solution:**Job Cost Sheet (Job. No.215)**


	<i>Amounts</i> Rs.	<i>Amounts</i> Rs.
Direct Materials		2000
		
Wages		
Dept.	A = 30 hrs x Rs. 3 = 90	
	B = 20 hrs x Rs. 2 = 40	
	C = 10 hrs x Rs. 5 = <u>50</u>	180
Variable Overheads		
Dept.	A = 30 x $\frac{\text{Rs. 1,000}}{1,000 \text{ hrs}} = 30$	
Dept.	B = 20 x $\frac{\text{Rs. 6,000}}{3,000 \text{ hrs}} = 40$	
Dept.	A = 10 x $\frac{\text{Rs. 2,000}}{400 \text{ hrs}} = \underline{50}$	120
Fixed Overheads		
	60 hrs x $\frac{\text{Rs. 10,000}}{5,000 \text{ hrs}} = \frac{120}{2,420}$	
Total Cost		
Profit 25% on total cost	$\left[\frac{25}{100} \times 2,420 \right]$	= 605
Selling Price		<u>Rs. 3,025</u>

Illustration: 2

The information given below has been taken from the records of an engineering works in respect of Job. No. 111 and Job. No. 222.

	<i>Job. No.111</i>	<i>Job. No.222</i>
	<i>Rs.</i>	<i>Rs.</i>
Materials Supplied	5,000	3,000
Wages Paid	1,100	800
Direct Expenses	400	200
Material transfer from 222 to 111	300	300
Materials return to stores	—	200

You are required to find out the cost of each of Job and calculate profit or loss if any assuming that Job No. 222 is completed and invoiced to the customer at Rs. 4000/-.

Solution:**Job. No. 111**

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Particulars</i>	<i>Amount Rs.</i>
To Materials	5,000	By Balance c/d	6,800
To Wages	1,100		
To Direct Expenses	400		
To Material transferred From Job. No. 222	300		
	6,800		
To Balance b/d	6,800		6,800

Job. No. 222

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Particulars</i>	<i>Amount Rs.</i>
To Materials	3,000	By Materials transferred to Job. No. 111	300
To Wages	800		
To Direct Expenses	200	By Materials return to stores	200
To P & L A/c (Profit transferred)	500	By Sales	4,000
	4,500		4,500