

Method of Costing

1. Job Costing:-

This costing method is used in firms which work on the basis of job work. There are some manufacturing units which undertake job work and are called as job order units. The main feature of these organizations is that they produce according to the requirements and specifications of the consumers. Each job may be different from the other one. Production is only on specific order and there is no pre demand production. Because of this situation, it is necessary to compute the cost of each job and hence job costing system is used. In this system, each job is treated separately and a job cost sheet is prepared to find out the cost of the job. The job cost sheet helps to compute the cost of the job in a phased manner and finally arrives the total cost of production.

2. Batch Costing :-

This method of costing is used in those firms where production is made on continuous basis. Each unit coming out is uniform in all respects and production is made prior to the demand, i.e. in anticipation of demand. One batch of production consists of the units produced from the time machinery is set to the time when it will be shut down for maintenance. For example, if production commences on 1st January 2007 and the machine is shut down for maintenance on 1st April 2007, the number of units produced in this period will be the size of one batch. The total cost incurred during this period will be divided by the number of units produced and unit cost will be worked out. Firms producing consumer goods like television, air-conditioners, washing machines etc use batch costing.

3. Process Costing:-

Some of the products like sugar, chemicals etc involve continuous production process and hence process costing method is used to work out the cost of production. The meaning of continuous process is that the input introduced in the process I travels through continuous process before finished product is produced. The output of process I becomes input of process II and the output of process II becomes input of the process III. If there is no additional process, the output of process III will be the finished product. In process costing, cost per process is worked out and per unit cost is worked out by dividing the total cost by the number of units.

4. Operating Costing:-

This type of costing method is used in service sector to work out the cost of services offered to the consumers. For example, operating costing method is used in hospitals, power generating units, transportation sector etc. A cost sheet is prepared to compute the total cost and it is divided by cost units for working out the per unit cost.

5. Contract Costing :-

This method of costing is used in construction industry to work out the cost of contract undertaken. For example, cost of constructing a bridge, commercial complex, residential complex, highways etc is worked out by use of this method of costing. Contract costing is actually similar to job costing, the only difference being that in contract costing, one construction job may take several months or even years before they are complete while in job costing, each job may be of a short duration. In contract costing, as each contract may take a long period for completion, the question of computing of profit is to be solved with the help of a well defined and accepted method.

6. Operation costing(Output costing):-

This method is adopted when it is desired to ascertain the cost of carrying out an operation in department, for example, welding. For large undertakings, it is frequently necessary to ascertain the cost of various operations. Multiple Costing:- It represents the application of more than one method of costing in respect of the same product. This is suitable for industries where a number of component parts are separately produced and subsequently assembled into a final product. In such industries each component differs from the others as to price, material used and process of manufacture undergone. So it will be necessary to ascertain the cost each component. For this purpose, process costing may be applied. To ascertain the cost of the final product batch costing may be applied. This method is used in factories manufacturing cycles, automobiles, engines, radios, typewriters etc.