

## JOB AND BATCH COSTING

### **COSTING SYSTEM**

A costing system is a system of collecting costs which is designed to suit the way that goods are processed or manufactured or services are provided. Page | 1

### **JOB COSTING**

Job costing is a costing system which considers job a **cost unit**. A job is a cost unit which consists of a single order or contract.

### **AIM OF JOB COSTING**

Aim of job costing is to calculate cost per job as follows:

### **COST OF JOB**

|                                              |          |
|----------------------------------------------|----------|
| Direct material (kgs x rate per kg)          | X        |
| Direct labour (hours x rate per hour)        | X        |
| Direct expenses                              | <u>X</u> |
| Prime cost                                   | X        |
| Production overheads (OAR x actual activity) | <u>X</u> |
| Total production costs                       | X        |
| Administration overheads                     | X        |
| Selling overheads                            | <u>X</u> |
| Total cost of sales                          | X        |
| Price of job                                 | <u>X</u> |
| Profit/ (loss)                               | <u>X</u> |

**Mostly tested questions**

- \* Most of the questions require to calculate cost per job.

**Critical areas**

Page | 2

- \* **Production overheads:** Make sure that you can calculate OAR (overheads absorption rate).  

$$\text{OAR} = \frac{\text{Budgeted overheads}}{\text{budgeted activity}}$$

$$\text{Absorbed overheads} = \text{OAR} \times \text{actual activity}$$
- \* **Non production overheads:** Read the question carefully and see how to absorb non – production overheads.
- \* **Calculation of profit:** Read the question and see whether profit is % of cost or selling price.

| Mark – up on cost |     | Margin of sales  |      |
|-------------------|-----|------------------|------|
| Cost              | 100 | Selling price    | 100  |
| Profit (e.g.20%)  | 20  | Profit (e.g.20%) | (20) |
| Selling price     | 120 | Cost             | 80   |

Now use the formula. Required = Given figure ÷ % of given × % of required.

**Questions:**

- Q.1** The following information relates to job 2468, which is being carried out by AB Limited to meet a customer's order.

|                                             | Department A                 | Department B |
|---------------------------------------------|------------------------------|--------------|
| Direct materials                            | \$ 5,000                     | \$ 3,000     |
| Direct labour hours                         | 400                          | 200          |
| Direct labour rate per hour                 | \$ 4                         | \$ 5         |
| Production overheads per direct labour hour | \$ 4                         | \$ 4         |
| Admin and other overheads                   | 20 % of full production cost |              |
| Profit margin                               | 25 % of sales price          |              |

**What is the selling price of Job 2468?**

- A. \$ 16,250
- B. \$ 17,333
- C. \$ 19,500
- D. \$ 20,800\*

**Solution:**

|                                      | \$     |
|--------------------------------------|--------|
| Direct materials (5,000 + 3,000)     | 8,000  |
| Direct labour (400 x 4 + 200 x 5)    | 2,600  |
| Production overheads (400 + 200) x 4 | 2,400  |
| Production cost                      | 13,000 |
| Admin cost (13,000 x 20%)            | 2,600  |

|                               |        |
|-------------------------------|--------|
| Total cost                    | 15,600 |
| Selling price (15,600/75x100) | 20,800 |

**Q.2** A company is preparing for job X112. The job requires materials worth \$1,350 and 150 hours of labour. Labour is paid at \$6 per hour; variable overheads are absorbed at a rate of \$2 per labour hour and fixed overheads at a rate of \$3 per labour hour.

**Required**

- (a) What is the selling price of job X112 if the company wants to earn a margin of 25%?  
 (b) What is the selling price of job X112 if the company wants to earn of mark-up of 25%?

**Solution:**

|                                   |       |
|-----------------------------------|-------|
|                                   | \$    |
| Direct materials                  | 1,350 |
| Direct labour (150 x \$ 6)        | 900   |
| Production overheads (150 x \$ 5) | 750   |
| Production cost                   | 3,000 |
| Selling price 3,000/75 x 100      | 4,000 |
| Selling price 3,000/100 x 125     | 3,750 |

**BATCH COSTING**

- \* This costing system is used when production is in batches.
  - \* A batch is a cost unit which consists of a separate, readily identifiable group of product units which maintains its separate identity throughout the production process.
  - \* The procedure is very similar to job costing;
    - a) Each batch is treated a job and costs are calculated for total batch.
    - b) On completion cost per unit is found.
- Cost per unit = Batch cost/ units in batch

**Questions:**

1. P Limited manufactures ring binders which are embossed with the customers' own logo. A customer has ordered a batch of 300 binders. The following illustrate the cost for a typical batch of 100 binders.

|                     |    |
|---------------------|----|
|                     | \$ |
| Direct materials    | 30 |
| Direct labour       | 10 |
| Machine set up      | 3  |
| Design and art work | 15 |
| Prime cost          | 58 |

Direct employees are paid on a piecework basis.

P Limited absorbs production overheads at a rate of 20% of direct wages cost. 5 % is added to the total production cost of each batch to allow for selling, distribution and administration overheads.

P Limited requires a profit margin of 25% of sales value.

The selling price for 300 binders (to the nearest penny) will be:

- A. \$ 189
- B. \$ 193.20
- C. \$ 201.60
- D. \$ 252\*

Page | 4

**Solution:**

|                                                         |       |
|---------------------------------------------------------|-------|
|                                                         | \$    |
| Prime cost (\$ 58 x 3)                                  | 174   |
| Overheads (\$ 10 x 3 x 20%)                             | 6     |
|                                                         | <hr/> |
|                                                         | 180   |
| Selling, distribution and admin overheads<br>(180 x 5%) | 9     |
|                                                         | <hr/> |
| Total cost                                              | 189   |
|                                                         | <hr/> |
| Selling price (189/75x100)                              | 252   |
|                                                         | <hr/> |