

COSTING OF SERVICE SECTOR

Question 1

Give an appropriate cost unit for each of the following service sectors:

- (i) Hotel
- (ii) School
- (iii) Hospital
- (iv) Accounting firm
- (v) Transport
- (vi) Staff Canteen
- (vii) Machine maintenance
- (viii) Computer Department

(4 Marks) (June, 2009)

Answer

	Service Sector	Cost Unit
(i)	Hotel	Bednights available or occupied
(ii)	School	Student hours or no. of full time students
(iii)	Hospital	Patient-day / Room-day
(iv)	Accounting firm	Client hours
(v)	Transport	Passenger-Kms, or Quintal km or tonne-km
(vi)	Staff Canteen	No. of meals provided or no. of staff
(vii)	Machine maintenance	Maintenance hours to user departments
(viii)	Computer Department	Computer time to user departments.

Question 2

"Customer profile is important in charging cost." Explain this statement in the light of customer costing in service sector.

(4 Marks)(Nov., 2010)

Answer

Customer costing in the service sector: The customer costing is a new approach to management. The central theme of this approach is customer satisfaction. In some service industries, such as public relations, the specific output of industry may be difficult to identify and even more difficult to quantify. Further there are multiple customers, identifying support activities i.e. common costs with particular customer may be more problematic. In such cases it is important to cost customer. An ABC analysis of customers profitability provides valuable information to help management in pricing customer. Consider a banking sector. A bank's activities for customer will include the following types of activities. These are:

- i. Stopping a cheque
- ii. Withdrawal of cash
- iii. Updation of pass book
- iv. Issue of duplicate pass book
- v. Returning a cheque because of insufficient funds
- vi. Clearing of a customer cheque.

Different customers or categories of customers use different amount of these activities and so customer profiles can be built up and customer can be charged according to the cost to serve them.

Customer profile is important in analyzing cost under the following categories

1. Customer specific costs: These are the direct and indirect cost of providing service to customer plus customer related cost assigned to each customer.
For example: cost of express courier service to a client who requests over-night delivery of some agreement.
2. Customer – line categories: These are the costs which are broken into broad categories of customers and not individual customers.