

# **COST AND MANAGEMENT ACCOUNTING – III**

**(For Undergraduate Classes)**

**By**

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## PREFACE

This Text-Book of **Cost and Management Accounting– III** is specially prepared for undergraduate Students. It is prepared in accordance with the syllabus given in this book.

I do not claim any originality in the subject-matter of this book. I have drawn immense material from many standard books on this subject. Yet, this book is original in the exposition and presentation of the subject-matter. The subject-matter has been dealt with exhaustively and in very simple language.

I express my profound gratitude to the **United Publishers** for bringing out this book.

I shall consider my efforts amply rewarded if this book is found useful by the teachers and the students.

Suggestions for improvement of this book will be gratefully accepted.

**Mangalore,**

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**B.S. Raman**

# **COST AND MANAGEMENT ACCOUNTING - III**

## **SYLLABUS**

### **Chapter 1 : Job and Batch Costing:**

Nature, Purpose and Procedure of Job Costing,  
Advantages and Limitations.

### **Chapter II : Contract Costing:**

Features of Contract Costing, Types of Contracts, Cost plus Contract, Escalation and Deescalation clause, recording of value and profit on contract.

### **Chapter III : Process Costing :**

Meaning - Difference between Job Costing and Process Costing, Problems on Process Costing with Process losses and without process losses-Normal loss, Abnormal loss and Abnormal gain, Inter-Process Transfer at Profit-only Theory.

### **Chapter IV : Joint Products and By-Products:**

Meaning of Joint Products and By-products, Accounting for Joint Products. Apportionment by Physical Measurement, Apportionment on Market Value at Separation Point. Apportionment on Market Value after further processing.

### **Chapter V : Accounting for By-Products:**

Non-Cost and Sales Values Methods, Other Income Method, Total Sales Method and Net Cost Method-Theory and Problems. Cost Methods; Opportunity Cost Method, Standard Cost Method and Joint Cost Method.

### **Chapter VI : Operating Costing:**

Meaning, features, Cost Unit, Operating Cost Statement, Problems on Transport Costing only.

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# I            **JOB COSTING AND BATCH COSTING**

## **JOB COSTING**

### **Meaning of Job Costing :**

According to Eric Kohler, "Job costing is a method of cost accounting whereby cost is compiled for a specific quantity of product, equipment, repair or other service that moves through the production process as a continuously identifiable unit, applicable material, labour, direct expense, and usually a calculated portion of the overhead being charged to job order".

From this definition, it is clear that job costing, job order costing, specific order costing or production order costing is a method of costing under which the cost of each job or work order is ascertained separately. In short, job costing means ascertaining the cost of each job or work order separately.

### **Nature and Features of Job Costing :**

The nature of Job costing is revealed by its characteristics. Job costing has certain characteristics. **The chief characteristic features of job costing are :**

- (a) Job costing is adopted in concerns where the work done is analysed into different jobs, each job being considered a separate unit of cost.
  - (b) Job costing is adopted by manufacturing concerns as well as non-manufacturing concerns.
  - (c) Concerns which follow job costing produce goods not for stock, but against specific orders from customers.
  - (d) Under job costing, the cost of each job and the profit or loss made on each job undertaken is found out separately.
  - (e) A separate account is opened for each job to which all expenses incurred on that job, from the date of commencement till the date of completion, are debited.
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This will enable the concern to know the cost of each job.

- (f) By comparing the actual cost of each job against the price charged for each job, the profit or loss made on each job is ascertained.
- (g) Under job costing, the cost of each job is ascertained after the completion of the job.
- (h) As each job is different from other jobs, each job needs separate treatment under job costing.

### **Purposes or Objectives of Job Costing :**

**The main objectives of job costing are :**

- (a) One of the objectives of job costing is to ascertain the cost as well as the profit or loss on each job.
- (b) Another objective of job costing is to find out those jobs which are more profitable and those which are not profitable.
- (c) Yet another objective of job costing is to provide a basis for estimating or determining the cost of similar jobs to be undertaken in future.
- (d) Control of costs, by comparing actual costs with the estimated costs, is also one of the objectives of job costing.
- (e) Job costing is also intended to indicate, through the comparison of actual cost of a job with its estimated cost, whether the estimation is incorrect or the actual cost is excessive.

### **Application of Job Costing or Industries Where Job Costing is Used :**

Job costing is used in undertakings where jobs are undertaken according to the specifications or special requirements of the customers. It is, generally, adopted in printing works, small engineering works, foundries, small machine tool factories, furniture making concerns, automobile garages, repair works, etc. where work is done according to customers' specifications.

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**Job Costing Procedure :**

**The procedure involved in job costing is as follows :**

**1. Preparation of an estimate :**

On receipt of an enquiry from a customer, an estimate of costs expected to be incurred on the job is prepared. The estimate of costs is based on past experience, specifications of job given by the customer and the prevailing costs of various elements of costs.

On the basis of the estimate, price is fixed, and quotation is submitted to the customer.

**2. Issue of Work Order or Production Order :**

When the quotation submitted to the customer is accepted by the customer and materialises into an order, the sales department informs the production planning and control department about the order.

After being notified of the order, the Production Planning and Control Department will issue a work order or production order. Each work order is given a separate number for identification and cost accumulation.

The work order or production order is in the form of instructions issued to the foreman to proceed with the production of the product. It contains all the information regarding production. It contains particularly the following particulars :

- (i) Date on which the work order is prepared.
  - (ii) Job Order No.
  - (iii) Description of the product to be produced.
  - (iv) Number of articles to be produced.
  - (v) Date of starting the work.
  - (vi) Date of completion of the work.
  - (vii) Listing of materials to be issued.
  - (viii) Sequence of production processes.
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### **3. Execution of job and its despatch :**

After the issue of the work order, the job will be started as per the production schedule. Necessary materials, workers and tools will be provided for the execution or completion of the production. The production process will be supervised by the production manager or supervisor to ensure that the job will be completed as per the production order and the customer's specifications. Then, the finished product will be despatched to the customer.

### **4. Preparation of Job Cost Sheet :**

Under job costing, a **job cost sheet** is prepared for every job.

The job cost sheet presents the cost data relating to a job. It states the various elements of cost, such as direct material cost, direct labour cost, direct or chargeable expenses, and all the overheads (i.e., the factory overheads, administration overheads and selling and distribution overheads), under the various divisions of cost like prime cost, factory cost, cost of production and total cost. It also states the sale price and profit or loss made on a job.

### **Cost Collection Under Job Costing :**

Under job costing, costs are collected and recorded for each job separately.

The various costs are collected as follows :

The costs of direct materials used for a job are collected from material requisitions, bill of materials or materials issue analysis sheet.

The costs of direct labour incurred on a job are collected from time cards, job cards and piece work cards or wages analysis sheet.

The direct or chargeable expenses are collected from direct expenses vouchers.

The various overheads (i.e., factory overheads, administration overheads and selling and distribution

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overheads) are charged at pre-determined rates under any of the methods of absorption of overheads.

**Specimen of Job Cost Sheet:**

The specimen of a Job Cost Sheet is as follows :

<b>Job Cost Sheet</b>										
Name of the Customer			.....	Job No.			.....			
Name of the Product			.....	Date promised			.....			
				Date of commencement			.....			
				Date of completion			.....			
Material Cost			Labour Cost				Overheads			
Date	Requisition No.	Amount	Date	Hours	Rate	Amount	Hours	Rate	Amount	
		₹			₹	₹		₹	₹	
<b>Summary of Cost :</b>										
Material Cost								.....		
Labour Cost								.....		
Direct Expenses								.....		
<b>Prime Cost</b>								.....		
Overheads								.....		
<b>Total cost</b>								.....		
Total Profit								.....		
<b>Selling price</b>								.....		