

# **Job Costing and Batch Costing**

## **Job Costing Meaning**

Job costing, generally, means a specific accounting methodology used to track the expense of creating a unique product. Due to the fact that certain projects, such as construction, require different operations, accountants use this methodology to trace the expenses of each job in order to use this information for analysis and tax needs. Job costing forms have spaces to include direct labor, direct materials, and overhead.

Costs stay in the work-in-process account throughout the job. When the job is finally completed, they are transferred to the finished goods account. By using this method, accountants can make sense of complicated jobs which are moving towards the process of completion.

Indirect costs, like overhead, are applied as a fraction of direct costs. This is usually done in one of two ways: an association with labor hours or using activity based costing. This way, either through use of labor or certain tools, overhead will not be left out of the equation or a company can make sure to cover all essential costs using job costing.

Industries which produce products as jobs use this method. This includes job costing for construction, but goes much farther than just this. Shipping, auditing, maintenance and repair, installation, and any industry which creates products unique to each need. In this situation, job costing is often the most efficient method.

## **Job Costing Definition**

Job costing is defined as a method of recording the costs of a manufacturing job, rather than process. With job costing systems, a project manager or accountant can keep track of the cost of each job, maintaining data which is often more relevant to the operations of the business.

The documents used in the labor cost system:

### **1. Production order:**

A production order or a cost order is a type of work order, which authorizes and penalizes production manufacturers, and gives the order to the customer. This process begins with the manufacturing process

## **2. Cost sheet:**

For registration purposes, there is another type of document that is currently called cost sheet. The cost sheet and the business order in the last stage can be combined with the determination of the final production value.

## **3. Other documents:**

Other documents are processed and presented between manufacturing processes such as ordering materials, instrument tickets, storage documents, warehousing and storage, and examination tickets.

## **Objectives of Job Costing:**

1. To maintain the development of each job, by providing a separate account for each process of the job, to estimate the costs, when transitioning from one process to the other.
2. It helps the management in estimating the price of a certain work based on the price of the previous jobs.
3. To identify profitable and non-profitable jobs and help and prevent profitless jobs from taking place.
4. To differentiate departments from one another based on the cost taken and the number of materials required.
5. Provide detailed information on what is happening in each department to the customer and move forward with the plan for the idea of the customer. Any sudden changes in the plan can accommodate, if congruent with the final cost estimation.
6. Job costing should be flexible and scalable enough to accommodate any kinds of industrial or commercial jobs available for cost estimation.

## **Advantages of Job Costing:**

- Cost of labor operates as a form of analysis that details in detail all types of costs that exist throughout the manufacturing process. This includes direct costs, labor costs, and general fees. It serves as a measure of job profitability and helps future clients or companies decide whether to take a job. It also gives us an idea of the feasibility of the work.
- The cost of work prevents duplication of work because it helps estimate a similar job. This helps a job price company; it can always rely on a previous job price for reference.
- It can also take into account the efficiency of manufacturers taking into account the cost of their work and the associated expenses.
- Desolation and defective work can be discovered through labor costs and can be corrected immediately by some individuals responsible for the job.
- Budget control enters into force when taking into account various pre-determined overhead costs for each department.
- Work cost information is more used in job contracts as the job price depends on the amount of work it does, rather than on the final price.
- The cost of work provides an easy calculation of overheads for specific needs in an accurate way.
- Work cost enables supervisors to track various components such as money, materials, and employee performance.

## **Disadvantages of Job Order Costing**

1. Based purely on costs. This method, disadvantageous in fixing prices for the complete process, as the costs record along each step. Hence it makes it difficult to prevent unwanted costs and expenditures occurred in between the processes.
2. It's very expensive because records are to prepare for every step of the order. Starting from the materials list to the final product statement. Hence capital needs to keep such records properly.

3. There no exact procedure for estimating the job cost since there are no specific methods to differentiate direct and indirect costs occurring in a process.
4. This method of price estimation may not be useful for jobs that are cost-efficient and fast-paced.
5. No standard procedure to follow while estimating. The only thing that can be followed is the need for supervision when calculating costs. To prevent any miscalculations and forgery of the prices and materials respectively.
6. More and more clerical work required to detail the measures and quota takes in every step of the project from the start to the finish.
7. Highly expensive because of the number of people working for a single project and unwanted expenditures may also present.
8. No control of costs, since quality control and price control usually do after the estimation of the final price. That too price control can also do under a limit. Only to visible price variations, there is a chance of hidden costs that may not be recorded.
9. These kinds of jobs are only applicable, depending on the nature of the market and not on the nature of the job assigned. This becomes useless when the behavior of the consumer market doesn't support such jobs; more and more expenditure for man, machine and materials takes place.
10. During inflation and recession, such jobs are useless and comparing such job costs is fruitless and a waste of time. Ordering job costs during the time of inflation not consider smart.
11. No form of correction can take place if the actual profit is less than the estimated profit. The only thing we can do while calculating job costs are preventing loss to both the consumer and the manufacturer.

## **Batch Costing**

Batch costing is another form of job costing. Under this method, homogeneous products are taken as cost unit. A batch consists of a specific number of products or units or articles. The number varies from one batch to another. Hence, batch cost is used to determine the cost per unit or article per unit.

The company may want to get lower cost of production. If so, the cost per unit will also be low. For which, the company has to work out Economic Batch Quantity in the line of Economic Order Quantity. The cost procedure in batch costing is very similar to job costing. Hence, production order number is allotted to each batch.

### **Definition of Batch Costing**

According to CIMA , “Batch costing is that form of specific order costing which applies where similar articles are manufactured in batches either for sale or for use within the undertaking.”

### **Advantages of Batch Costing:**

Following are the main advantages of batch costing as compared to job costing:

- (1) Accounting work is reduced under batch costing because costing is done in respect of a batch of product of homogeneous jobs.
- (2) It makes benefit of reduced cost of production arising out of economic batch quantity or lot size.
- (3) Under this method, supervision becomes easy and more effective by means of spreading over the supervisor's time over all the units constituting the batch. Thus, the idle time of supervisor's as well as workers are eliminated.
- (4) The loss of time under job costing arising out of inter-job transfer of materials, labors and tools are minimized under batch costing.
- (5) There are the advantages of consistent cost of production of every article produced in a batch under batch costing.

### **Disadvantages of Batch Costing:**

The main disadvantages of batch costing are:

- (1) Determination of a batch from various jobs often pose problem. It is difficult to come across absolute homogeneity of jobs.

- (2) When quantity of goods to be manufactured differs from customer to customer, again it becomes difficult to determine the batch.
- (3) If the production of a batch is wrongly undertaken, the whole batch of the articles is to be discarded which will become a great loss to the manufacturer.

### **Difference between job and batch costing**

<b>BASIS FOR COMPARISON</b>	<b>JOB COSTING</b>	<b>BATCH COSTING</b>
Meaning	Job costing refers to a specific costing method, used when the production/work is carried out according to the requirements of customers.	Batch costing, is a form of job costing, that is applied when the articles are produced in batches, i.e. a group of like units are produced.
Production	As per customer specification	Mass production
Product	Products have an independent identity, as each job is distinct from other jobs.	Products do not lose their individual identity, as they are manufactured in continuum.
Cost unit	Executed Job	Batch
Cost ascertainment	On the completion of each job.	Ascertained for the whole batch and then per unit cost is determined.