

Job costing

1. It is used when work is undertaken as per customer's special requirement.
2. Cost expected to be incurred on the job are estimated and on the basis of estimate a price is quoted to the customer.
3. Actual costs of material, labour, overhead are accumulated and on the completion of the job these are compared with the quoted price and thus the profit or loss on it is determined.

Examples of businesses that use job costing are: Printing press, hardware, ship building, heavy machinery, foundry, general engineering works, machine tools, interior decoration, repairs etc.

Batch costing

1. It is a refinement of job costing.
2. Here the unit of measurement is batch comprising of lots of similar units.
3. Separate cost sheet are maintained for each batch of products by assigning a unique batch number.
4. Cost per unit in a batch = Total cost of batch/No of units in the batch.

Examples of businesses that use batch costing are: Pharmaceuticals, drug industry, readymade garments, and manufacture of electronic parts of TV etc.

Exercises

Question1

Marikh Berhad is preparing a job cost estimate that will be used to provide a quote for a potential customer. Estimated costs for the job are to be based on the following:

- Direct Materials: \$2,890
- Direct Labour: 230 hours at a basic rate of \$8.00 per hour.
- Direct production staffs also receive a bonus each period. The bonus is paid on actual hours with calculated bonus rate. The bonus rate per hour is calculated using the following formula:
 - $[(\text{Time allowed} - \text{time worked})/\text{time allowed}] \times \text{Basic rate per hour}$

- The bonus to be included currently in the costing of all jobs is based on the following estimates for the period:
 - Total time worked 3,500 labour hours
 - Total time allowed 4,000 labour hours
- Production Overheads: Absorbed at 25% of prime cost (including labour bonus) + \$7.00 per direct labour hour.
- Non-production Overheads: 20% of total production cost is added in order to recover distribution, selling, and administrative costs.

Quoted prices are calculated to provide Marikh Berhad with a net profit margin of 20% of sales.

Required:

- a. Calculate the total estimated production cost of the job.
- b. Calculate the price that should be quoted for the job