

Job and Batch Costing

Job Costing

A *costing process* which assesses the *individual cost* of performing a specific order. e.g. A car that is especially designed for a special customer with specialized features.

Batch Production

A *manufacturing process* where similar items are made in *batches* e.g. A bakery might make a batch of Arabic bread, and a batch of French bread. Both items involve similar resources like flour, oven etc. but each batch is different in appearance.

Batch Costing

A form of costing in which the unit costs are expressed on the basis of a batch produced.

Under and Over-absorption of Overheads

When an *overhead rate* is based on estimated annual *overhead expenditure* and estimated activity, it will be very rare for it to be exactly the same as the actual overhead incurred. Either the costs will be higher or lower or the activity will have changed. In certain circumstances both might occur at the same time thus making your predicted overhead amount too high or too low.

For example, if \$300,000 had been allocated to the years production as overheads but the actual costs were \$298,000 then in this case too much will have been absorbed. It is said that an over-absorption of overheads will have occurred. If on the other hand the actual overheads turned out to be \$305,000 then too little will have been allocated and thus an under-absorption of overheads will have occurred.

At the closing Balance Sheet date the stock in trade will have been valued and will include something for overheads that will be based on the predicted overheads. In this case the question arises as to whether the closing stock value should be amended to include something for the under or over-absorption of the overheads. The accounting answer to this question is that no adjustment should be made to the *stock valuation*. The stock valuation should not be reduced to take account of an *under* or *over-absorption* of overheads.

Job Costing

	<i>Production Departments</i>			<i>Service Departments</i>	
	A	B	C	G	H
	\$	\$	\$	\$	\$
Indirect Labour	2,000	3,000	4,000	500	1,000
Other Expenses	1,000	2,000	3,000	1,500	2,000
	3,000	5,000	7,000	2,000	3,000
Dept. G's Costs Apportioned	400	800	600	(2,000)	200
Dept. H's Costs Apportioned	600	1,200	1,400	-	(3,200)
	4,000	7,000	9,000	-	-

1- Dept. G is responsible for factory maintenance of dept. A, B, C & H.

Accountants decide Floor Space Apportionment –
 A: 2,000
 B: 4,000
 C: 3,000
 H: 1,000

2- Dept. H is responsible for maintaining the machinery of dept. A, B, & C.

Accountants decide to apportion by machinery value in each dept -
 A: \$3,000
 B: \$6,000
 C: \$7,000

Now that the overheads have been apportioned to department A, B & C, they need to be expressed at a rate in order to calculate the cost of each job.

The Cost Accountants decided on the following:

- i) There was a direct relationship in Dept. A & B between direct labour hours and the overheads.
- ii) There was a direct relationship in Dept. C between machine hours and the overheads.

	Production Departments		
	A	B	C
Direct labour hours	5,000	4,000	
Overhead rate per direct labour hour	\$4000	\$7,000	
	5,000	4,000	
	\$0.8	\$1.75	
			\$9,000
			6,000
			\$1.50

We can now calculate the cost of a particular job:

Department A

Job A/70/144 Started 1.7.19XX
 Completed 13.7.19XX

Cost of direct materials	\$130
No. of direct labour hours	100
Cost rate of direct labour per hour	\$0.9
Overhead rate per labour hour	\$0.8

Job Cost Sheet No. A/70/144			
Started	1.7.19XX		
Completed	13.7.19XX		
Direct Materials			\$ 130
	Hours	Rates	
	\$	\$	
Direct Labour	100	0.9	90
Factory Overhead	100	0.8	80
Total Job Cost			300