

What Is Job Costing?

Job costing is a precise method of tracking all the costs and revenue associated with a particular project. Projects might include one-off customer undertakings, manufacturing new products or delivering multiple products that will be developed at the same time.

Job costs are typically broken down into labor, materials and overhead — though each of these elements can be broken down further. For instance, labor costs might include both employee wages and third-party vendor fees. Material costs can include both direct raw materials that appear in a finished product and the indirect materials used to create the product, like equipment. Companies must carefully account for and plan around each of these elements to deliver their projects successfully and on time.

The main objectives are of job costing are:

- (1) The main objective of job costing is to ascertain the cost as well as the profit or loss on each job.
- (2) Another objective of job costing is to find out those jobs which are more profitable and those which are not profitable or less profitable.
- (3) Control of costs, by comparing actual costs with estimated costs, is also one of the objectives of job costing.
- (4) 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.
- (5) Another objective of job costing is to provide a basis for estimating or determining the cost of similar jobs undertaken in future.

Advantages of Job Costing:

Job costing has the following advantages:

- (1) It is helpful to ascertain the cost as well as the profit or loss on each job separately.
- (2) It helps the management to know about the profitability of the jobs.
- (3) It is best suited for cost plus contract.
- (4) It provides detailed analysis of the elements of cost which is quite useful for the preparation of cost estimates and quotations.
- (5) Under this method of costing, spoilage and defective jobs can be easily identified and responsibility for the same can be fixed on specific departments or individuals.
- (6) The data of the job costing are quite helpful in the preparation of future budgets.

Disadvantages of Job Costing:

Job costing is not free from defects. It suffers from certain limitations.

They are:

- (1) It involves more clerical work for cost collection. Further, it involves more supervision. These add to cost and make it costly.
- (2) Under this method of costing, costs are required to be collected for a large number of small jobs. So the chances of errors in cost collection are more in job costing.
- (3) Job costing, being historical in nature cannot be of much help for cost control unless it is combined with estimated or standard costing.

Job Costing Procedure

Job costing accounting procedures includes the following –

Inquiry:

Order placing (customer studies the rates, material, quality, time to complete the order etc.)

Estimation:

Accountants do the cost of a job by keeping in view customer requirements and choices.

Order receiving:

Customer places the order, if the customer is satisfied with job costs.

Production order:

It is an official order to start production of a job. Manufacturers give production orders to their subsidiaries. In this order, they will set orders about when the job should be complete and how it is to be done. So that the required product is passed to the next department to run parallel.

Recordings:

Different departments have different job cards, which are explained below –

Materials:

- **Material requisition** – Transport of material from warehouse/storage unit to the production stage.
- **Bill of materials** – Details of materials, prices, components, sub-components.
- **Analysis sheet of materials issued** – Consists of materials and details when it is issued.

Wages:

- **Operation schedule** – Relates to allocation and reissuing of resources.
- **Job card** – Details of job should be done in the production facility.
- **Analysis sheet (wages)** -Payroll statements and employees' wages of manufacturing and non-manufacturing.

Overheads:

Miscellaneous costs – Transportation, stocking, storage, infrastructure etc.

Completion:

The Accounts department calculates the final cost. Calculation takes place after completion of a job.

Profit or loss:

Comparison of final cost statement with estimation cost to calculate profit or loss.

Job Cost sheet

Job Cost Sheet			
			\$
Materials (Less Scrap):	\$		
Dept. X	7,000		
Dept. Y	850		
Dept. Z	400		8,250
Direct Wages:			
Dept. X: 1,000 hours @ \$1 per hour	1,000		
Dept. Y: 2,000 hours @ \$1.50 per hour	3,000		
Dept. Z: 5,000 hours @ \$2 per hour	10,000		14,000
		Prime Cost	22,250
Overheads:	\$		
Dept. X	1,000		
Dept. Y	1,000		
Dept. Z	3,125		5,125
		Total Cost	27,375

JOB COST SHEET							
Job number:				Units completed:			
Date started:							
Date completed:							
Description:							
Direct Materials		Direct Labor			Manufacturing Overhead		
Req. No.	Amount	Ticket	Hours	Amount	Hours	Rate	Amount
Cost Summary							
Direct Materials							
Direct Labor							
Manufacturing Overhead							
Total Cost							
Unit product cost							

YouTube Links:-

- <https://youtu.be/GIEDhnTuA48>
- https://youtu.be/Cz6RA_r84oU