

## Quadrant II - Notes

**Paper Code** : DSE5 COD118

**Module Name** : Nature and Purpose of Job Costing

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### Lecture Notes:

#### Meaning

- Job Costing also known as Job Order costing/specific Order costing/ Lot costing.
- It is applied to determine the cost of specific jobs or lots of production manufactured as per customer's specifications.
- Each job/order is considered as a cost unit and Costs are ascertained for each job or work undertaken.
- The purpose of job costing is to ascertain the cost and profit of each job.
- It is suitable for both manufacturing and non-manufacturing businesses.
- Example: Printing press, Furniture making workshops, Construction Industries, Fabrication work, Automobile service Industries, etc.

#### Definition:

CIMA, London defines job costing as "that form of specific order costing which applies where work is undertaken according to customer's specifications".

#### Features of Job Costing:

- Each job is treated as a cost unit.
- All costs are accumulated and ascertained for each job.
- Each job is unique.
- Each job is executed as per customer's specifications.
- A separate cost sheet is used for each job is prepared.
- Cost and Profit of each job can be ascertained.

### **Advantages of Job Costing:**

- Helps to know a detailed analysis of Costs of material, Labour and Overheads charged to each job.
- Helps to ascertain the profit or loss made in each job.
- Helps to identify the jobs where waste, scrap, spoilage or defective occurs and take corrective actions against the responsible person or department.
- Helps to compare and control costs.
- Helps to identify profitable and non-profitable jobs.
- Facilitates preparation of estimates while preparing quotations for the similar job.

### **Limitations of Job costing**

- Involves a lot of clerical work.
- It is more time consuming and expensive method.
- Chances of errors are more.
- Comparing costs of different jobs is difficult because each job is unique.
- It is historical costing where the cost is ascertained after the job is completed.
- It does not facilitate control of cost unless it is used with standard or estimated costing.

### **Purpose/Objectives of Job costing**

- To find out the cost of production and profit/loss of every job or order.
- To make estimates for future jobs based on the past records of the similar job.
- To enable the management to control operating efficiency by comparing the actual cost with the estimates.
- To help management in valuation of work-in-progress.
- Helps to identify the profitability of a job.

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