

Methods Of Costing

- Costing has been defined as “the technique and process of ascertaining costs.”
- The principles in every type of costing are the same but the methods of analyzing and presenting the costs differ with the nature of business



Method of Costing

1. Unit Costing
2. Job Costing
3. Contract Costing
4. Batch Costing
5. Operating Costing
6. Process Costing.
7. Multiple Costing
8. Uniform Costing.



I. Unit Costing

- This method also called 'Single output Costing'. This method of costing is used for products which can be expressed in identical quantitative units and is suitable for products which are manufactured by continuous manufacturing activity. Costs are ascertained for convenient units of output.
- Examples: Brick making, mining, cement manufacturing, dairy, flour mills etc.



Job Costing:

- Under this method costs are ascertained for each work order separately as each job has its own specifications and scope.
- Examples: Painting, Car repair, Decoration, Repair of building etc.

Contract Costing:

- Under this method costing is done for big jobs which involves heavy expenditure and stretches over a long period and often it is undertaken at different sites. Each contract is treated as a separate unit for costing.
- This is also known as Terminal Costing. Construction of bridges, roads, buildings, etc. comes under contract costing.

Batch Costing

- This methods of costing is used where the units produced in a batch are uniform in nature and design. For the purpose of costing each batch is treated as a job or separate unit.
- Industries like Bakery, Pharmaceuticals etc. usually use batch costing method.

Operating Costing or Service Costing:

- Where the cost of operating a service such as nursing home, Bus, railway or chartered bus etc. this method of costing is used to ascertain the cost of such particular service. Each particular service is treated as separate units in operating costing.
- In the case of a Nursing Home, a unit is treated as the cost of a bed per day and for buses operating cost for a kilometer is treated as a unit.

Process Costing:

- This kind of costing is used for the products which go through different processes.
- For example, manufacturing cloths goes through different process. First process is spinning. The out put of spinning is yarn. It is a finished product which can be sold in the market to the weavers as well as use as a raw material for weaving in the same manufacturing unit.
- For the purpose of finding out the cost of yarn, the cost of spinning process is to be ascertained. The second step is the weaving process. The out put of weaving process is cloth
- which also can be sold as a finished product in the market. In such case, the cost of cloth needs to be evaluated.
- The third process is converting cloth in to finished product such as shirt or trouser etc. Each process is to be evaluated separately as the out put of each process can be treated as a finished good as well as consumed as a raw material for the next process. In such industries process costing is used to ascertaining the cost at each stage of production.

Multiple Costing:

- When the output comprises many assembled parts or components such as in television, motor Car or electronics gadgets, costs have to be ascertained for each component as well as the finished product. Such costing may involve different methods of costing for different components.
- Therefore this type of costing is known as composite costing or multiple costing.