



Management Accounting

Job/Product Costing

Job Costing - Defined

- A job costing system is a system of cost accumulation and recording where there is an identifiable activity (job or group of tasks) for which costs may be collected

Purpose of Job Costing

- Aids planning, cost control and decision making by:
 - Establishing cost (costs are recorded on job cards)
 - Calculating Selling Price
 - Determining profit/loss on jobs

Characteristics of Job Costing

- Specific order to customer specifications e.g. manufacture of customised furniture
- Order is of comparatively short duration
- All stages of production within factory easily traced to job



Characteristics of Batch Costing

- Similar articles made in batches
- Similar to job costing
- Example – Bakery

Total Cost

**Direct Costs* + Indirect Costs
= Total Cost**

***Total Direct Costs are also known as
Prime Cost.**

Direct Costs

- Costs that are directly linked to a product/service/job e.g. Materials, Labour, Direct Expenses (e.g. hire/purchase of special equipment)
- Total Direct Costs also known as Prime Cost

Indirect Costs

- Costs that are not directly linked to the product/service/job, but must be included as part of the cost e.g. light and heat, depreciation etc.
- Indirect costs are also known as overheads

Example : Calculating Selling Price if a 25% Margin is required

- If Total Cost = €150
- 25% Margin – profit is expressed as 25% of Selling Price
- **STEP 1:** Divide cost of €150 by 75 = €2
- **STEP 2:** Multiply €2 by 100 = €200
Selling Price = €200
- **Check:**
- Profit/Selling Price = $(€50/€200) \times 100 = 25\%$

Example : Calculating Selling Price if a 25% Mark Up is required

- If Total Cost = €150
 - 25% Mark Up – profit is expressed as 25% of Total Cost
 - **STEP 1:** Divide total cost of €150 by 100 = €1.50
 - **STEP 2:** Multiply €1.50 by 125 = €187.50
Selling Price = €187.50
- Check:**
- Profit/Cost = $(€37.50/€150) \times 100 = 25\%$

Overheads: Defined

- All labour, material and expense costs which cannot be identified as direct costs are termed indirect costs
- Indirect materials, indirect labour and indirect expenses are collectively known as overheads

Key Terminology: Cost Allocation

- Cost centre – identifiable unit in an organisation in respect of which a manager is responsible for costs
- Characteristics of cost centres include: homogenous unit, single form of activity, identifiable manager



Cost allocation: Overheads

- Overhead costs which are clearly identifiable with a particular cost centre are allocated to that cost centre
- Indirect labour/materials can usually be allocated to specific cost centres

Cost apportionment

- Where an overhead is not clearly identifiable with a cost centre, then the overhead needs to be apportioned over all the relevant cost centres
- Establish a method of apportioning the overhead

Cost apportionment

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Expense	Basis of Apportionment
Insurance	Floor Area
Rent/rates	Floor Area
Light/Heat	Volume
Administration Expenses	Number of Employees
Depreciation	Book Value of Assets
Machinery Maintenance	Machine Hours



Service Departments

- Service Departments exist to support production
- Overhead costs from service departments must be apportioned to production cost centres



Overhead Absorption

- Attributing of overheads to either products or services
- Determine base for overhead absorption – Overhead Absorption Rate (OAR) e.g. labour hours, machine hours etc.

Procedure for absorbing overheads

- 1. All costs allocated and apportioned to the different cost centres
- 2. Service department costs are apportioned
- 3. To calculate OAR - divide total overhead by base (e.g. labour/machine hours)

Reading

- Drury, Colin Costing an Introduction (Chapter 4, 5, 6)
- McKeon Murray Costing and Budgeting (Section 10)
- Luby, Alice Cost and Management Accounting (Chapters 2 and 4)