

# A study on job costing and process costing accounting essay



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Ans. An advertising agency uses job costing for an advertising campaign for Pepsi because it is likely to be very specific to that individual client. The main aim of job costing is to identify all the specific aspects of each job. Whereas, Process costing can be used to compute the cost of each checking account withdrawal. The process of checking account withdrawals is similar for many customers. In Job Costing, costs are assigned to a batch or “ lot” of a product or service while in a process costing system, the cost of a product or service is obtained by using broad averages to assign costs to masses of identical or similar units.

The term job costing and process costing can be defined as :

**Job Costing:** It involves the calculation of costs involved in a construction “ job” or the manufacturing of goods which is done in discrete batches.

**Process costing:** It is an accounting methodology that identifies and accumulates direct costs, and allocates indirect costs of a manufacturing process.

In a process costing system if we assume that all units receive the same amount of direct materials and conversion costs. The unit costs can be averaged by dividing total costs in a given accounting period by total units manufactured. This approach is for example used by banks to compute the unit costs of 100. 000 similar customer deposits made in a month. It is usually used by organizations with mass production of standard units and no incomplete units after the period.

In a job-costing system the cost object is a unit or multiple units of a separate product or service called a job. Each job involves different amount of resources. The product or service is often a single unit, such as a repair job done at an Audi Service Center, or an advertising campaign produced by Pepsi. An advertising campaign for one client at Pepsi differs greatly from advertising campaigns for other clients.

## **Job Costing**

It involves the calculation of costs involved in a construction “ job” or the manufacturing of goods which is done in distinct batches. The costs are assigned to a batch of a product or service and it identifies all the specific aspects of a particular job.

### **There are seven steps in job costing:**

#### **(1) Identify the job-**

The 1st step in the job costing process is to identify the scope of the job. A manufacturing company might identify the order to be produce. A architectural firm, may involve the design of a high-rise building. In order to perform a job accurately it is important to know everything what the job entails.

#### **(2) Identify the direct costs of the job-**

This step involves identification of direct costs which are associated with a job. If the job is to manufacture 10, 000 Pepsi there are direct costs involved including the ingredients needed to make the Pepsi. Other direct costs associated with a job are labor costs. It tells you how many employee hours

will be needed to complete the job and multiply it by the average hourly wage.

### **(3) Select the cost allocation bases to use for allocating indirect costs to the job-**

The project will incur indirect costs with the direct costs associated with a job. Examples include the use of equipments in manufacturing, the power to run a equipment, salaries of supervisor or managers overseeing the job, even the depreciation on machines used in the process of manufacturing. Allocation base involves looking at previous jobs and computing the indirect costs totaled at the completion of the project.

### **(4) Identify the indirect costs associated with each cost allocation base-**

The fourth step after the allocation bases are defined & indirect costs are identified for the new project. Using the Pepsi Manufacturing example, indirect costs might include the machine hours needed to make the units of Pepsi or the number of supervisor hours to look over the manufacture of the Pepsi.

### **(5) Compute the rate per unit of each cost allocation base used to allocate indirect costs to the job-**

The cost allocation bases in step 3 are the total indirect cost figures based on completed jobs or projects. Determine a single unit rate by taking the total cost figure and dividing it by the number of single units that were produced in the prior project. This single unit rate will be used in the calculation of indirect costs for the new project.

### **(6) Compute the indirect costs allocated to the job-**

To determine the total indirect costs, the single unit cost rate that was calculated in step 5 is multiplied by the number of units to be produced. It will provide the estimated total indirect costs of all the costs being incurred.

### **(7) Compute the total cost of the job by adding all direct and indirect costs assigned to the job-**

The last step in job costing process involves adding direct costs to the indirect costs that have been calculated in order get the estimated cost for the total project. Then compare this figure with the figure given to the customer to complete a job. The difference between the 2 figures gives either the profit or the loss for completion of a certain project.

## **Process costing**

Process costing is an accounting methodology that traces and accumulates direct costs, and allocates indirect costs of a manufacturing process. It can be used to compute the cost of each checking account withdrawal. The process of checking account withdrawals is similar for many customers. In a process costing system the cost of a product or service is obtained by using broad averages to assign costs to masses of identical or similar units.

## **Advantages of Process Costing**

The main advantage of process costing is the ease & simplicity of accounting. Process Costing is a simple and direct method to ascertain cost which involves collecting the overall costs from each department. It basically ignores the costs related to the specific jobs within a department. This in turn reduces the volume of data & makes data collection quick & easy. This

analysis does not require any specialized skills than normal accounting skills. The uses of a process costing help to establish a effective control over the production process.

It allows budgeting of the output and usage costs as the standard costs by making it possible to track deviations from standard costs with ease. It becomes possible to look at the inefficiency or discrepancy in a specific process or department without checking each department or process.

It facilitates easy & accurate tracking of inventory.

Process costing makes it easy to obtain the average cost of a product allowing accurate estimates to customers.

Compared to other methods of costing such as activity based costing, process costing is considered to be inexpensive & do not drain the organization's resources and time.

## **Disadvantages of Process Costing**

Process costing is basically for homogeneous products as it fails to provide an accurate estimate of product costs when a single process produces many items or different types of a same item. It remains suitable only for bulk process works & not for customized orders. Apportionment of the joint costs to differentiate products may lead to irrational pricing decisions. While the process costing enables budgeting of standard costs, the costs being obtained are historic & not current and their use for the decision making remains limited. Process costing makes it easy to offer estimates as it deviates from the standard product or allowing options for value-added

service. Process costing helps to fix standard costs of production and accumulates all costs and transfer them to units as average costs and raise the possibility of concealment of inefficiencies in a process. Process costing measures the efficiency of individual processes & also evaluates productivity of an individual worker difficult.

This review of the advantages and disadvantages of process costing indicates that process costing is a useful management accounting tool for large companies such as Coca Cola that mass produce homogeneous products.

## **Difference between Job costing and Process Costing:**

### **Basis Of Difference**

#### **Job costing**

#### **Process costing**

##### 1. Cost Computation

1. Costs are computed for each job separately.

1. Costs are computed for each process over a period of time i. e. production for a process during a given period.

##### 2. Cost Unit

2. The cost unit in case of job costing is “ a job”.

2. The cost unit in case of a process costing is “ a process”.

##### 3. Nature

3. Each job may be different. Production is not continuous.

3. Each process for a total output is the same and generally production is continuous.

4. Supervision and Control

4. Greater supervision and control by the management is required

4. Comparatively less control is required since the work in processes gets standardized.

5. Completion of job

5. Completion of job is necessary for computation of cost of the job. Once the job is completed all costs are added to ascertain the total cost of the job.

5. Completion of the job is not awaited. For accounting cost per unit is computed by dividing the total cost bt process output.

6. Specific orders

6. Job is executed against orders.

6. It is not necessary under process costing. Goods are for mass consumption and hence they may be produced on a continuing basis.



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agency use job costing for an advertising campaign by Pepsi, whereas a

bank uses process costing to determine the cost of checking account

withdrawal? Ans. An advertising agency uses job costing for an advertising

campaign for Pepsi because it is likely to be very specific to that individual

client. The main aim of j ob costing is to identify all the specif ic aspects of

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- (1) Identify the job - The 1st step in the job costing process is to identify the scope of the job. A manufacturing company might identify the order to be produce. A architectural firm, may involve the design of a high-rise building. In order to perform a job accurately it is important to know everything what the job entails.
- (2) Identify the direct costs of the job- This step involves identification of direct costs which are associated with a job. If the job is to manufacture 10,000 Pepsi there are direct costs involved including the ingredients needed to make the Pepsi. Other direct costs associated with a job are labor costs. It tells you how many employee hours will be needed to complete the job and multiply it by the average hourly wage.
- (3) Select the cost allocation bases to use for allocating indirect costs to the job- The project will incur indirect costs with the direct costs associated with a job. Examples include the use of equipments in manufacturing, the power to run a equipment, salaries of supervisor or

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to compute the cost of each checking account withdrawal. The process of checking account withdrawals is similar for many customers. In a process costing system the cost of a product or service is obtained by using broad averages to assign costs to masses of identical or similar units. Advantages of Process Costing The main advantage of process costing is the ease & simplicity of accounting. Process Costing is a simple and direct method to ascertain cost which involves collecting the overall costs from each department. It basically ignores the costs related to the specific jobs within a department. This in turn reduces the volume of data & makes data collection quick & easy. This analysis does not require any specialized skills than normal accounting skills. The uses of a process costing help to establish an effective control over the production process. It allows budgeting of the output and usage costs as the standard costs by making it possible to track deviations from standard costs with ease. It becomes possible to look at the inefficiency or discrepancy in a specific process or department without checking each department or process. It facilitates easy & accurate tracking of inventory. Process costing makes it easy to obtain the average cost of a product allowing accurate estimates to customers.

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Difference between Job costing and Process Costing: Basis Of Difference

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4. Greater supervision and control by the management is required	4. Comparatively less control is required since the work in processes gets standardized.
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Job is executed against orders. 6. It is not necessary under process costing. Goods are for mass consumption and hence they may be produced on a continuing basis.