

Methods of Costing Systems

The method of costing refers to a system of cost ascertainment and cost accounting. Industries differ in their nature, in the product they produce and services they offer. Hence, different methods of costing are used by different industries. For example, the method of costing employed by a building contractor is different from that of a transport company.

The methods of costing can be studied under the following heads:

① Methods based on the Principles of Job Costing :

- a) Job Costing
- b) Contract Costing
- c) Batch Costing

② Methods based on the Principles of Process Costing :

- a) Process Costing
- b) Operation Costing
- c) Departmental Costing
- d) Single/Unit/Output Costing
- e) Operating/Service Costing
- f) Multiple/composite Costing

③ Additionally few other methods of costing are :

- a) Uniform Costing
- b) Departmental Costing
- c) Cost Plus Method
- d) Target Costing Method
- e) Farm Costing
- f) Activity Based Costing.

Job Costing: Job costing is also called specific order costing. It is adopted by industries where there is no standard product and each job is different from others. Job costing is used by printing presses, motor repair shops, automobile garages, etc.

Contract Costing: It is also known as terminal costing. It is used where the job is big and spread over a long period of time. It is used by firms engaged in ship building, construction of buildings, bridges, roads, etc.

Batch Costing: It is an extension of job costing. It is adopted by manufacturers of biscuits, ready-made garments, medicines, etc.

Process Costing: Process costing is used in those industries where raw materials pass through different processes before it takes the shape of a final product. In other words, the finished product of one process becomes the raw material for the subsequent process. It is applied to industries like, textiles, paper, soap etc.

Unit Costing: It is used by industries where production is continuous and units are identical. For eg: mines, oil drilling, cement works, brick works, etc.