

**P.G. SEM - IV**  
**EC- 2 (ADVANCED COST ACCOUNTING)**  
**TOPIC - METHODS OF COST ACCOUNTING**

### **Methods of Cost Accounting**

Cost accounting is a systematic process of recording, classifying, analyzing, and controlling costs incurred in production or service activities. Different industries use different **\*\*methods of cost accounting\*\*** depending on the nature of production, type of product, and business operations. The main objective of these methods is to determine accurate cost and assist management in decision-making.

#### **1. Job Costing**

Job costing is a method in which costs are collected and calculated separately for each specific job, order, or contract. Every job is treated as an independent unit, and expenses related to materials, labour, and overheads are recorded individually. This method is suitable where production is customized according to customer requirements.

Examples: Printing presses, construction work, repair workshops, and interior designing firms.

Features:

- \* Cost determined job-wise
- \* Suitable for non-standardized production
- \* Helps in estimating profit from each job

#### **2. Batch Costing**

Batch costing is an extension of job costing where a group of identical products is treated as one batch. Costs are calculated for the entire batch and then divided by the number of units produced to determine cost per unit.

Examples: Pharmaceutical companies, bakeries, garment manufacturing.

Features:

- \* Economical production in batches
- \* Reduces setup cost
- \* Useful for mass production in limited quantities

#### **3. Process Costing**

Process costing is used where production is continuous and products pass through several processes or stages. Costs are accumulated for each process during a specific period and averaged over total output.

Examples: Cement, sugar, paper, oil refining, and chemical industries.

Features:

- \* Continuous production
- \* Standardized products
- \* Cost calculated process-wise

#### 4. Contract Costing

Contract costing is applied to large projects that take a long period to complete. Each contract is treated as a separate cost unit, and costs are accumulated throughout the contract duration.

Examples: Construction of bridges, roads, buildings, and dams.

Features:

- \* Long-term projects
- \* High value contracts
- \* Work performed at site locations

#### 5. Unit or Output Costing

Under this method, cost is calculated per unit of output when a single uniform product is produced. Total production cost is divided by the total number of units produced.

Examples: Brick manufacturing, mining, cement production, electricity generation.

Features:

- \* Simple calculation
- \* Suitable for homogeneous products
- \* Cost expressed per unit

#### 6. Operating or Service Costing

Operating costing is used in service industries where services rather than goods are provided. Costs are collected for providing services and expressed per service unit.

Examples: Transport companies, hospitals, hotels, and power supply services.

Features:

- \* Focus on service cost
- \* Cost per passenger, kilometer, or room
- \* Helps in pricing services

## 7. Multiple or Composite Costing

Multiple costing combines two or more costing methods for complex products made of many components. Each component may use a different costing method.

Examples: Automobile manufacturing, aircraft production, electronics industry.

Features:

- \* Combination of costing methods
- \* Suitable for complex products
- \* Accurate cost control

In conclusion methods of cost accounting vary according to production nature and industry requirements. Selecting an appropriate costing method helps organizations determine accurate product costs, control expenses, improve efficiency, and make effective managerial decisions. Thus, cost accounting methods play a vital role in achieving profitability and operational efficiency.