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COSTING

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CHP 8 UNIT AND BATCH



Theory Chart

Chp8 Unit and Batch Costing

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INTRODUCTION

Unit and Batch Costing

- It is a **method** of costing
- Costing methods enable the users to have **customized information** of any cost object according to the **need and suitability**.
- Different methods of costing have been developed according to the **needs and nature** of industries.

GROUPING OF MANUFACTURING INDUSTRIES

Industry doing Job Work

- An entity which is engaged in the execution of **special orders**, each order being **distinguishable** from each other, such a concern is thought of involved in performing job works.
- Jobs are worked **strictly** in accordance with the **customer's specifications** and requirements, thus, each job order is **unique**.
- Examples of job order types of production are: **ship** building, construction of **road** and bridges, manufacturing of heavy electrical **machineries** and tools, wood and **furniture** works etc.
- Here, each job or unit of production is treated as a separate identity for the purpose of costing.
- The methods of costing for ascertaining cost of each job are known as a **job costing, contract costing and batch costing**.

Continuous or process type of industries

- The continuous or process type of industries are characterised by the **continuous production** of **uniform products** according to the **standard specifications**.
- In such a case the successive **lots** are generally **indistinguishable** as to size and form and, even if there is some variation in specifications, it is of a minor character.
- Examples of continuous type of industries are **chemical** and **pharmaceutical** products, paper/food products, canning, paints and varnish oil, rubber, textile etc.
- Here the methods of costing used for the purpose of ascertaining costs are: **process costing; single output costing; operating costing etc.**

UNIT COSTING

Details

- Unit costing is that method of costing where the **output produced** is **identical** and **each unit** of output requires **identical cost**.
- Unit costing is synonymously known as **single or output costing**, but these are sub-division of unit costing method.
- This method of costing is followed by industries which produce **single output** or few variants of a single output.
- Under this method, costs are collected and analysed element wise and then total cost per unit is ascertained by dividing the total cost with the number of units produced.

$$\text{Cost per unit} = \frac{\text{Total Cost of Production}}{\text{No. of units produced}}$$

- This method of costing, therefore finds its application in industries like paper, cement, steel works, mining, breweries etc. These types of industries produce identical products and therefore have identical costs.

Cost Collection Procedure in Unit Costing

Material	Cost of materials issued for production are collected from Material Requisition notes and accumulated for a certain period or volume of activity
Employee	<ul style="list-style-type: none"> • All direct employee (labour) cost is collected from job time cards or sheets and accumulated for a certain period or volume of activity. • The time booked or recorded in the job time and idle time cards is valued at appropriate rates and entered in the cost accounting system. • Other items of indirect employee (labour) costs are collected from the payrolls books for the purpose of posting against standing order or expenses code numbers in the overhead expenses ledger.
Overheads	Absorption Method of Costing (Chp4)

Treatment of Spoiled and Defective work

Circumstances	Treatment
Loss due to normal reasons	<ul style="list-style-type: none"> • When a normal rate of defectives has already been established and actual number of defectives is within the normal limit, the cost of rectification or loss will be charged to the entire output • If, on the other hand, the number of defective units substantially exceeds the normal limits, the cost of rectification or loss beyond normal limits are written off in Costing Profit and Loss Account.
Loss due to abnormal reasons	<ul style="list-style-type: none"> • In this case cost of rectification and loss is treated as abnormal cost and the cost of rectification or loss is written off as loss in Costing Profit and Loss Account.

BATCH COSTING

Details

- Batch Costing is a type of **specific order costing** where articles are manufactured in **predetermined lots**, known as batch.
- Under this costing method, the cost object for cost determination is a batch for production rather output as seen in unit costing method.
- A batch consists of certain **number of units which are processed simultaneously** to be for manufacturing operation.
- Under this method of manufacturing, the inputs are accumulated in the assembly line till it reaches **minimum batch size**. Soon after a batch size is reached, all inputs in a batch is processed for further operations.

Need of creating Batches

- Reasons for batch manufacturing may be either **technical or economical** or both.
- For example, in pen manufacturing industry, it would be too costly to manufacture one pen of a particular design at a time to meet the demand of one customer. On the other hand, the production, of say 10,000 pens, of the same design will reduce the cost to a sizeable extent.

Setup Costs

- To **initiate production** process, an entity has to incur expenditures on engaging workers for production and supervision, setting-up of machine to run for production etc.
- These are the **minimum level of expenditures** which have to be incurred each time a batch is run irrespective of number of units produced.

Costing Procedure in Batch Costing

- To facilitate convenient cost determination, one **number is allotted** for each batch.
- Material cost for the batch is arrived at on the basis of material requisitions for the batch and labour cost is arrived at by multiplying the time spent on the batch by direct workers as ascertained from time cards or job tickets
- Overheads are absorbed on some suitable basis like machine hours, direct labour hours etc.

DIFFERENCE BETWEEN JOB AND BATCH COSTING

S No.	Job Costing	Batch Costing
1	Method of costing used for non-standard and non-repetitive products produced as per customer specifications and against specific orders.	Homogeneous products produced in a continuous production flow in lots.
2	Cost determined for each Job	Cost determined in aggregate for the entire Batch and then arrived at on per unit basis.
3	Jobs are different from each other and independent of each other. Each Job is unique.	Products produced in a batch are homogeneous and lack of individuality

ECONOMIC BATCH QUANTITY

Concept

- As the product is produced in batches or lots, the **lot size chosen** will be **critical** in achieving least cost of operation.
- Primarily, the total production cost under batch production comprises of **two main costs**, namely,
 - Machine Set-Up Costs
 - Inventory Holding Costs
- **Analysis**
 - If the size is higher, the set up cost may decline due to lesser number of set ups required; but units in inventory will go up leading to higher holding costs.
 - If the lot size is lower, lower inventory holding costs are accomplished but only with higher set up costs.
- **How to decide** Batch Quantity: Economic Batch Quantity is the size of a batch where total cost of **set-up and holding costs are at minimum**.

Formula

$$EBQ = \sqrt{\frac{2DS}{C}}$$

where,

D = Annual Demand for the product

S = Setting Up Cost per Batch

C = Carrying Cost per unit of production