

# CHAPTER 7

Job costing

# A DEFINITION OF JOB COSTING

Job costing is a precise method of tracking all the costs and revenue associated with a particular project. Projects might include one-off customer undertakings, manufacturing new products or delivering multiple products that will be developed at the same time.

Job costs are typically broken down into labor, materials and overhead — though each of these elements can be broken down further. For instance, labor costs might include both employee wages and third-party vendor fees. Material costs can include both direct raw materials that appear in a finished product and the indirect materials used to create the product, like equipment. Companies must carefully account for and plan around each of these elements to deliver their projects successfully and on time.

# JOB COSTING EXPLAINED

Job costing has a few primary goals:

- Understand profit or loss of each job. Job costing looks at each element involved in a specific project so you can track profitability of each one.
- Compare to estimates. By analyzing how successfully you manage estimates, you can better price jobs in the future. The purpose of job costing is to ascertain the profit or loss made on each job.
- Uncover inefficiencies and excess costs. Things like repetitive work that could be automated or poorly allocated employee resources can be addressed in future projects.

# THE IMPORTANT OF JOB COSTING

One of the most impactful decision a business makes is what to charge for a product, project or service. In service industries, where the payroll costs are often the largest line item, it can be especially important to incorporate job costing. It's one of the most important accounting practices for small businesses to reach gross profit margin goals. Accurate job costing can improve profitability, help you better manage employee scheduling and be a key component of prompt financial reporting. Proper job costing leads to better profitability, project estimating, management decisions and timely financial reporting.

# JOB COSTING VS. PROCESS COSTING

While related, it's important to make the distinction between job costing and process costing. In simplest terms, job costing is a means of quantifying all of the individual costs required to deliver a unique project output like a small-scale manufacturing run.

Process costing, on the other hand, breaks down costs over a given time frame, which is particularly useful when the cost of individual units or job outputs can't easily be differentiated.

# WHO USES JOB COSTING?

- Marketing and advertising agencies
- Construction companies
- Consulting firms
- Energy utilities
- Engineering offices
- Manufacturers
- Retailers
- Transportation and logistics providers
- Health care and life sciences organizations

# HOW TO CALCULATE JOB COSTING

- Calculate labor costs.
- Calculate material costs.
- Calculate overhead.

# QUESTIONS

1. What is Job costing?
2. What is the goal of job costing?
3. Distinguish between Job Costing and Process Costing Traditional Costing.



## REFERENCE

- Clancey, J. Job Costing Defined:A Complete Guide.  
<https://www.netsuite.com/portal/resource/articles/accounting/job-costing.shtml>