1. (a) Describe different methods of costing and state the particular industries to which the can be applied.

Ans: Different Methods of Costing Are

- **Unit costing:** This method is also known as "single output costing." This method of costing is used for products that can be expressed in identical quantitative units. Unit costing is suitable for products that are manufactured by continuous manufacturing activity: for example, brick making, mining, cement manufacturing, dairy operations, or flour mills. Costs are ascertained for convenient units of output.

- **Job costing:** Under this method, costs are ascertained for each work order separately as each job has its own specifications and scope. Job costing is used, for example, in painting, car repair, decoration, and building repair.

- **Contract costing:** Contract costing is performed for big jobs involving heavy expenditure, long periods of time, and often different work sites. Each contract is treated as a separate unit for costing. This is also known as terminal costing. Projects requiring contract costing include construction of bridges, roads, and buildings.

- **Batch costing:** This method of costing is used where units produced in a batch are uniform in nature and design. For the purpose of costing, each batch is treated as an individual job or separate unit. Industries like bakeries and pharmaceuticals usually use the batch costing method.

- **Operating costing or service costing:** Operating or service costing is used to ascertain the cost of particular service-oriented units, such as nursing homes, busses, or railways. Each particular service is treated as a separate unit in operating costing. In the case of a nursing home, a unit is treated as the cost of a bed per day, while, for busses, operating cost for a kilometer is treated as a unit.

- **Process costing:** This kind of costing is used for products that go through different processes. For example, the manufacturing of clothes involves several processes. The first process is spinning. The output of that spinning process, yarn, is a finished product which can either be sold on the market to weavers, or used as a raw material for a weaving process in the same manufacturing unit. To find out the cost of the yarn, one needs to determine the cost of the spinning process. In the second step, the output of the weaving process, cloth, can also be sold as a finished product in the market. In this case, the cost of cloth needs to be evaluated. The third process is converting the cloth to a finished product, for example a shirt or pair of trousers. Each process that can result in either a finished good or a raw material for the next process must be evaluated separately. In such multi-process industries, process costing is used to ascertained the cost at each stage of production.

- **Multiple costing or composite costing:** When the output is comprised of many assembled parts or components, as with television, motor cars, or electronics gadgets, costs have to be ascertained for each component, as well as with the finished product. Such costing may involve different methods of costing for different components. Therefore, this type of costing is known as composite costing or multiple costing.

- **Uniform costing:** This is not a separate method of costing, but rather a system in which a number of firms in the same industry use the same method of costing, using agreed-on principles and standard accounting practices. This helps in setting the price of the product and in inter-firm comparisons.

(b) “Fixed costs are really variable the more you produced the less they become”. Comment on the statement.

Ans: That is untrue. They remain fixed but they represent a smaller percentage per unit of output. The overhead is recovered over a broader base of output so the amount of fixed cost overhead that has to be recovered per unit of output is smaller.

Even that is too simplistic because, as production continues to rise, the present production capacity becomes full so any further increase in output requires additional capacity which will result in a rise in fixed costs. Fixed costs will rise in steps as production exceeds existing capacity. If production falls for any reason, the fixed costs still have to be paid.

In the longer term, a business could down-size, sell surplus buildings and machinery and reduce its regular outgoings so, in that sense, all costs are variable in the long term.

As production increases, one's variable costs definitely increase. When production increases even more, one's fixed costs can also increase.

For example, you run a small factory and make tables. It costs Rs. 10 for wood for one table. In the small factory you make 1,000 tables per month. Your rent, water, electricity, salaries, etc. (fixed costs) are Rs. 6,000 per month. You sell the tables for Rs. 30 a table. Assume for this example that all workers are paid fixed wages or salaries, so wages and salaries forms part of fixed costs.

Your income statement currently looks like this:

- Sales Rs. 30,000
- Variable costs (wood) Rs. 10,000
- Fixed costs Rs. 6,000
- Profit Rs. 14,000