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B.Com Honours | Semester IV | Calicut University

APPLIED COSTING AND CONTROL

Course Code: COM4CJ204 • Module 2 Notes

Module II: Specific Order Costing (Job, Batch, & Contract Costing)

Covers specialized costing systems applied to custom production jobs, economic batch manufacturing, and long-term construction contracts under AS 7.

Unit 5: Job Costing Concepts & Accounting Procedure

Applied when products are manufactured to customer specifications. Each job receives a unique Job Card tracking direct materials, labor hours, and allocated overheads.

Unit 6: Batch Costing Concepts & Accounting

Costing method where identical units are produced in discrete batches (pharmaceuticals, footwear). Total batch cost is divided by total units in the batch.

Unit 7: Economic Batch Quantity (EBQ) Formula

Calculates the optimum batch production size to minimize setup costs and inventory carrying costs:

$$EBQ = sqrt{↑rac{2 imes D imes S}{C imes (1 - D/P)}}$$

Where (D = ext{Annual Demand}), (S = ext{Setup Cost per batch}), (C = ext{Carrying Cost per unit/yr}), (P = ext{Production Rate}).

Unit 8: Contract Costing & Profit Determination (AS 7 Rules)

Applied to long-term construction projects. Profit Recognition Rules:
Work Certified < 25%: No profit transferred to P&L.
25% ≤ Work Certified < 50%: (ext{Profit} = ext{Notional Profit} imes ↑rac{1}{3} imes ↑rac{ ext{Cash Received}}{ ext{Work Certified}}).
50% ≤ Work Certified < 90%: (ext{Profit} = ext{Notional Profit} imes ↑rac{2}{3} imes ↑rac{ ext{Cash Received}}{ ext{Work Certified}}).

Unit 9: Cost-Plus Contracts, Escalation Clauses, & Sub-Contracts

Cost-Plus Contract: Contract price = Actual allowable cost + agreed percentage markup.
Escalation Clause: Safeguards contractor against inflationary increases in material prices and labor rates during contract tenure.

Practical Problem 2 (Contract Account & Notional Profit Allocation Solved Ledger): Contract Price = Rs. 20,00,000. Data for Year 1: Materials Issued = Rs. 4,50,000; Direct Wages = Rs. 3,00,000; Plant Sent = Rs. 2,00,000; Direct Expenses = Rs. 50,000; Plant at end = Rs. 1,60,000; Materials at site = Rs. 20,000. Work Certified = Rs. 12,00,000 (60% of Contract Price); Work Uncertified = Rs. 40,000. Cash Received from Contractee = Rs. 9,60,000

(80% of Work Certified). Calculate (a) Notional Profit on Contract, and (b) Profit Transferred to P&L Account under 2/3rd Rule.

Contract Account Ledger Statement:

Dr. Particulars	Amount (Rs.)	Cr. Particulars	Amount (Rs.)
To Materials Issued	4,50,000	By Work Certified	12,00,000
To Direct Wages	3,00,000	By Work Uncertified	40,000
To Direct Expenses	50,000	By Materials at Site	20,000
To Plant Issued	2,00,000	By Plant at Site (Depreciated)	1,60,000
To Notional Profit c/d	**4,20,000**		
TOTAL	**14,20,000**	**TOTAL**	**14,20,000**

Profit Transferred to Profit & Loss Account (60% Work Certified Rule):

Work Certified (60%) falls in 50% to 90% bracket. Formula: (ext{Profit P&L} = ext{Notional Profit} imes rac{2}{3} imes rac{ ext{Cash Received}}{ ext{Work Certified}}).

> **P&L Transfer = 4,20,000 × (2/3) × (9,60,000 / 12,00,000) = 4,20,000 × 0.6667 × 0.80 = Rs. 2,24,000**

Work-in-Progress Reserve = (4,20,000 - 2,24,000 = mathbf{ ext{Rs. 1,96,000}}).