CHAPTER 10

OPERATING OR SERVICE COSTING

⇒ The method employed to find out the cost of rendering a service, is service costing or operating costing.

⇒ operating costing should not be confused with operation costing. While operating costing is applied to determine the cost of providing a service, operation costing is a refinement and more detailed application of process costing.

⇒ Service costing is applicable in :

* • Road transport companies (Numericals only on road transport)
  - Railways
  - Airways
  - Shipping
  - Electricity
  - water supply
  - Hospitals
  - Schools & colleges
  - Cinemas, etc.

COST UNIT
(UNIT OF SERVICE)

Simple cost unit

Example : per km
per mile

Composite cost unit
(when two units are rolled into one)

Example : per passenger - km
per quintal - km

- **per passenger - km** means the cost of carrying one passenger for a distance of one kilometre.
- **per quintal - km** means cost of carrying the load of one quintal for one kilometre.

Composite cost units may be computed in two ways

Absolute tonne - km

cost units between each two stations is calculated separately in tonne - km and then totalled up.

Commercial tonne - km

the trip is considered as a whole and it is arrived at by multiplying the total distance in km by average load quantity.

i.e. Average load * Total km

Multiply by 2 for 1 round trip

* Passenger Km = No. of buses * Distance * Capacity of each bus * Percentage Capacity utilised * Round trip * No. of days

Calculate panenger km from above formula when more than one bus is running otherwise use absolute formula.

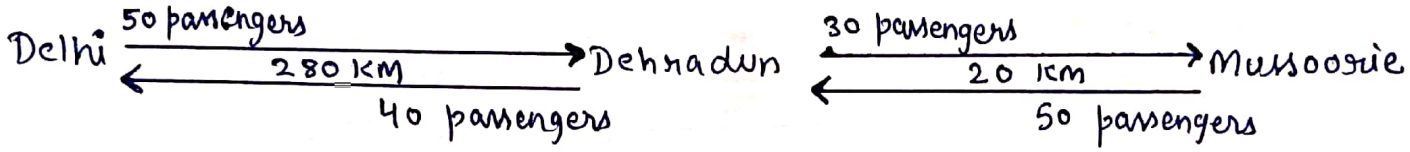
FORMAT OF OPERATING COST SHEET

Particulars	Amount	Total Amount
STANDING CHARGES (FIXED COST)		
Insurance	xxx	
Taxes	xxx	
Licence fees	xxx	
Garage rent	xxx	
Interest on capital	xxx	
Wages (if fixed)	xxx	
Administration Cost	xxx	xxx
RUNNING & MAINTENANCE CHARGES (VARIABLE COST)		
Repairs / overhawling	xxx	
wages (if paid per trip)	xxx	
Painting	xxx	
Tyres & Tubes	xxx	
Petrol / diesal	xxx	
Oil / grease	xxx	
Depreciation	xxx	
TOTAL COST		xxx
		xxx

* Cost per passenger-Km = $\frac{\text{Total cost}}{\text{Passenger-km}}$

Unsolved Ques. 1 (Page No. 427)

Solution



Passenger-km	=	50	x 280	= 14000
		30	x 20	= 600
		50	x 20	= 1000
		40	x 280	= 11200
		Total passenger km		26800

Total cost = 5000

Cost per passenger-km = $\frac{5000}{26800}$

= Rs. 19 paise (Approx)

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Unsolved Ques. No. 6 (Page No. 428)

Solution :

(i) OPERATING COST SHEET

Particulars	Rs. Per taxi Per month	Rs. Per km
FIXED COST		
Salary of office & garage staff (38000 ÷ 10)	3800	
Rent (12000 ÷ 10)	1200	
Salary of driver	4000	
Insurance (55200 ÷ 12)	4600	
TOTAL	13600	
Fixed cost per taxi per km (13600 ÷ 4000 km)		3.40
VARIABLE COST		
Depreciation $\left(\frac{3,80,000 - 20,000}{300000 \text{ km}}\right)$		1.20
Petrol [12 km — 1 litre; 1 km — $\frac{1}{12}$ litre] [1 litre — Rs 30; $\frac{1}{12}$ litre — Rs $\frac{30}{12}$ = 2.5]		2.50
TOTAL		7.10

* NOTE : Empty run of the taxis is given for the first month only. It has thus been not applied to whole life run.

* Effective km = Average km — Empty runs
= 4000 — 800 = 3200 km

(ii) Takings (3200 km * 10 taxis * Rs. 10) = 3,20,000
Less : Cost (4000 km * 10 taxis * Rs. 7.10) = 2,84,000
PROFIT 36000

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CHAPTER - 12

RECONCILIATION OF COST AND FINANCIAL ACCOUNTS

BOOKS OF ACCOUNT

Financial books		Costing books
↓		↓
Financial Accounts (P&L A/c)		Cost sheet
↓		↓
Accounting Profit (Actual) (based on actual figures)	≠	Costing Profit (Estimated) (based on assumptions not fully but partially)

* Reconciliation statement reveals the reasons for difference in profit or loss between cost and financial accounts.

* Overheads cannot be estimated accurately. Their predetermined rate is called absorbed, recovered or charged.

* If Profit and loss Account is not given in question. Then, first step is to prepare P&L A/c and then prepare cost sheet.

* Compare P & L A/c and cost sheet for preparing reconciliation statement.

FORMAT OF RECONCILIATION STATEMENT

Particulars	Amount	Amount
Profit as per cost sheet		xxx
Add : Over – absorption of overheads	xxx	
Financial incomes not recorded in cost books	xxx	
Items charged only in cost accounts	xxx	
Over – valuation of opening stocks in cost books	xxx	
Under – valuation of closing stock in cost books	xxx	xxx
		xxx
Less : Under – absorption of overheads	xxx	
Purely financial charges	xxx	
Under – valuation of opening stock in cost books	xxx	
Over – valuation of closing stock in cost books	xxx	(xxx)
Profit as per financial accounts (P & L A/c)		xxx