

Operating Costing: Definition, Unit and Classification



Definition:

CIMA defines the method “Operating costing applies where standardized services are provided by an undertaking”.

Such undertakings are: transport concern (shipping, air, railways and motor transport etc.), catering establishments (hotels, hostel, canteen etc.) and public utility undertakings like gas, electricity, steam generating, hospitals, theatres, schools, laundries etc. In many factories utility services like motor transport, power house, hospital and canteen are departmentally run divisions which provide services to the producing departments of the factory.



Operating costing is used by concern running diverse nature of activities, the cost system is obviously different from that for manufacturing concerns. In this system a suitable cost-unit is adopted, which is not a job or process but is related to service rendered e.g. ton-kilometer, passenger-kilometer of transport services, unit of electricity or kilowatt hour, cubic meter of gas etc.



Unit of Cost:

It is quite important to find out a proper unit of cost in case of operating cost so that the cost per unit can be ascertained. In certain cases the unit is obvious. For example in case of hospital it will be bed, in case of water works it will be 1000 litres, in case of electricity it will be a unit or kwh and in case of a retail store it will be the sale per Rs. 100 In case of transport concerns, however, the unit is likely to be composite. It may be a passenger-km. or ton-km signifying the effort which is made in carrying a passenger one kilometre or a ton of goods one km. Following are composite units based on two or more factors.

Services

Transport – goods
Transport – passengers
Hospital
Hotel – lodging
Canteen
Boiler House
Electricity
Water supply
Educational Institution

Composite units

Per ton km or per quintal – km.
Per passenger – km.
Per patient – day or per bed – day
Per Room – day or per service day
Per meal or per plate
Per 1000 lbs. of Steam
Per kilowatt – hours
Per thousand litres
Per student tuition fees.



Classification of Cost:

Operating costs are classified and accumulated under the following three heads:

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(a) Fixed or Standing Charges:

These are expenses which are more or less fixed in nature. For example in case transport service garage charges, insurance, taxes, license and depreciation are standing cost. In case of Hospital the depreciation pertaining to the cost of building, equipment, beds, beds insurance etc. are fixed charges. These expenses are constant and are incurred irrespective of the extent of service.



(b) Maintenance Charges:

These are costs of semi-variable nature and include expenditure on repairs, maintenance, tyres, tubes, accessories and spares.

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(c) Running or Operating Charges:

These are variable cost. For example in case of hospital, the cost of medicine, diet, laundry etc. will represent the running charges. In case of transport service petrol or diesel, lubricating oil, wages of driver or cleaner are operating or running charges.

Service Costing

June 26, 2019 By Prachi M — [Leave a Comment](#)

Definition: The term service costing or operating costing refers to the computation of the total operational cost incurred on each unit of the intangible product. These intangible products or services can be either in the form of internal services that are carried out by industries as supporting activities for the manufacturing of goods. Or in the way of external services that are offered as a significant product to the customers by the service sector companies.

Service costing is an essential concept since every service organization needs to ascertain its business overheads. It is to ensure fair pricing of the products, i.e., services; and for keeping a control over its fixed and variable costs.

Content: Service Costing

1. Features

2. Cost Unit

- Simple Cost Unit
- Composite Cost Unit

3. Format

4. Types

- Transport Costing
- Power Generation and Distribution Costing
- Boiler House Costing
- Canteen Costing
- Hospital Costing
- Hotel Costing

5. Example

Features of Service Costing

The costing in a service industry can be better understood with the help of the following characteristics:



Intangible Products: Service costing deals with the operating cost of products which does not have any physical form but satisfies consumer needs and wants.

Collection of Cost Data: The documents used for service costing of products include [cost sheet](#), bills payables, daily log sheet, etc.

Unique and Standard Service: The services so offered by such organizations are specialized and exclusive.

Less Working Capital: The service costing involves less working capital since the direct cost of raw material and other direct expenses is comparatively low.

Cost Per Unit: The cost per unit is mainly calculated in service costing. Here, the cost unit is determined by the type of service industry the business belongs to, and it usually differs from company to company. Like, in the case of goods transport it is ‘tonne-miles’; whereas, in boilers, it is ‘per cubic centimetre-litre’.

Internal or External Service: The service costing can be performed internally, to determine the operating cost of the supporting activities in manufacturing industries. Else, it can be carried out externally, by the companies dedicated to rendering such services.

Cost Classification by Behaviour: In the operating cost sheet format, all the business costs are classified according to their behaviour, i.e., fixed costs, semi-variable costs and variable costs.