OPERATING COSTING / SERVICE COSTING

Meaning:

Service Costing is a method of costing employed by the firms which are engaged in rendering services in order to ascertain the cost per unit of service. According to CIMA, London, "Operating costing is that form of operation costing which applies where standardised services are rendered either by an undertaking or by a service centre within an organisation."

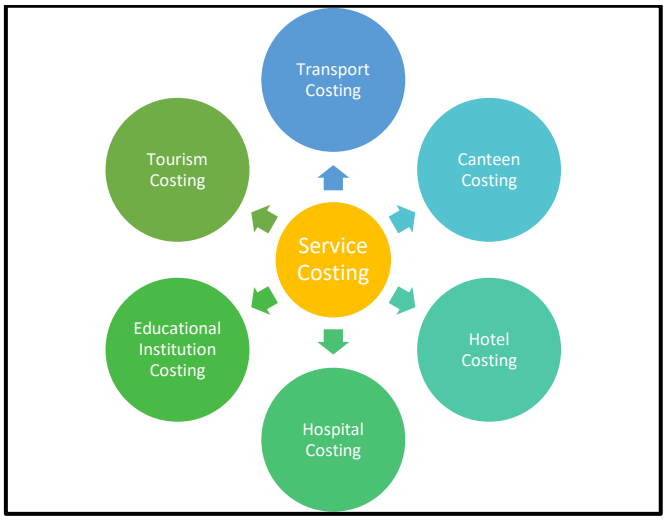

Figure 1: Forms of Service Costing

Characteristics:

Characteristics of such organisations/undertakings/firms are as follows[1]:

1. Service provided is standardised i.e., all customers receive similar kind of services repetitively.
2. Services are produced on a continuous basis.
3. Investment in fixed assets is more than the working capital requirement.
4. Operating costs of providing services are categorised as fixed costs and variable costs.

Cost Unit:

Selecting an appropriate cost unit is extremely important. The cost units may be:

1. Simple Cost Unit
2. Composite Cost Unit

Cost Unit	Undertaking	Cost Unit
Simple Cost Units	Transport	Per km
	Salon	Per service
	Restaurant	Per dish
	Water Supply	Per 1000 litres
Composite Cost Units	Transport	Per passenger km
	Hotel	Per room per day
	Electricity	Per kw hour
	Hospital	Per bed per day

Figure 2: Types of Service Cost Units

TRANSPORT COSTING:

Transport costing is a type of service costing which is employed by the firms engaged in providing transportation services, via rail, road or air. The objectives of transport costing are:

- To determine the cost of carrying passengers or goods.
- To determine the price/freight/fare to be charged from users of such services
- To help the management in decision-making.

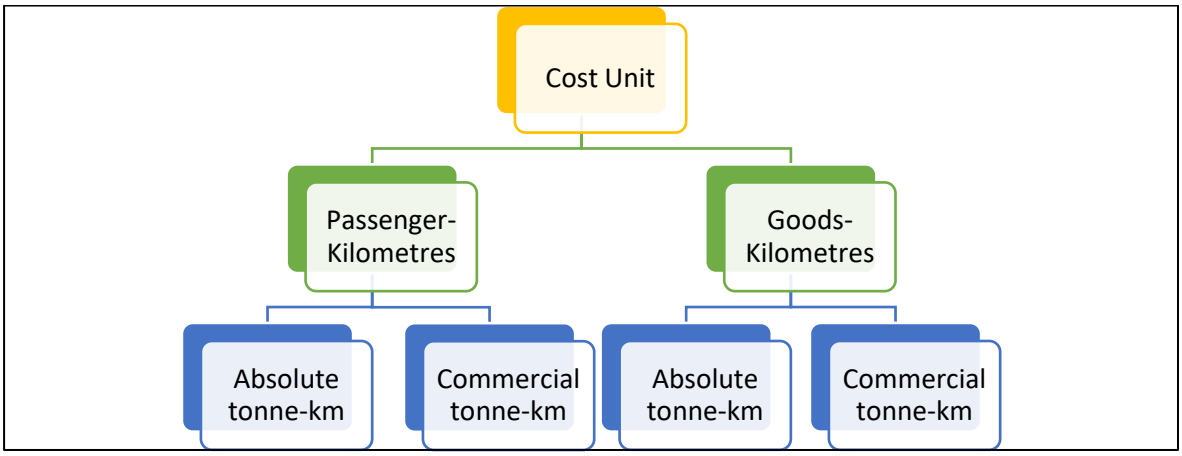

Figure 3: Determination of Cost Unit

Absolute tonne-km: cost units between two stations are separately calculated and then totalled up.

Commercial tonne-km: cost units are calculated by multiplying total distance in km by average load quantity.

The Format:

Operating Cost Sheet of _____
for the Period _____

Cost Unit _____
No. of Cost Units _____

Particulars	Total (₹)	Per Unit (₹)
Fixed Costs:		
Licence Fee	X	X
Garage Rent	X	X
Interest on Capital	X	X
Motor Vehicle Tax / Road Tax	X	X
Administration Cost / General Supervision	X	X
Insurance	X	X
Depreciation	X	X
(A) Total	**X**	**X**
Semi-Variable Costs:	X	X
Overhauling	X	X
Repairs and Maintenance	X	X
Tyres and Tubes	X	X
Painting	X	X
(B) Total	**X**	**X**
Variable Costs:	X	X
Driver's Wages	X	X
Conductor's Wages	X	X
Cleaner's Wages	X	X
Petrol / Diesel	X	X
Engine Oil	X	X
Grease / Lubricating Oil	X	X
(C) Total	**X**	**X**
Grand Total (A+B+C)	**X**	**X**

Source: https://theinvestorsbook.com/wp-content/uploads/2019/06/Operating-Cost-Sheet.jpg

Illustrations:

1. Broadways Co. runs six buses between two towns which are 100 kms apart. The seating capacity of each bus is 50 passengers. Actual passengers carried are 70% of the seating capacity. All the 4 buses run for 25 days a month making one round trip per day. Calculate the total passenger-kms.

Solution:

Total Passenger-kms

= No. of buses X Distance per round trip X No. of round trips per day X No. of days X Capacity of the bus X Actual capacity utilised

= 4 X (100 kms X 2) X 1 X 25 days X 50 passengers X 70%

= 7,00,000 passenger-kms

2. A truck starts with a load of 10 tonnes of goods from station P. It unloads 4 tonnes at station Q and rest of the goods at station R. It reaches back directly to station P after getting reloaded with 8 tonnes of goods at station R. The distances between P to Q, Q to R and then R to P are 40 kms, 60 kms. and 80 kms. Respectively. Compute 'absolute tonne-km.' and 'commercial tonne-km'.

(B. Com. Hons. Delhi; CA Inter)

Solution:

Absolute Tonne-kms

= (10 tonnes x 40 kms.) + (6 tonnes x 60 kms.) + (8 tonnes x 80 kms.)

= 400 + 360 + 640 = 1,400 tonne-kms.

Commercial Tonne-kms.

=Average load x Total km. travelled

= {10+6+8/3} tonnes x 180 kms. = 1,440 tonne-kms.