

Process Costing

1. Process Costing

It is used in case of industries where output is obtained by passing through multiple process i.e. output of one process becomes the input for subsequent process until finished goods are obtained.

2. Normal Loss

It is a loss which is unavoidable in nature.

Units of such loss are shown on the credit side of process account at scrap value.

Draft Normal Loss Account

Particulars	Units	Amount	Particulars	Units	Amount
To Process I A/c	-	-	By Cash A/c (Process – I)*	-	-
To Process II A/c	-	-	By Cash A/c (Process – II)	-	-
			By Abnormal Gain A/c**	-	-
	-	-		-	-

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3. Abnormal Loss

It is a loss which is avoidable in nature.

Units of such loss are shown on the credit side of process account at NCPU.

Draft Abnormal Loss Account

Particulars	Units	Amount	Particulars	Units	Amount
To Process I A/c	-	-	By Cash A/c (Process – I)*	-	-
To Process II A/c	-	-	By Cash A/c (Process – II)	-	-
			By Costing P&L A/c	-	-
	-	-	(Balancing Figure)	-	-

* Units will be sold at scrap value only being a damaged unit.

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4. Abnormal Gain

It is unexpected production during normal conditions.

Units of such gain are shown on the debit side of process account at NCPU.

Draft Abnormal Gain Account

Particulars	Units	Amount	Particulars	Units	Amount
To Normal Loss A/c*	-	-	By Process I A/c	-	-
To Costing P&L A/c	-	-			
(Balancing Figure)					
	-	-		-	-

* The abnormal gain units valued at scrap will be shown here since only the actual profit is to be taken to costing P&L account.

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5. Process Account

Draft Process Account

Particulars	Units	Amount	Particulars	Units	Amount
To Previous Process A/c	-	-	By Normal Loss A/c	-	
To Material	-	-	(weight loss)		
To Labour		-	By Normal loss A/c	-	-
To Factory OHs		-	(having scrap value)		
To Toxic Waste A/c		-	By Normal loss A/c	-	
To Abnormal Gain A/c	-	-	(requiring cost to be incurred)		
			By Abnormal loss A/c	-	-
			By Next Process A/c	-	-
			(Tfd.)		
			By Costing P&L A/c	-	-
			(sold)		
			By Finished Goods A/c	-	-
	-	-		-	-

$$\text{Normal cost per unit (NCPU)} = \frac{\text{Total cost} - \text{Scrap value of Normal loss}}{\text{Total units} - \text{Normal loss units}}$$

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6. Treatment of Royalty

Debit the amount of royalty on the basis of normal production units

Excess or less payment of royalty will be adjusted in abnormal loss or gain account

In Royalty account only final amount on actual units produced will be payable.

7. Process Account with raw material stock

(a) Opening units of raw material stock along with its value will be debited to the process account.

(b) Closing units of raw material stock along with its value will be credited to the process account.

(c) Opening and closing stock of raw material should be adjusted while computing normal cost per unit of the process.

$$\text{Normal cost per unit} = \frac{\text{Total Cost (includes op. raw mat.)} - \text{Closing raw mat. cost} - \text{Scrap value of Nr. loss units}}{\text{Total Units (includes op. raw mat.)} - \text{Closing raw mat. units} - \text{Normal loss units}}$$

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8. Process Account with finished goods stock

- (a) A separate process account is prepared for each process.
- (b) Opening units of finished goods along with its value will be debited to the process stock account.
- (c) Closing units of finished goods stock along with its value will be credited to the process stock account.
- (d) All the goods produced by the process will be transferred to process stock account.

9. Process Account with WIP stock

- (a) Opening units of WIP along with its value will be debited to the process account.
- (b) Closing units of WIP along with its value will be credited to the process account.

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10. Valuation of WIP

- (a) Calculate equivalent units of production for each element of cost i.e. material, labour and overheads by preparing statement of equivalent units.
- (b) Calculate cost per equivalent unit for each element of cost i.e. material, labour and overheads.
- (c) Calculate the value of WIP by multiplying the equivalent units of WIP along with cost per equivalent unit.'

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11. Methods of WIP Stock Valuation

	FIFO Method	W. Average Method
<u>Ist Process</u>		
Opening WIP		
Introduced & Complete		
Normal Loss		
Abnormal Loss		
Closing WIP		

Process Costing

	FIFO Method	W. Average Method
<u>Subsequent Process or Double</u>		
<u>Material Questions</u>		
Opening WIP		
Introduced & Complete		
Normal Loss		
Abnormal loss		
Closing WIP		

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Points to Remember (PTR)

(A) Under Weighted Average Method, cost of opening WIP will be added with current cost while calculating cost per equivalent unit.

(B) In case of abnormal gain, DOC will always be 100% and will be shown as deduction in statement of equivalent units.

12. Inter Process Profit

Transfer goods from one process to other on cost plus profit basis.