

RANKERS' COMMERCE (KANKARBAGH PATNA)

call: 9386035411, 7870266699, 9709443092

Process Costing

Process: - It is different stage in manufacturing or Production where in raw material is converted from one identical product from one in to another before it is finely converted in to salable final product.

Process Costing: - It is method/technique of the costing use in the industrial where the raw material passes through two or more process before being converted in to final product

Other word, its method of cost account where by cost are charged to the process or the operation and average over unit produce

Features of Process Costing

- 1) The Plant /Factory is divided in to a number of process cost center or department each such division is a stage of production or a process
- 2) Manufacturing Activities is carried on continuously by mean of one or more process run according to parallel activities
- 3) The Output of one process becomes the input of other process and Output of Final Process is the finished product
- 4) Process are presume continuous in nature hence one Two one input, output reconciliation is not possible
- 5) Separate Account is prepare for each process for determination of cost
- 6) Cost center is the process itself while the cost unit is the output of the process

**1. (Ds-3 opp Doctors' colony P.N.B building kankarbagh patna)
Cost Account by Nitesh Sir**

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Determination of Cost under the Process Costing

Process refers to a stage in the production hence the following cost are Ascertainment of each process therefore the following cost are to be charged in the process account.

- i. Direct material cost.
- ii. Direct labour cost.
- iii. Direct expenses.
- iv. Factory overhead/production overhead.

NOTE: - There are no administrative or selling overhead to be charged in the process accounting.

SOME DEFINITION:-

1. **Process loss:** - It is loss of material inherent during the any processing operation. It may be due to reason like change in operation, schedule, and change in material quality etc...

Other word it is a loss of material arising during the course of process operation.

PROCESS LOSS = INPUT QUANTITY – OUTPUT QUANTITY

TYPES OF PROCESS LOSS:-

There are two types of process loss

- i. **Normal loss:** - It is the loss of material due to an avoidable reason. It can be anticipated based on nature of material, nature of operation, past experience and technical data

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other word it is predetermine loss of the material and the normal loss is to be determine on the basis of input quantity or production quantities.

BASED ON INPUT: - Normal loss = input quantity × % of normal loss

BASED ON PRODUCTION: - Normal loss = (opening w.i.p + fresh issue – closing w.l.P) × % of normal loss

- ii. **ABNORMAL LOSS:** - It is the loss, in excess of predetermine loss it arises due to avoidable reason and cannot be estimated in advance.

ABNORMAL LOSS = PROCESS LOSS – NORMAL LOSS

- iii. **ABNORMAL GAIN:** - It is a gain of the production operation under the normal condition. It can be computed on the basis of actual production and expected production.

ABNORMAL GAIN = ACTUAL PRODUCTION – EXPECTED PRODUCTION or NORMAL PROCESS LOSS – ACTUAL PROCESS LOSS.

DETERMINATION OF COST (Production or abnormal loss/gain)

STEP 1:- Determination of gross cost and gross input quantity.

GROSS COST = TOTAL OF DEBIT SIDE OF PROCESS ACCOUNT

GROSS QUANTITY = TOTAL OF INPUT QUANTITY.

STEP 2:- Determination of normal loss and scrap value.

STEP 3:- Determination of net cost and net expected output.

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NET COST = GROSS COST – SCRAP VALUE

NET EXPECTED OUTPUT = GROSS QUANTITY – NORMAL LOSS INQTY.

STEP 4:- Calculate cost per unit.

COST PER UNIT = $\frac{\text{NET COST}}{\text{NET QTY}}$

Super example:-

A product passes through three processes. The output of each process is treated as the raw material of the next process to which it is transferred and output of the third process is transferred to finished stock.

Particulars	1 st process	2 nd process	3 rd process
Material Issued	40000	20000	10000
Labour	6000	4000	1000
Factory Overhead	10000	10000	15000

10,000 units have been issued to the 1st process and after processing, the output of each process is as under: 10,000 units have been issued to the 1st process and after processing, the output of each process is as under:

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	Output	Normal loss	Realized value
Process No 1	9750 units	2%	Rs 0.75/unit
Process No 2	9400 units	5%	Rs 2/unit
Process No 3	8000 units	10%	Rs 1.50/unit

No Stock of Materials or of Work – in Progress was left at the end calculate the cost of finished articles

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