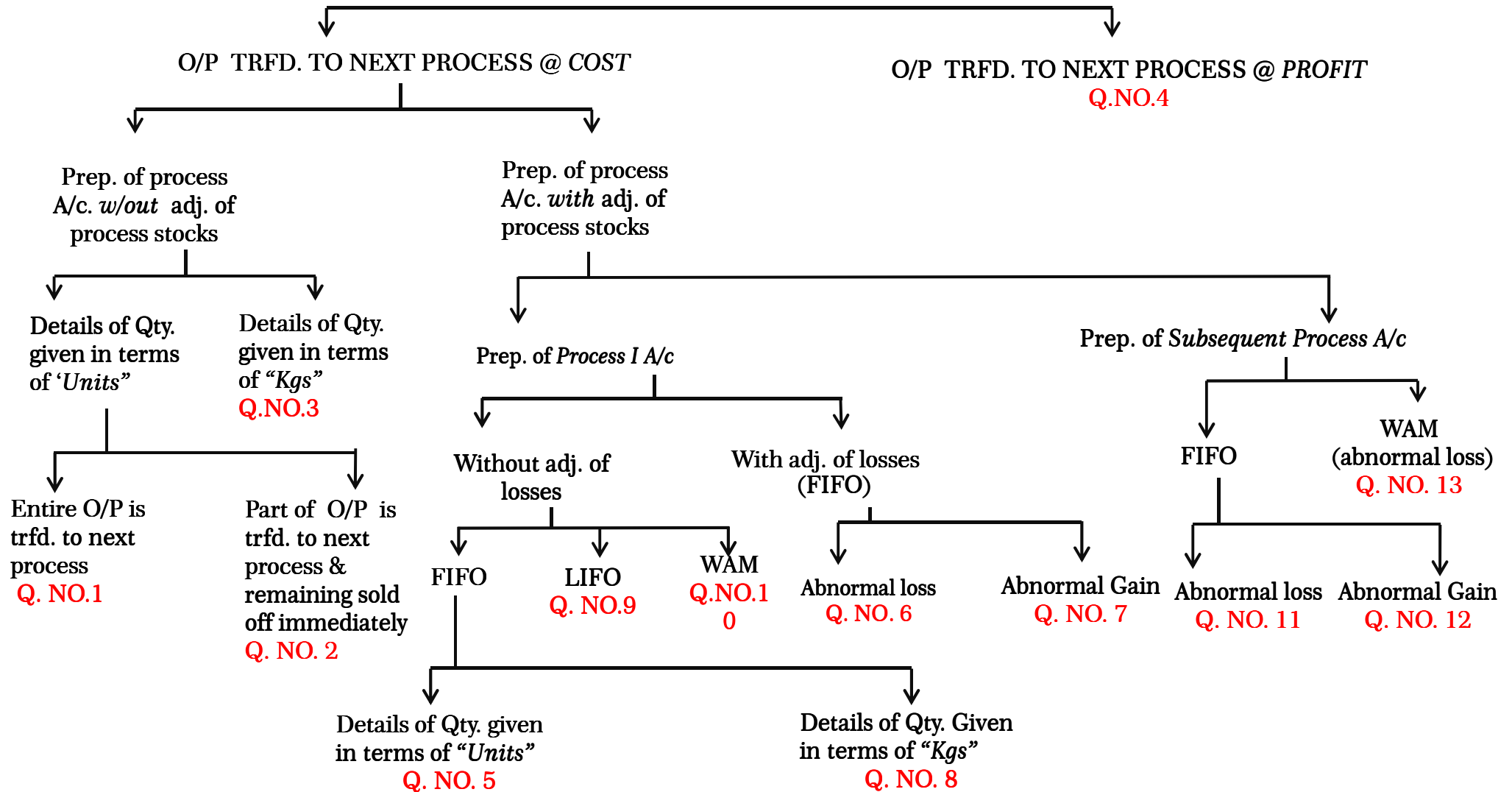


PROCESS COSTING



EXTRA QUESTION (After Q.No. 2)

<i>Particulars</i>	<i>Standard Data</i>	<i>Actual Data</i>
Total Cost	Rs. 200	Rs. 244
Input Qty.	20 Units	20 Units
Loss (% of input)	10 %	20 %
Scrap Value	Rs. 1/ unit	Rs. 1/ unit
Cost / Unit	$\frac{\text{Rs. } 200 - \text{Rs. } 2}{(20 - 2) \text{ units}}$ $= \text{Rs. } 11 / \text{ unit}$	$\frac{\text{Rs. } 244 - \text{Rs. } 4}{(20 - 4) \text{ units}}$ $= \text{Rs. } 15 / \text{ unit}$

HARDCORE NOTES: (Before Q. No. 3)

- ✓ Process Costing captures the work done by PRODUCTION manager (and not Purchase manager). The true objective of this chapter is NOT ASCERTAINMENT OF COST (1st Day) but in fact is COST CONTROL (Last Day)
- ✓ Cost per unit in the chapter of process costing is in fact “actual cost per unit of expected good output.” (Most important statement)
- ✓ Process A/c is always prepared for expected good output only. Any variation in expected good output... either abnormal gain or abnormal loss will NOT be dealt within process A/c, but via a separate Abnormal Loss A/c or Abnormal Gain A/c, as the case may be. Hence, abnormal gain or abnormal loss units are also treated at par with other expected goods units in process A/c... this is the reason why we value Abnormal Loss / Gain units @ cost in Process A/c.
- ✓ Every expenditure in Process A/c. is incurred with that *soch* that the expenditure is being incurred for producing expected good output.
- ✓ Process A/c. is prepared on the last day of the period for work done during the period.

Notes to Q. No. 3

❖ Royalty Payable :

The royalty will but naturally have to be paid to the License holder on the entire actual o/p of 15,000 kgs viz. $15,000 \text{ kgs} * \text{Rs. } 0.15 / \text{kg} = \text{Rs. } 2,250$. The License holder has no relevance to the fact that we had expected a good output of only 14,720 kgs.

However, while preparing the Process A/c, we will charge royalty of only $14,720 \text{ kgs} * \text{Rs } 0.15 / \text{kg} = \text{Rs. } 2,208$. This is for a simple reason that. . . Every expenditure incurred in Process A/c is with that *soch* that it is being incurred for manufacturing EXPECTED GOOD OUTPUT (14,720 kgs)

The balance royalty of 280 kgs. (Rs. 42) will have to be paid undoubtedly, but shall be routed through ABNORMAL GAIN A/c.

❖ Qty. column of Other Indirect Materials

In both the sums done before this, the details of qty. were given in terms of UNITS. However, in this sum, the details of qty. are given in terms of KGS.

The point noteworthy here is that ----

**When some other/sundry indirect material is added to ONE UNIT of input, it still remains ONE UNIT of input.
However, if some other/sundry indirect material is added to ONE KG of input, the resulting output will guaranteedly weigh MORE THAN ONE KG.**

In sums where details of qty were given in terms of 'UNITS' – because the no of units wont increase on adding other indirect material, qty column of other indirect material was NIL.

However, in sums where details of qty were given in terms of 'KGS' – the qty column of OTHER INDIRECT MATERIAL should also represent the weight of such other indirect material.

Fortunately, in this sum, this aspect was comfortably ignored because it has been specifically mentioned in the question that other indirect material were of NEGLIGIBLE WEIGHT.

Notes to Ques No. 9

Stage of completion of *Open. W.I.P. (Materials)*

Unlike the previous sum (Ques. No. 8) wherein the details of quantity were given in terms of Kgs. , the details of quantity in this sum are given in terms of Units only.

It is quite possible that even if more materials are added in the current period in every unit of Open. W.I.P., the no. of units will remain unchanged even though the weight may increase.

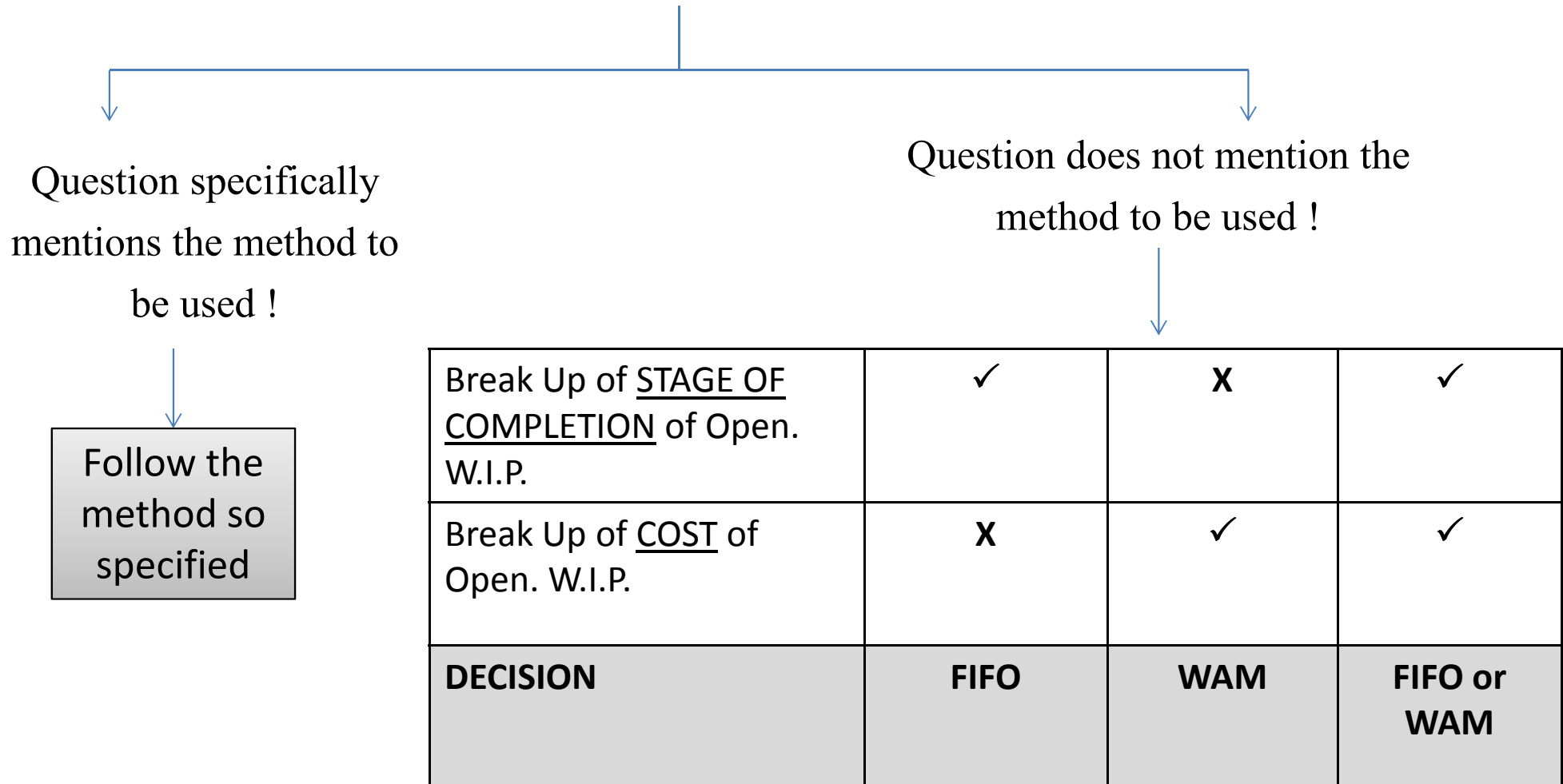
We have assumed that the stage of completion (materials) for 5,000 units of open. W.I.P. is 50 % complete.

V.Imp. Note : It is many a times observed that materials are entirely (100%) introduced at the inception of the process and on such materials, only then is the work of Labour and Factory O/H performed. However, it COULD NOT be assumed in this sum that Stage of Completion (Materials) was already 100 % complete for 5,000 Open W.I.P. units. *If it was assumed that ways, then how can there be only 80% materials in closing stock at the end of the year in those units which already had 100% materials at the beginning of the year itself ???*

Special Points to be considered when solving sums of process costing with adjustment of process stocks

1. “Opening stock of Process – I” is previous period’s “Closing stock of Process – I” only. *As long as entire work is not completed in Process – I, how can it enter Process – II !!*
2. Stocks at the end of current period in Process - I or Process - II or any other Process A/c will always be categorised as W.I.P. stock in the books of the Company.
3. Cost of Open. W.I.P. units represents that costs which were already incurred in the previous period. *It would include $DM + DL + DE + \text{Fact O/H}$. . . All the elements but thoda thoda. Remaining $DM + DL + DE + \text{Fact O/H}$ will be a part of Current Period’s (yeh baar) $DM + DL + DE + \text{Fact O/H}$.*
4. *Whenever an adjustment of Opening Stock of W.I.P., Cost Flow Assumption will surely come in picture viz. FIFO , LIFO , WAM . (see chart below)*

CRITERIA FOR SELECTION OF COST FLOW ASSUMPTION



* LIFO to be used only when specifically asked

5. To complete the Process A/c we now need to calculate the cost of ---
- a) Output trfd. to next process
 - b) Closing stock of W.I.P.
 - c) Abnormal Loss / Gain units (*Since Process A/c is prepared for EXPECTED GOOD OUTPUT, abnormal gain / loss units will continue to be valued at COST itself in the process A/c*)



Hence, we now need to calculate COST PER UNIT.

However, since every unit has not consumed equal proportion of DM, DL, DE & Fact O/H . . . We now will need to calculate COST PER UNIT as a sum of its break up

i.e. Total c.p.u = DM cost p.u. + DL cost p.u. + Fact O/H cost p.u.

Though the methodology by which c.p.u. is calculated may have changed, but it will still be interpreted as “ACTUAL COST PER UNIT OF EXPECTED GOOD OUTPUT”



To compute the quantity by which Total DM cost, Total DL cost & Total Fact O/H will be divided . . .

Concept of EQUIVALENT PRODUCTION ✓

Needless to say that Statement of Equivalent Production in fact represents the denominator of c.p.u. formula . . . Hence, this Statement of Equivalent Production should always represent the work done on EXPECTED GOOD OUTPUT only.

6. The following are major differences while computing COST PER UNIT as per 'FIFO' v/s 'WAM'

<u>FIFO</u>	<u>WAM</u>
<ul style="list-style-type: none"> Cost Per Unit should be interpreted as . . . <u>CURRENT PERIOD (yeh baar) ka cost</u> CURRENT PERIOD (yeh baar) ke units 	<ul style="list-style-type: none"> Cost Per Unit should be interpreted as . . . <u>UPTO THE END OF CURRENT PERIOD (ab tak) ka cost</u> UPTO THE END OF CURRENT PERIOD (ab tak) ke units
<ul style="list-style-type: none"> Firstly, Open W.I.P. will be processed further . . . Hence open W.I.P. will always be a part of Output Trfd. To Next Process . . . <i>Output Trfd. To Next Process ka break up</i> ✓ 	<ul style="list-style-type: none"> Output Trfd. To Next Process was out of Open. W.I.P. or Curr. Year Input ? . . . God Knows !!! <i>Output Trfd. To Next Process ka break up</i> ✗
<ul style="list-style-type: none"> Statement of Equivalent Production – will show the work of CURRENT PERIOD (yeh baar) 	<ul style="list-style-type: none"> Statement of Equivalent Production – will show the work UPTO THE END OF CURRENT PERIOD (ab tak)
<ul style="list-style-type: none"> Particulars column of Statement of Equivalent Production <ol style="list-style-type: none"> Opening stock processed further Started & finished Started but not finished (closing stock) 	<ul style="list-style-type: none"> Particulars column of Statement of Equivalent Production <ol style="list-style-type: none"> Units completed Started but not finished (closing stock)
<ul style="list-style-type: none"> Paai – paai ka hisaab ✓ 	<ul style="list-style-type: none"> Paai – paai ka hisaab ✗

Very Imp. Note : Irrespective of the cost flow assumption used i.e. FIFO or WAM, Cost Per Unit will always represent work done **UPTO THE END OF CURRENT PROCESS.** (see Ques no. 11,12,13)