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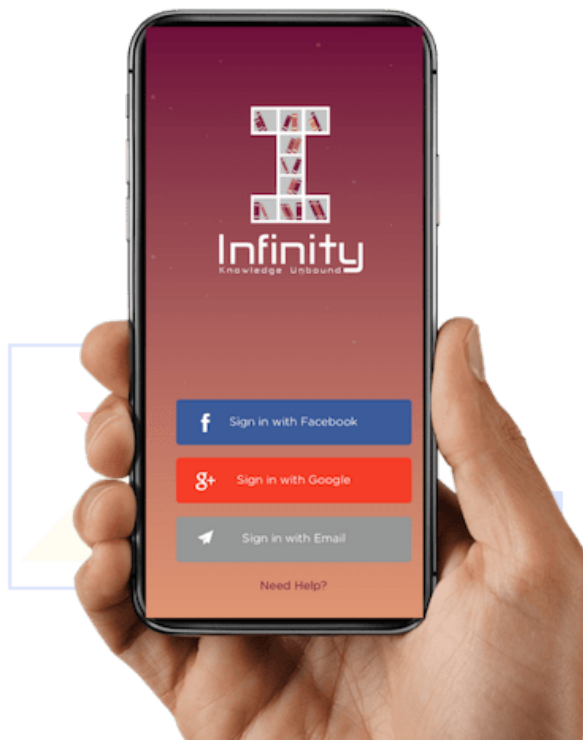
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**PROCESS COSTING**

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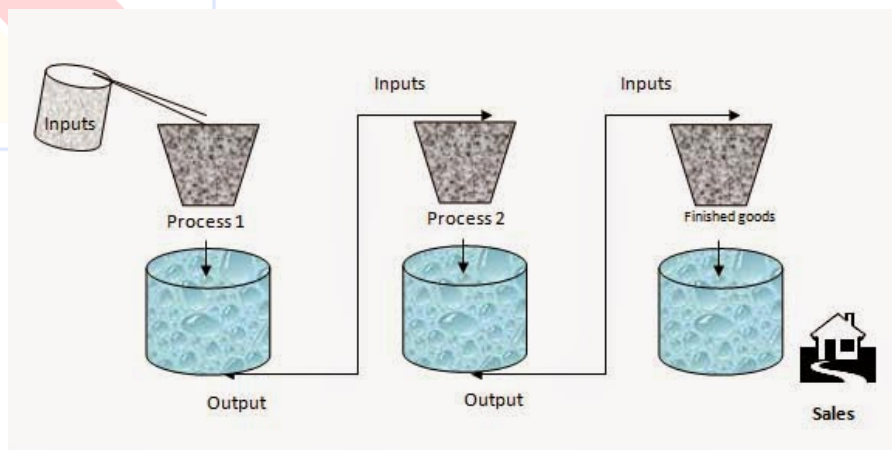
## PROCESS COSTING

Raw materials move down the production line through a number of processes in a particular sequence and costs are compiled for each process or department by preparing a separate account for each process.

**Goods are produced without waiting for any instructions or orders from customers and are put into warehouse for sales**

### Process costing procedure

1. The factory is divided into a number of processes and an account is maintained for each process
2. Each process account is debited with material cost, labour cost, direct expenses and overheads allocated or apportioned to the process
3. Finished output of one process becomes input of the next process
4. The finished output of the last process is transferred to the finished goods account






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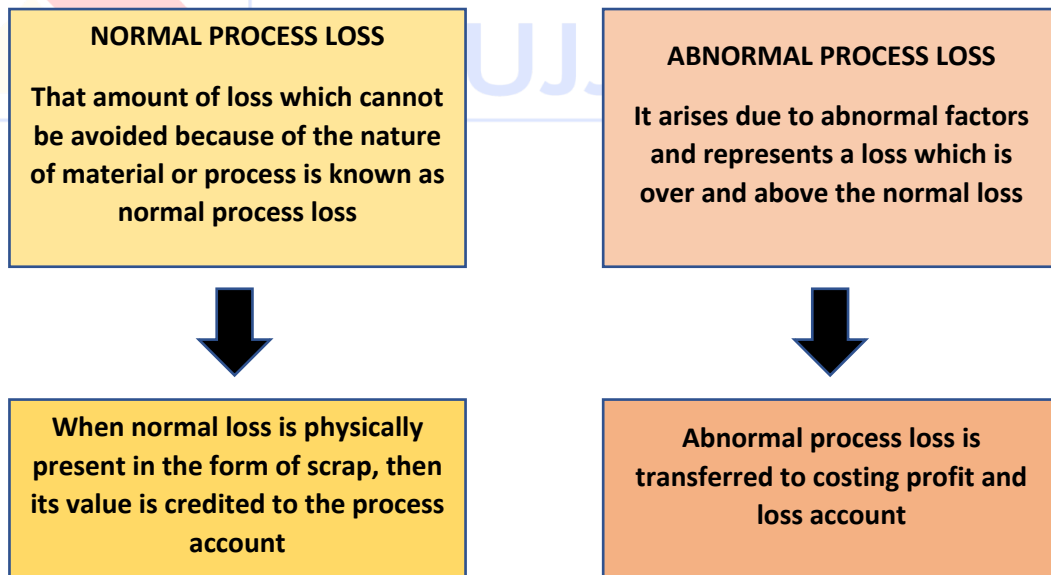


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PROCESS COSTING	JOB COSTING
Costs are compiled process-wise and cost per unit is the average cost	Costs are separately ascertained for each job, which is cost unit
Production is of standardized products and cost units are identical	Production is of non-standard items with specifications and instructions from the customers
Production is for stocks	Production is against orders from customers
Costs are computed at the end of specific period	Costs are calculated when a job is completed
The cost of one process is transferred to the next process in sequence	Cost of job is not transferred to another job but to the finished stock account
On account of continuous nature of production, work-in-progress in the beginning and end of the accounting period is a regular feature	There may or may not be work-in-progress in the beginning and end of accounting period
Cost control is comparatively easier. This is because factory processes and products are standardized	Cost control is comparatively more difficult because each cost unit or job needs individual attention

Some important accounting treatments

Process losses and wastages





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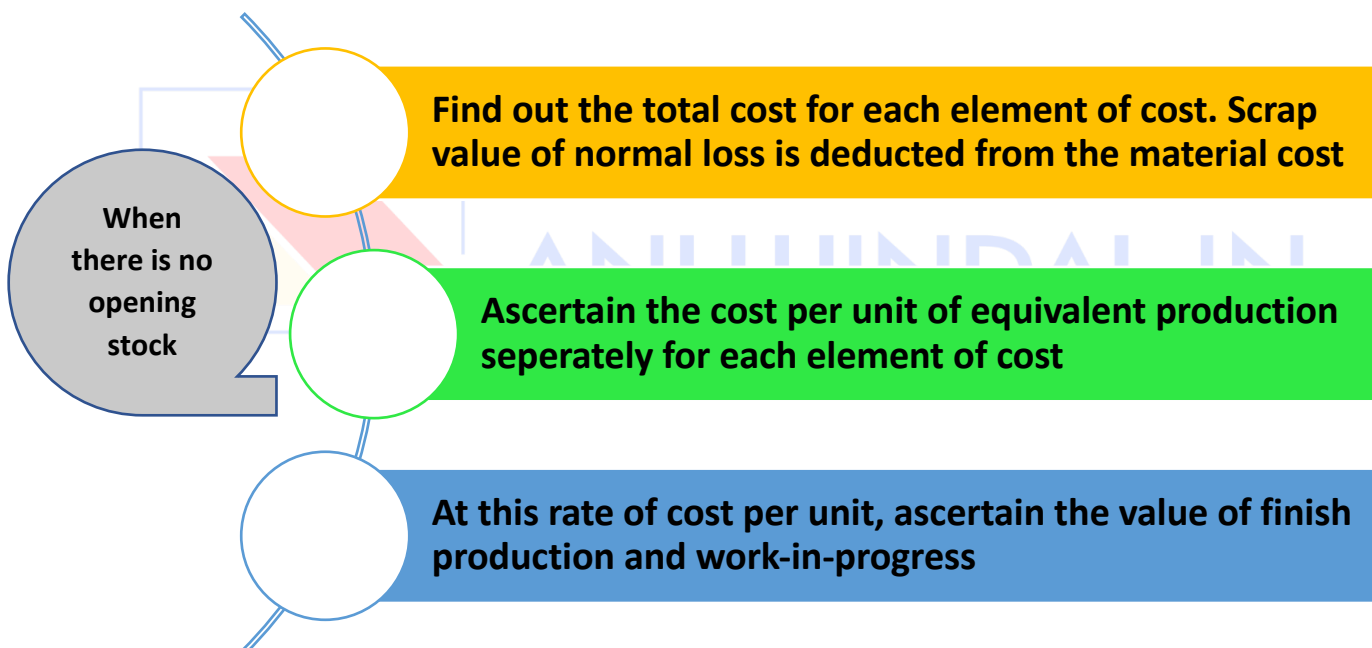
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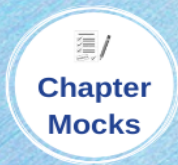
### Equivalent production

It represents the production of a process in terms of completed units.

**Equivalent completed units = (no. of units of WIP) \* (Degree of completion in %)**

After work-in-progress has been converted into equivalent completed units, the following steps are taken to evaluate it:





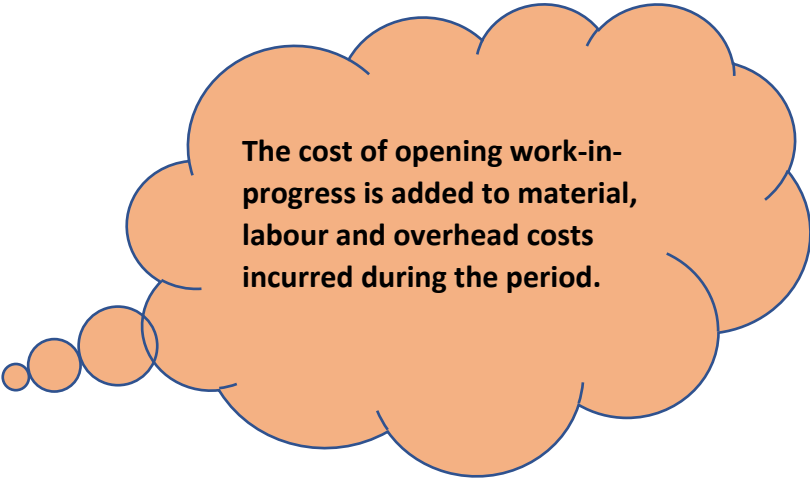
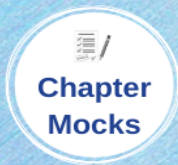
When there is opening as well as closing stock of work in progress

Opening stock of work in progress is kept as a separate figure

First in first out method

Cost incurred to complete this opening work-in-progress are added to the opening work-in-progress cost and the sum of these two costs is the total cost of completed units of opening work-in-progress at which it is transferred to the next year.





Internal process profits

It is a practice to charge the output of each process to the next process not at cost but at a price showing profit to the transferor process.

The objects of internal process profits are:

to show whether the cost in each process competes with the market prices

to make each process stand on its own efficiency and economy

to assist in making decisions