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# Theory Q&A

## Chp10 Process Costing

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# Chp10. Process Costing

## Theory QnA

- (e) *How will you treat normal loss, abnormal loss and abnormal gain in process costing?*  
*Explain* **(4 x 5 = 20 Marks)**

**(e) Treatment of normal loss, abnormal loss and abnormal gain in process costing**

**Treatment of Normal loss in Cost Accounts:** The cost of normal process loss in practice is **absorbed by good units produced under the process**. The amount realised by the sale of normal process loss units should be credited to the process account.

**Treatment of Abnormal loss in Cost Accounts:** The cost of an abnormal process loss unit is equal to the cost of a good unit. The total cost of abnormal process loss is credited to the process account from which it arises. Cost of abnormal process loss is not treated as a part of the cost of the product. In fact, the total cost of abnormal process loss is debited to costing profit and loss account.

**Treatment of Abnormal Gain in Cost Accounts:** The **process account** under which abnormal gain arises is **debited with the abnormal gain and credited to abnormal gain account** which will be closed by transferring to the Costing Profit and Loss account. The cost of **abnormal gain is computed on the basis of normal production**.

(e) WHAT is inter-process profit? STATE its advantages and disadvantages.

(e) **Inter-Process Profit:** To control cost and to measure performance, different processes within an organization are designated as separate profit centres. In this type of organizational structure, the output of one process is transferred to the next process not at cost but at market value or cost plus a percentage of profit. The difference between cost and the transfer price is known as inter-process profits.

The advantages and disadvantages of using inter-process profit, in the case of process type industries are as follows:

**Advantages:**

1. Comparison between the cost of output and its market price at the stage of completion is facilitated.
2. Each process is made to stand by itself as to the profitability.

**Disadvantages:**

1. The use of inter-process profits involves complication.
2. The system shows profits which are not realised because of stock not sold out.

(iii) EXPLAIN the term Equivalent units used in process industries.

(iii) **Equivalent Units:** Equivalent units or equivalent production units, means converting the incomplete production units into their equivalent completed units. Under each process, an estimate is made of the percentage completion of work-in-process with regard to different elements of costs, viz., material, labour and overheads. It is important that the estimate of percentage of completion should be as accurate as possible. The formula for computing equivalent completed units is:

$$\text{Equivalent completed units} = \left( \frac{\text{Actual number of units in the process of manufacture}}{\text{the process of manufacture}} \right) \times \left( \frac{\text{Percentage of Work completed}}{\text{Work completed}} \right)$$

For instance, if 25% of work has been done on the average of units still under process, then 200 such units will be equal to 50 completed units and the cost of work-in-process will be equal to the cost of 50 finished units.