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Theory Q&A

Chp11 Joint Product and By Product

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Chp11. Joint Product & By Product

Theory QnA

(d) How are By-products treated in Costing?

(d) Treatment of by-product cost in Cost Accounting:

By-product cost can be dealt in cost accounting in the following ways:

- (a) **When they are of small total value:** When the by-products are of small total value, the amount realised from their sale may be dealt in any one the following two ways:
1. The sales value of the by-products may be credited to the Costing Profit and Loss Account and no credit be given in the Cost Accounts. The credit to the Costing Profit and Loss Account here is treated either as miscellaneous income or as additional sales revenue.
 2. The sale proceeds of the by-product may be treated as deductions from the total costs. The sale proceeds in fact should be deducted either from the production cost or from the cost of sales.

- (b) **When the by-products are of considerable total value:** Where by-products are of considerable total value, they may be regarded as joint products rather than as by-products. To determine exact cost of by-products the costs incurred upto the point of separation, should be apportioned over by-products and joint products by using a logical basis.
- (c) **Where they require further processing:** In this case, the net realisable value of the by-product at the split-off point may be arrived at by subtracting the further processing cost from the realisable value of by-products.

(b) *Narrate the terms ‘Joint Products’ and ‘By-Products’ with an example of each term.*

- (i) **Joint Products** - Joint products represent “two or more products separated in the course of the same processing operation usually requiring further processing, each product being in such proportion that no single product can be designated as a major product”.

In other words, two or more products of equal importance, produced, simultaneously from the same process, with each having a significant relative sale value are known as joint products.

For example, in the oil industry, gasoline, fuel oil, lubricants, paraffin, coal tar, asphalt and kerosene are all produced from crude petroleum. These are known as joint products.

(ii) **By-Products** - These are defined as “products recovered from material discarded in a main process, or from the production of some major products, where the material value is to be considered at the time of severance from the main product.” Thus, by-products emerge as a result of processing operation of another product or they are produced from the scrap or waste of materials of a process. In short, a by-product is a secondary or subsidiary product which emanates as a result of manufacture of the main product.

The point at which they are separated from the main product or products is known as split-off point. The expenses of processing are joint till the split –off point.

Examples of by-products are molasses in the manufacture of sugar, tar, ammonia and benzole obtained on carbonisation of coal and glycerine obtained in the manufacture of soap.

- (a) How apportionment of joint costs up-to the point of separation amongst the joint products using market value at the point of separation and net realizable value method is done? DISCUSS.

(a) Apportionment of Joint Cost amongst Joint Products using:

Market value at the point of separation: This method is used for apportionment of joint costs to joint products upto the split off point. It is difficult to apply if the market value of the product at the point of separation is not available. It is useful method where further processing costs are incurred disproportionately.

Net realizable value Method: From the sales value of joint products (at finished stage) the followings are deducted:

- Estimated profit margins
- Selling & distribution expenses, if any
- Post- split off costs.

The resultant figure so obtained is known as net realizable value of joint products. Joint costs are apportioned in the ratio of net realizable value.

(a) DISCUSS the Net Realisable Value (NRV) method of apportioning joint costs to by-products.

(a) **Net Realisable Value method:** The realisation on the disposal of the by-product may be deducted from the total cost of production so as to arrive at the cost of the main product. For example, the amount realised by the sale of molasses in a sugar factory goes to reduce the cost of sugar produced in the factory.

When the by-product requires some additional processing and expenses are incurred in making it saleable to the best advantage of the concern, the expenses so incurred should be deducted from the total value realised from the sale of the by-product and only the net realisations should be deducted from the total cost of production to arrive at the cost of production of the main product. Separate accounts should be maintained for collecting additional expenses incurred on:

- (i) further processing of the by-product, and
- (ii) selling, distribution and administration expenses attributable to the by-product.

- (b) HOW apportionment of joint costs upto the point of separation amongst the joint products using market value at the point of separation and net realizable value method is done? DISCUSS.

Apportionment of Joint Cost amongst Joint Products using:

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