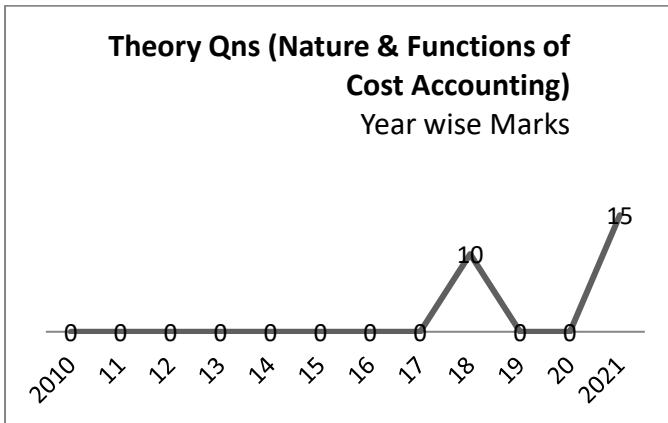


COST ACCOUNTING

NATURE AND FUNCTIONS OF COST ACCOUNTING



1991: Q. 1 In any industrial firm of your choice producing goods and services identify the stage at which Cost Accounting process starts and where it ends. Illustrate your reply where ever necessary.

Hint: write steps in establishing cost accounting system. Elaborate more on first step and last steps with significance and attention required.

1996: Q.1. 'Cost is a crucial leg in the tripod of pricing decision as having the character of internal control.' Elucidate.

Hint: Three factors to be considered for price determination are 1. Cost 2. Demand 3. Supply.

- Make triangle diagram by keeping price at centre.
- Significance of demand and supply 20x3 = 40 word
- Focus significance of cost for pricing, change in cost > change in price. Examples of inflation 60
- Mix impact of all these three but cost is most dominant and basic factor. 30

1997: Q.1. What is ABC analysis? Discuss its uses in cost accounting.

Approach to answer:

- Define ABC system of inventory management 60

Significance in cost accounting: It is highly useful in cost control and reduction. Management should not and need not focus on cost of all items of inventory equally.

More focus is required on A category item. Since they are high value items, inventory levels should be kept low- it will minimize holding cost.

Orders should be put more frequently considering ordering costs.

EOQ system should be followed diligently to minimize inventory costs. In-godown supervision should be stringent to avoid wastages and losses due to stockout.

Purchase managers should be well knowledgeable about various sources of supply and negotiate well to minimize purchase prices.

Since cost of C category items is low, management may not follow EOQ strictly. Bulk purchases may be made.

Category B items may be given moderate attention.

In this manner overall raw material buying and management costs can be optimized by applying ABC or Preto analysis.

1998: Q. 1 "Major policy decisions in business are based on cost factors." Comment on the possible used of cost information to management.

Model answer:

Business managers have to make variety of business decisions like product pricing, customer services, R&D, launching new products etc.

In these decisions variety of factors have role such as meeting of commitment, overcoming customer complaints, staying competitive and leader in market. Here costs are secondary.

But no management can dis-regard cost factor completely. For sustainable business operations and surplus generation managers have to keep cost as base line for all or most the decisions. Cost information as provided by cost records have variety of uses:

1. **Product pricing-** most important use. Price = cost + profit margin. Here demand and supply also have dominant role.
2. **Budgeting including** working capital forecasting and capital budgeting. Future uncertainties reduce role of cost data such as inflation.
3. **Cost control-** to keep costs within budget and standard limits. Human resource efforts paly equal role.
4. **Cost reduction-** a consistent effort to reduce costs. Engineering innovations are also useful.
5. **Variance analysis,** performance appraisal, Responsibility fixation, reward management,

product engineering etc. But it should be regular and predictive, not just post-mortem exercise.

Really costing information helps management look past-present-future of operations and make sound decisions. Costs have fundamental role in any decision making.

~~1999 1 (b) Human resources accounting techniques is based on Cost Accounting.~~ **Out of syllabus now.**

2003 1 (a) The financial books have a specific purpose to serve and the information available through them has to be supplemented through other records. Discuss the necessity of having cost records.

Approach to answer:

- Mention various financial books like cash book, party accounts, profit and loss account and balance sheet. 20 words
- Mention need & utility of financial accounting. 30
- Limitations of financial accounting: 30 words.
- Other records signify cost records such as cost sheet, process accounts, overhead costing etc. 20
- Mention utility of cost accounting for management- Pricing, control, reduction, budgeting, responsibility fixation. 60
- Conclude with specific utility of both 30

2005: Q.1(a) A medium size firm is making large profits and they do not have a Cost Accounting Department. There is a proposal to employ a Cost Accountant. What would you consider to be his functions and how can he make himself useful to the management? 10

Approach:

- **Need of cost accounting/information** 30
- **Functions of cost accounting** 50
- **Suggestions to make cost accounting better** 50
- **Use of IT to make cost accounting better** 30

2006: Q. 1 What are the functions of Cost Accounting? 10

Define cost accounting 15 words

Two group of functions:

Input functions (Tasks)- 50

- Cost data compilation and accounting
- Cost analysis such as CVP analysis
- Cost estimation and budgeting

- Cost reporting and data feed to needy departments regularly. Also discharging a statutory function of maintaining cost records and conducting cost audit.

Output functions (objectives served): 50

- Product pricing
- Cost control and cost reduction
- **Helping decision making** like make or buy.
- Ascertainment of profits and performance appraisals.

Today input function is made easy and automated by **Information Technology**. In **competitive world** cost control and cost reduction function has gained greater significance.

1(b) Difference between Financial Accounting and Cost Accounting. 20

Hint: Direct answer in notes.

- **Introduction:** define both. Common points.
- **Main body :** Table of differences- see notes
- **Conclusion:** both are needed. Write 2-3 points of utility of each

2018: Explain, in brief, the functions of cost accounting. 10

Hint: same answer as covered in 2006

2021: 2(b). Explain the principles and steps in setting up a good costing system in a manufacturing organisation. 15

Hint: Covered in detail on page 21

Principles = features of good cost accounting system

Cost Concepts

2021: 1(C) What are sunk cost and opportunity cost? Explain with example. 10

Model answer:

A sunk cost, sometimes called a retrospective cost, refers to an investment already incurred that **can't be recovered**.

Examples: Money spent on marketing, research, customized capital expenditure, salaries and benefits, or facilities expenses, training expenses, committed and unavoidable fixed costs etc.

In theory, sunk costs are not relevant to future decision-making. In practice they matter. We generally stay with something because we've put

time or resources into it. Example more spending on research even after failure of earlier one. ~~We try to recover what is already spent.~~ Really that is wrong step. ~~There is no merit in throwing good money after bad while refusing to cut one's losses.~~

Contrary to sunk costs, opportunity cost refers to the benefit forgone on second best alternative. Example company diverting resource use from a profitable product X to new product Y. Amount of profit forgone on product X is opportunity cost.

Opportunity cost is fully and logically relevant for decision making. Means product Y should not be introduced unless it has potential of generating the minimum profit product X has been generating.

Managers should be clear about distinction between the two for sound decision making.

2019: Explain with suitable examples how 'Shut-down Cost' is different from 'Sunk Cost'. **10**

Model answer:

Shutdown Costs means costs other than Sustaining Costs, incurred in connection with the discontinuance of operations.

Examples costs of termination or modification of any Contracts, losses related to return or disposition of any materials, ~~supplies, inventory or waste, the termination of any employees, fees for professional services etc.~~

In case of temporary shut-down it includes costs of maintaining the factory or facility.

Avoidable shut-down costs are relevant for decision about shut-down. **Unavoidable** costs are irrelevant.

On the other hand, a sunk cost, sometimes called a retrospective cost, refers to an investment already incurred that **can't be recovered**.

Examples: Money spent on marketing, research, customized capital expenditure, salaries and benefits, or facilities expenses, training expenses, committed and unavoidable fixed costs etc.

In theory, sunk costs are not relevant to future decision-making. Behaviorally they affect human mind while making decisions.

Comparison: shut-down costs related to decision to be made. Hence relevant. Sunk costs are historical, hence irrelevant for decision making. Unavoidable shut-down costs are really sunk costs.

2018: What are the costs used in managerial decision-making? Explain, in brief, their characteristics. **10**

Hint: See question-answer form on Utility of cost concepts. (Emphasize meaning and features of different kinds of costs useful in Managerial decision making.)

2010: How would you classify the different items of cost for the purposes of disclosing these items in a 'Cost-sheet'? Explain. **15**

Model answer: Cost sheet is a detailed statement of cost of producing goods or services. It provides variety of cost information for utility of management:

1. **Stages at which** costs are incurred- Primary level, factory level, office level, sales level. Also provide: Cost of production, Cost of sales.
2. **Nature of costs**- Material, Labour, Expenses
3. **Prime costs**(direct costs) and overheads.
4. **Variability** of costs- Variable overheads and fixed overheads.
5. **Gross costs** before adjustment of inventory and net costs after inventory adjustment.
6. **Total costs and per unit cost.**
7. **Profit and sales data.**

Above classification can be **presented** as follows:
(write **format** of cost sheet in half page)

1982: Sunk costs and their Relevance to Management Control.

A sunk cost, sometimes called a retrospective cost, refers to an investment already incurred that **can't be recovered**.

Examples: Money spent on marketing, research, customized capital expenditure, salaries and benefits, or facilities expenses, training expenses, committed and unavoidable fixed costs etc.

In theory, sunk costs are not relevant to future decision-making. Behaviorally they affect human mind while making decisions.

Relevance for management control

- **Managers** should be cautious while entering agreements. Minimize committed costs such as lock in period in lease agreements, non-refundable security deposit etc.
- **Develop technologies** having alternate uses or market value and marketability. Minimize customization unless it is too essential.
- **Take commitment from others such as notice period for workers to whom costly training is given.**
- **Keep watch** over technological obsolescence. Invest in future technologies. Or upgrade systems regularly to prevent them from becoming sunk.

- **Go for alternate** means to avoid sunk costs such as joint venture, Business Process Outsourcing etc.

In competitive and dynamic environment of today control over sunk costs is integral part of risk management and business sustainability. Make sure good money does not follow bad money.

1981: Q.1 Fixed and Variable Costs. **10**

Hint: Write both the concepts + Mention their utility as for decision making, planning, controlling costs.

1979 Q. 2 What do you mean be ‘engineered costs’ and ‘managed costs’? Indicate, with the help of suitable examples, their relevance for managerial decisions. **15**

Numerical questions on Cost Concepts

2010 (b) From the following information given by XYZ Limited as on 30th June, 2010, prepare a Cost

Statement showing (i) Cost of output—Total as well as per unit and (ii) Net Profit for the year:

Information:

Sales	49,000
Purchase of raw materials	15,000
Direct wages	15,000
Rent and other works cost	5,250
Carriage inward	250

Stock at the beginning of the year:

Raw materials	2,500
Finished goods (50 tons)	3,000

Stock at the end of the year:

Raw materials	2,750
Factory overheads	750
Sales promotion expenses	1,000
Office expenses	7,500
Selling expenses	2,000

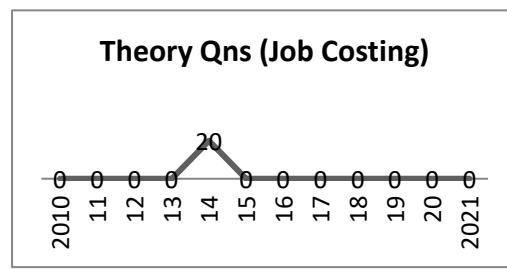
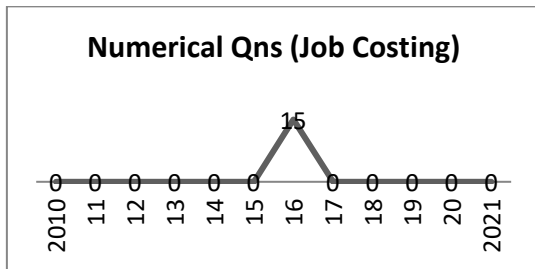
Company produced 750 tons of products. The stock of finished goods at the end is 100 tons. It has to be valued at works cost. **30**

Solution

Cost Sheet of XYZ Limited for the year ending 30 June 2010

Particulars	Total Cost	Per Unit Cost
Direct Material		
Op. Stock	2500	
Purchase of Raw Material	15,000	
Carriage inward	250	
Less: Cl. Stock	<u>(2,750)</u>	
Direct Wages	<u>15,000</u>	<u>20</u>
Prime Cost	30,000	40
Add: Factory Overheads		
• Rent and Other Works Cost	5,250	
• Factory Overheads	<u>750</u>	
Works Cost (Output 750 Ton)	36,000	48
Add: Office & Admin Overheads		
Office Expenses	<u>7,500</u>	<u>10</u>
Cost of Production (Gross)	43,500	58
Add: Opening stock of F. G. (50 Tons)	3,000	---
Less: Closing stock of F. G. (100 Tons @ 48 per ton)	<u>(4,800)</u>	<u>---</u>
Cost of Production of Goods sold (50+750-100= 700 Ton)	41,700	59.57
Add: Selling & Distribution OHs		
• Sales Promotion	1,000	
• Selling Expenses	<u>2,000</u>	
Cost of sales	44,700	63.86
Profit (Balancing Figure)	<u>4,300</u>	<u>6.14</u>
Sales	49,000	70

JOB COSTING PYQs



Key issue in Job costing is allocation of overheads. It is due to very nature of jobs. Job work requires both direct costs that are attributed to individual jobs as given. A significant part is overheads of various service departments of the firm. Here total overhead cost and total Machine Hours(activity level) may be given. Overheads may be both variable and fixed. Allocation is the main issue.

1988: Q. 1 Maple Company Ltd. manufactures many products. Each product passes through **two production, departments**, which have the following overhead cost structures:

	Department A	Department B
Normal monthly volume	5000 direct Labour hrs	10000 kg. of material
Monthly fixed overhead Costs at normal volume	Rs. 10,000	Rs. 40,000
Monthly variable overhead costs at normal Volume	Rs. 15,000	Rs. 20,000

Two of the job orders that went through the factory last month had the following results:

	Job 1 (Product X)	Job 2 (Product Y)
	Quantity Cost	Quantity Cost
Direct inputs:		
➤ Direct materials (kg)	480 Rs. 2,400	1500 Rs. 4,800
➤ Direct labour:		
Department A(Hours)	180 Rs. 1,620	100 Rs. 900
Department B(Hours)	60 Rs. 420	40 Rs. 280
Output (units)	600	1000

Required:

- (i) Calculate the unit cost of each of these jobs in a full or **absorption costing basis**.
- (ii) Recalculate unit costs on a **variable costing basis**.
- (iii) Why are the relative variable costs of these two products so **different** from their full costs?

Solution:

(a) Full-costing(absorption) overhead rates:

Department A: $Rs. 25,000/5,000 = Rs. 5$ a direct labour-hour

Department B: $Rs. 60,000/10,000 = Rs. 6$ per Kg

Job order costs:

	Job 1	Job 2
Direct materials	Rs. 2,400	Rs. 4,800
Direct labour:		
Department A	1,620	900
Department B	420	280

Overhead: Department A at Rs. 5 per hour	900	500
Department B at Rs. 6 per Kg	<u>2,880</u>	<u>9,000</u>
Total	<u>Rs. 8,220</u>	<u>Rs. 15,480</u>
Unit cost Job 1, Rs. 8220/600 units :	Rs. 13.70	
Job 2, Rs. 15480/1000 units:		Rs. 15.48

(b) Variable costing overhead rates:

Department A: Rs. 15,000/5,000 = **Rs. 3 per Direct labour-hour**

Department B: Rs. 20,000/10,000 = **Rs. 2 per Kg**

Job order costs:

	Job 1	Job 2
Direct materials	Rs. 2,400	Rs. 4,800
Direct labour:		
Department A	1,620	900
Department B	420	280
Overhead:		
Department A @ Rs. 3 per hour	540	300
Department B @ Rs. 2 per Kg	<u>960</u>	<u>3,000</u>
	<u>Rs. 5,940</u>	<u>Rs. 9,280</u>
Unit cost	Rs. 9.90	Rs. 9.28
	(5940/600)	(9280/1000)

(c) Variable unit cost of job 2 is less than that of job 1; full cost was greater for job 2 than for job 1. The main reason is that **job 2 used much more of department B's capacity than job 1**, and department B has a much higher proportion of fixed costs than department A. Total profit is thus much more sensitive to variations in sales of product Y (job 2) than to variations in sales of product X.

2014: 4 (a) Distinguish between Job Costing and Process Costing.

10 marks

Model answer: Both are methods of costing or record keeping. Both help cost computation, cost control and provide ready information for executive decisions. When the goods are produced only against special orders, **job costing** is used. On the other hand, when a product passes through several processes or stages, the output of one process becomes the input of next process, and to determine the cost of each process, **process costing** method is applied.

Specific points of difference are presented as follows:

BASIS	JOB COSTING	PROCESS COSTING
Meaning	Job costing refers to calculating the cost of a special contract, work order as per client's or customer's instructions.	A costing method, in which the costs are ascertained, charged and recorded for separately identifiable stages of production or operations.
Products	Customized Products (such as stitch to order)	Standardized & Mass products (such as ready-made garments)
Assignment of cost	Calculating cost of each job.	For each process and every unit of output of that process
Cost Center	Job	Process
Scope of cost reduction	Less	High due to high level of standardization and mechanization.
Transfer of Cost	No transfer	Yes, from one process to another
Identity	Each job is different from another.	Products are manufactured consecutively and so they lose their identity.
Losses	Losses are usually not segregated. Both normal & abnormal losses are absorbed by job.	Normal losses are carefully ascertained and abnormal losses are bifurcated.

Work-in-progress (WIP)	WIP may or may not exist at beginning or at end of the financial year.	WIP will always be present in the beginning or at the end of the accounting period
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Both differ by approach due to nature of industry they serve or the way they produce goods. Job costing in service industry, process costing in manufacturing. Stich to order requires job costing. Ready-made garment firm uses process costing.

2016: 4(b). The information given below has been taken from the costing records of a company in respect of Job No. 303:

Materials Rs. 4,010

Wages:

- Deptt. A – 60 hours @ Rs. 3 per hr.
- B – 40 hours @ Rs. 2 per hr.
- C – 20 hours @ Rs. 5per hr.

Overhead expenses for these three departments were estimated as follows:

Variable overheads:

- Deptt. A – Rs. 5,000 for 5,000 labour hours
- B – Rs. 3,000 for 1,500 labour hours
- C – Rs. 2,000 for 500 labour hours

Fixed overheads: Estimated at Rs. 20,000 for 10,000 normal working hours.

You are required to calculated the cost of job 303 and calculate the price to give profit of 25% on selling price.

15

Solution:

Cost Sheet

	Amount	Amount
Direct Materials	Rs.	Rs.
Wages – Deptt. A – 60 hrs. x Rs. 3		4,010
B – 40 hrs x Rs. 2	180	
C – 20 hrs. x Rs. 5	80	
Overheads – Variable:	100	360
Deptt. A - 60 x $\frac{\text{Rs. 5,000}}{5,000\text{hrs.}}$	60	
B - 40 x $\frac{\text{Rs. 3,000}}{1,500\text{hrs.}}$	80	
C - 20 x $\frac{\text{Rs. 2,000}}{5,00\text{hrs.}}$	80	220
Fixed overheads:		
120 hours x $\frac{\text{Rs. 20,000}}{10,000\text{hrs.}}$		240
Total Cost		4,830
Profit 25% on Selling Price or 1/3 of Cost Price		1,610
Selling Price		6,440

Guess/what is not yet asked: Job cost sheet has not been asked. May be asked. Remember the formal. Rare chances of asking question as it is not a two-page topic. Numerical question on job costing may be asked in 2023.

Process Costing

Trend of PYQs on Process costing		
Concept	Theory Qns	Numerical Qns
Process losses	2017+Show Treatment, 2020+Show Treatment	2018, 2021
Equivalent production: Average & FIFO method	1989 Methods + Illustrate	1991 Avg, 1992, 1996 FIFO,
Inter-process profits	2015+Show Treatment	
Joint-product & By-products		2000 Survey

Solutions to theory questions on Process Costing

1989: Q. 1 Explain and illustrate the difference between FIFO and the weighted average method of calculating equivalent **units** of production in process costing. **15 marks**

Tutorial Note- Key issues 1. How to explain both methods on key points of difference and 2. What kind of illustration to take with minimum space and time consumption and error avoidance.

Model answer: These two methods of accounting are used in case any process has opening WIP. These methods signify how opening work in process is recorded in terms of flow of cost.

- **In FIFO method** it is assumed that opening WIP is process first and converted into finished goods for sale or transfer to next process. New units introduced during the year has been processed later. Equivalent production will include *current output* only.
- **Weighted average** method assumes that all units(opening + newly Introduced) have been processed and sold or sent to next process together. Equivalent production will signify *total output* including opening WIP.

Illustration: Opening WIP: 200. Units introduced during the year 1600. Allowance for normal loss is 5%. Output: Finished goods 1600 units and WIP 120 Units (Material 100%, Labour 75%, Exp. 50%). Statement of equivalent can be prepared as follows-

Statement Of Equivalent Production [First In First Out Method]									
Input		Gross Output		Equivalent Production “Current Output”					
				%	units	%	units	%	units
Op. WIP	200								
Fresh Units	1600	Normal Loss	80						
		Closing WIP	120	100%	120	75%	90	50%	60
		Op. WIP Completed	200	0%*	0	50%**	100	75%***	150
		F.G.(Fresh) 1600-200 =	1400	100%	1400	100%	1400	100%	1400
Total	1800		1800		1520		1590		1610

- * = 100% - 100% already completed = 0%
- ** = 100% - 50% already completed = 50%
- *** = 100% - 25% already completed = 25%

STATEMENT OF EQUIVALENT PRODUCTION [Average Method]									
Input		Gross Output		Equivalent Production					
				Material		Labour		Overhead	
				%	units	%	units	%	units
Op.WIP	200								
Fresh Units	1600	Normal Loss	80	-----		-----		-----	
		Closing WIP	120	100%	120	75%	90	50%	60
		Finished Goods	1600	100%	1600	100%	1600	100%	1600
Total	1800		1800		1720		1690		1660

Impact of FIFO & Average methods on Various Process Costs- Since quantity of equivalent output is different in both the methods, standard cost of material, labour and overheads will also change. It will cause differences in valuation of **finished goods, closing WIP and abnormal loss/gains.**

2015: What is inter-process profit? Show the treatment of inter-process profit with an example. 10

Tutorial Note- Key issues: 1. Explanation of inter-process by giving conceptual example + Objectives
 2. Taking suitable illustration- short, logical, presentation will be real challenge

Model answer: Normally output of one process is transferred to next process at cost. In some process industries, finished goods may be transferred to the immediate next process by including a nominal amount of profit. The profit associated with the transfer of goods from one process to another process is called inter-process profit.

The price fixed by adding the nominal amount of profit for the transfer of finished goods to the next process is known as **transfer price or mark-up price.**

Transfer Price = Cost of output + Profit

Objectives Of Inter-Process Profit

- To assess the performance of each process or operation independently.
- To examine whether the output can compete with the market or not.
- To decide whether the output should be sold without further processing or putting for further processing

Illustration: Product BRAND passes through two processes A and B before it is sent to Sales Department. Both the processes charge 25% of their costs while transferring to next process/department. ~~There is no opening or closing stock in any process. All the goods produced are transferred to next process and sold finally.~~ From the following cost information, prepare Process accounts:

Particulars	Process A	Process B	Sales Department
Raw materials	1,00,000	50,000	-
Wages	60,000	30,000	-
Sales	-	-	5,00,000

Solution

Process A Account

Particulars	Amount	Particulars	Amount
To Raw materials	1,00,000	By Process B Account	2,00,000
To Wages	60,000		
To Profit @ 25% of 1,60,000	40,000		
	2,00,000		2,00,000

Process B Account

Particulars	Amount	Particulars	Amount
To Process A Account	2,00,000	By Sales Department A/c	3,50,000
To Raw materials	50,000		
To Wages	30,000		
To Profit @ 25% of 2,80,000	70,000		
	3,50,000		3,50,000

Sales Department Account

Particulars	Amount	Particulars	Amount
To Process B Account	3,50,000	By Sales A/c	5,00,000
To Profit (Balancing Figure)	1,50,000		
	5,00,000		5,00,000

Total Actual profit earned = 40,000+70,000+1,50,000 = 2,60,000. In case any process has closing stock, profit in reserve will be deducted to arrive at total actual profit earned.

2017: Define ‘Normal Wastage’, ‘Abnormal Wastage’ and ‘Abnormal Effectiveness’. State how are treated in Process Costing. 15

Answer: Loss or scrap or wastage of material is an important feature in any manufacturing process. There are three kinds of process losses-

Normal loss or Normal wastage: Some loss of raw material is natural in any production process such as leakage, evaporation, shrinkage, cut-pieces etc. Unavoidable part of loss is called normal. For cost control this loss may be standardized, say 5% of input. It is known as normal or standard loss.

Abnormal Loss: If Actual loss of Raw material exceeds standard, it is known as abnormal loss. It may be due to lack of supervision, break-down of machines, sub-standard raw material etc. **Abnormal Loss Quantity = Standard Output-Actual Output.**

Abnormal Gain or Effectiveness: if actual loss is lesser than standard, it is known as Abnormal Gain. It happens due to strict supervision, better quality inputs and machines etc.

Accounting Treatment of process losses:

- **Normal loss** is inherent in process; it is borne by healthy units. If there is any sales proceed, process account is credited by that amount.
- **Abnormal loss** is recorded separately. It is charged to costing P/L A/c. Thereby, standard cost of output is not affected.
- **Abnormal Gain** is also recorded separately and credited to Costing P/L A/c. It also ensures computation of output cost at standard.

Accounting of Abnormal loss & Gains separately helps cost control, Responsibility Accounting, besides bonus or penalty on process managers. 231 words till this point. No more space for illustration

Illustration: Input cost: RM (2,000 units) Rs. 2 lac. Conversion cost Rs. 1.81 Lac. Normal loss 5%; scrap sold @ Rs. 10 per unit. Assuming Actual output of 1850 units process normal and abnormal wastages can be recorded as follows: -

Here:

Normal Wastage = 5% of 2000 = 100 units

Abnormal Wastage = 2000-100-1850 = 50 units

Standard output cost P.U = $\frac{2,00,000 + 1,81,000 - (100 \times 10)}{2,000 - 5\%}$ = Rs. 200

Accordingly:

Process A/c					
To Material	2,000	2,00,000	By Normal Loss A/c	100	1,000
To Conversion		1,81,000	By Ab. Wastage@200	50	10,000
	2,000	3,81,000	By finished @ 200	1850	3,70,000
				2,000	3,81,000
			Normal Loss A/c		

To Process A/c	100	1000	By Cash	100	1000
	_____	_____		_____	_____

Abnormal Loss A/c					
To Process A/c	50	10,000	By Cash (Scrap)	50	500
			By Costing P/L (Balancing Fig)		9,500

If actual output is assumed 1950 units, it is case of abnormal gain. It will be accounted as follows-

Abnormal effectiveness (units)= 1950-(2000-100) = 50 units

Abnormal Gain of Rs. 10,000 (50 x 200) will be charged to process A/c. It will be credited to costing P/L A/c by Rs. 9500 (10,000 – 50 x 10 deficiency in scrap sale).

Separation of Normal loss, Abnormal loss and effectiveness help cost control, Responsibility Accounting, besides bonus or penalty on process managers. It is founded on standard costing.

Rankers Classes 9818464467