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COST AND WORKS ACCOUNTING
(Overheads and Methods of Costing-II)
T.Y.B.COM

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 Topic- VII: Process Costing
(Meaning, Definitions, Features, Advantages and Disadvantages)
PROCESS COSTING:

Meaning:

Process Costing refers to a method of accumulating cost of production by process. It represents a method of procurement applicable to continuous or mass production industries producing standard products. Costs are compiled for each process or department by preparing a separate account for each process.

Process Costing should be used by firms which are engaged in the manufacture of standardised products on a continuous basis. It is suitable for a large number of industries.

For instance: Paint works, cotton wool and jute textile mills, chemical plants, soap-making, oil refining, food processing, dairy, sugar works, confectionaries, cement, flour mill and gas etc.
Definitions: (Process Costing)

1. Institute of Cost and Management Accountants, London:

“Process Costing is that form of operating costing which applies where standardised goods are produced”.

2. According to Certified Institute of Management Accountants:

“Process Costing is the costing method applicable where goods or services result from a sequence of continuous or repetitive operations or process. Costs are arranged over the units produced during the period”.

3. According to Kohler:

“Process Costing is a method of cost accounting whereby costs are charged to processes or and averaged over units produced”.

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FEATURES OF PROCESS COSTING:

The following are the important features /characteristics of Process Costing:

1. Each plant is divided into a number of process cost centres or departments and each such division is a stage of production or a process.
2. The finished products are uniform in all respects such as shape, size, weight, quality, colour, chemical content etc.
3. Output of one process is the input of the next process.
4. It is not possible to distinguish finished products while they are in stage of processing.
5. Costs follow the flow of production i.e. costs incurred in the earlier process are transferred to the later process alongwith the output.
6. Total cost of the finished product in the last process is cumulative i.e. it comprises of costs of all processes.
7. The cost of any particular unit is the average cost of manufacture over a period.
8. Production of one article may give rise to two or more by-products.
9. Occurrence of process losses e.g. evaporation, shrinkage, chemical reaction etc.
10. The semi-finished products are expressed in terms of complete products. This is technically termed as equivalent production.
11. Production accumulated and reported by process.
12. Production process is predetermined and a definite sequence of production is followed.
13. The unit of cost is the ‘Process’ under this method of costing.
14. The production is continuous and on large scale basis in anticipation of demand.
15. The entire production is divided in clearly defined processes.
16. The number of units produced in a particular process are identical.
17. Each process is treated as a separate cost centre.
ADVANTAGES OF PROCESS COSTING:

Following are the advantages of Process Costing:

1. Process Costing helps in computation of costs of the process as well as of the end product at short intervals.
2. Average costs of homogeneous products
3. Allocation of expenses can be easily made and this results into a more accurate costing.
4. It involves less clerical labour because of the simplicity of less records.
5. Quotation can be submitted more promptly with standardisation of processes
6. Managerial control is possible by evaluating the performance of each process and by ascertaining the abnormal losses.
7. It is easier to establish the standards in case of continuous production, hence, standard costing system can be followed easily in process costing.
8. As cost of production is ascertained periodically, management is in a position to receive various reports periodically and review the progress and efficiency of the production process.
9. The method of cost ascertainment is simple and economical than that in job costing.

DISADVANTAGES OF PROCESS COSTING:

Following are the disadvantages of Process Costing:

1. The average cost ascertained under this method is not true cost per unit, as such, it conceals weaknesses and inefficiencies in processing.
2. Since, it is based on historical cost, it has all the weaknesses of historical costing.
3. The valuation of work-in-progress on the basis of the degree of completion may sometimes, be a more guess work.

4. The emergence of joint products may present the problem of apportionment of joint cost and if apportionment is not properly done cost results may not be accurate.

5. It may not always be possible to indicate the suitable units for showing quantity figures in process cost statement.

6. It is very difficult to estimate the normal quantity loss in process.

7. The method does not permit evaluation of efforts of individual workers or supervisors.

8. Process Costing involves difficulty in ascertaining closing stock value when output is transferred to another process at transfer price or market price.
Thank You