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

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- Preparation of Process Accounts when there is no work-in-progress
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.

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:

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 gods or services result from a sequence of continuous or repetitive operations or process. Costs are arranged over the units produced during the period ”.
STEPS INVOLVED IN PREPARATION OF PROCESS ACCOUNTS:

The following steps are required to be taken for accurate ascertainment of the cost per unit of output of each process and finally the finished goods:

A) Step First:

For the process of cost accounting, process industries are divided into departments, each department representing a particular process. A process may consist of a separate operation or series of operations. A foreman or supervisor is appointed for each department. He is responsible for efficient functioning of his department.
B) Step Second:

A separate account is maintained for each process and it is debited with the value of raw material, labour and overheads relating to the process.

C) Step Three:

Output is recorded in terms of units (e.g.- tons, litres, kgs. etc.) on daily, weekly or suitable periodical basis depending upon processing time.
D) Step Four:

Average cost per unit is found out by dividing the total cost of each process by total production of that process. In arriving at average unit costs/ costs normal loss in production and incomplete units in the beginning and at the end of the period, are taken into consideration.
E) Step Fifth:

Cost of previous process is transferred to the subsequent process so that the total cost and unit cost of products are accumulated.

F) Step Sixth:

Products remaining unfinished in the process at the close of the period are to be assessed in terms of equivalent completed units on the basis of percentage/degree of completion.
It should be clear that, while preparing Process Accounts, columns are generally provided on both ‘Debit side’ and ‘Credit side’ for total cost, per unit cost and for material quantities.
Thank You