

PROCESS COSTING

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Process Costing

- Process costing is a method used to find out the cost of a product at each stage of process or production
- If there are number of process, then the finished product of one process is used as raw material for another process
- Examples : Cement, Chemicals, Steel, Paper , Soaps, Paints etc,,,



Features of Process Costing

- Production is continuous
- The units manufactured are standardized and identical
- Output of one process is input of next process.
- The output of last process is finished stock
- Cost is debited
- Cost per unit is arrived
- Total cost is sum of all cost in all processes



Difference between process costing and job costing

Basis of Distinction	Job Costing	Process Costing
Production	Based on orders from customers	Based on the anticipation of demand
Cost	Accumulate for each job	Accumulate for each process
Job	Job may or may not have work-in-progress	Process is continuous. Hence there is opening and closing work-in-progress
Ascertainment of Cost	At the end of job	At each stage of Production



Difference between process costing and job costing

Basis of Distinction	Job Costing	Process Costing
Transfer	No transfer from one job to job	Transfer from one process to process
Determination	In job cost the cost per unit is calculated by total cost of the job divided by number of units produced	In Process cost the cost per unit is calculated by total process cost divided by number of units produced in respective process
Paper Work	More	Comparatively less
Control	Difficult	Relatively easy



Advantages

- Cost of each process can be computed easily
- Expenses can be allocated in suitable basis
- Highlights the normal and abnormal loss
- Simple and less clerical work



Disadvantages

- It is based on the historical costing
- When production is not homogeneous the average cost may present incorrect picture of actual costs
- In case of Joint Product - Problem of Distribution
- Example: Milk