TREATMENT OF NORMAL LOSS, ABNORMAL LOSS

Loss of material is inherent during processing operation. The loss of material under different processes arises due to reasons like evaporation or a change in the moisture content etc. Process loss is defined as the loss of material arising during the course of a processing operation and is equal to the difference between the input quantity of the material and its output.

There are two types of material losses viz.

    i)   Normal loss and
    ii)   Abnormal loss.

(i) **Normal Process Loss:** It is also known as normal wastage. It is defined as **the loss of material which is inherent in the nature** of work. Such a loss can be reasonably anticipated from the nature of the material, nature of operation, the experience and technical data. It is unavoidable because of nature of the material or the process. It also includes units withdrawn from the process for test or sampling.

    Treatment in Cost Accounts: The cost of **normal process loss in practice is absorbed by good units produced** under the process. The amount realised by the sale of normal process loss units should be credited to the process account.

(ii) **Abnormal Process Loss:** It is also known as abnormal wastage. It is defined as the **loss in excess of the pre-determined loss** (Normal process loss). This type of loss may occur due to the carelessness of workers, a bad plant design or operation, sabotage etc. Such a loss cannot obviously be estimated in advance. But it can be kept under control by taking suitable measures.

    Treatment in Cost Accounts: The cost of an abnormal process loss unit is equal to the cost of a good unit. The total cost of abnormal process loss is credited to the process account from which it arises. Cost of abnormal process loss is not treated as a part of the cost of the product. In fact, **the total cost of abnormal process loss is debited to costing profit and loss account.**

Question1:

A product passes through Process- I and Process- II. Materials issued to Process- I amounted to Rs. 40,000, Wages Rs. 30,000 and manufacturing overheads were Rs. 27,000. Normal loss anticipated was 5% of input. 4,750 units of output were produced and transferred-out from Process-I. There were no opening stocks. Input raw material issued to Process I were 5,000 units. Scrap has no realisable value.

You are required to PREPARE Process- I account, value of normal loss and units transferred to Process-II.

Answer:

Dr.   Process-I Account   Cr.

Particulars	Units	Total (Rs.)	Particulars	Units	Total (Rs.)
To Material	5,000	40,000	By Normal Loss	250	0
To Wages	-	30,000	By Process-II A/C (Transfer to Process-II)	4,750	97,000
To Overhead	-	27,000			
	5,000	97,000		5,000	97,000

Value of Normal loss = Scrap realisable value less cost to sale

Since, scraps do not realise any value, hence, value of normal loss is zero.

Value of units transferred to Process-II:

=(Total Cost-Realisable value of normal loss / Total input units-Normal loss units) x Units transferred

=[(Rs. 97,000-0)/(5,000 units-250 units)] x 4,750 units
=Rs. 97,000

Question 2:

A product passes through Process- I and Process- II. Materials issued to Process- I amounted to Rs. 40,000, Wages Rs. 30,000 and manufacturing overheads were Rs. 27,000. Normal loss anticipated was 5% of input. 4,750 units of output were produced and transferred-out from Process-I. There were no opening stocks. Input raw material issued to Process I were 5,000 units. Scrap has realisable value of Rs. 2 per unit.

You are required to PREPARE Process- I account, value of normal loss and units transferred to Process-II.

Answer:

Dr.   Process-I Account   Cr.

Particulars	Units	Total (Rs.)	Particulars	Units	Total (Rs.)
To Material	5,000	40,000	By Normal Loss	250	500
To Wages	-	30,000	By Process- II A/C (Transfer to Process-II)	4,750	96,500
To Overhead	-	27,000			
	5,000	97,000		5,000	97,000

Value of Normal loss = Scrap realisable value less cost to sale

= 250 units x Rs.2=Rs.500

Value of units transferred to Process-II:

=(Total Cost-Realisable value of normal loss / Total input units-Normal loss units) x Units transferred

=[(Rs. 97,000-500)/(5,000 units-250 units)] x 4,750 units
=Rs. 96,500

Question 3:

A product passes through Process- I and Process- II. Materials issued to Process- I amounted to Rs. 40,000, Wages Rs. 30,000 and manufacturing overheads were Rs. 27,000. Normal loss anticipated was 5% of input. 4,550 units of output were produced and transferred-out from Process-I. There were no opening stocks. Input raw material issued to Process I were 5,000 units. Scrap has realisable value of Rs. 2 per unit.

You are required to PREPARE Process- I account, value of normal loss, abnormal loss and units transferred to Process-II.

Answer:

Dr.   Process-I Account   Cr.

Particulars	Units	Total (Rs.)	Particulars	Units	Total (Rs.)
To Material	5,000	40,000	By Normal Loss	250	500

To Wages	-	30,000	By Abnormal Loss	200	4,063
To Overhead	-	27,000	By Process-II A/C (Transfer to Process-II)	4,550	92,437
	5,000	97,000		5,000	97,000

Value of Normal loss = Scrap realisable value less cost to sale

= 250 units x Rs.2=Rs.500

Value of Abnormal loss:

=(Total Cost-Realisable value of normal loss / Total input units-Normal loss units) x Abnormal loss units

=[(Rs. 97,000-)/(5,000 units-250 units)] x 200 units
=Rs. 4,063

Value of units transferred to Process-II:

=(Total Cost-Realisable value of normal loss / Total input units-Normal loss units) x Units transferred

=[(Rs. 97,000-500)/(5,000 units-250 units)] x 4,550 units
=Rs. 92,437