UNIT 13 CONTRACT COSTING AND PROCESS COSTING

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13.0 OBJECTIVES

After studying this unit, you should be able to:

- comprehend the meaning and features of contract costing;
- explain the meaning and application of process costing; and
- understand the concept of joint and by-product costing.

13.1 INTRODUCTION

Dear learners,

In the previous units, you have already understood the methods of costing i.e., Job costing and batch costing. A contract is a job of a large size that may extend beyond one accounting period. The person executing the contract is known as a contractor, and the person for whom it is executed is known as

the contractee. A separate account is opened for each contract in the contract ledger or the general ledger. Thus, in this method of costing, each contract is a cost unit and an account is opened for each contract in the books of a contractor to ascertain profit/loss thereon.

Further, you have an idea that raw material is an important component of a product. To get finished products, raw materials need to be processed and converted into finished goods. It passes through the different processes. So, process costing is a form of operations costing that is used where standardized homogeneous goods are produced and the output of one process is transferred to another process for further processing and finished goods are the outcome of the last process. This costing method is used in industries like chemicals, textiles, steel, rubber, sugar, shoes, petrol etc.

This unit discusses the meaning and importance of contract costing and process costing. Additionally, we shall explore the steps involved in setting up a contract account and a process account, along with a discussion on deriving profit and loss through these methods.

13.2 CONTRACT COSTING

Contact costing is a method of cost accounting used to allocate, record, and analyze the costs associated with individual contracts or projects. It is primarily used in industries where large, complex and unique projects are undertaken, such as construction, engineering and manufacturing. The primary objective of contract costing is to determine the total cost of each contract and assess its profitability, enabling organizations to make informed decisions about pricing, resource allocation, and project management.

Contract costing plays a crucial role in managing large projects by helping organizations monitor and control costs, assess profitability, and make informed decisions about resource allocation and pricing. By implementing effective contract costing practices, businesses can improve their financial performance, reduce risks, and enhance their competitiveness in the market.

13.2.1 Features of Contract Costing

Salient features of contract costing are as follows:

i. Contracts are executed at a contract site away from the contractor's premises.

ii. Contracts are jobs of a large size and may continue over more than one accounting period.

iii. Each contract is treated as a separate unit for the purpose of cost ascertainment.

iv. The contracts are executed as per the specifications provided by the contractee.

v. Since the work is executed at the contract site, most of the items of cost to be incurred are direct in nature.

vi. The contract is executed by the contractor for an agreed amount of consideration known as the contract price.

vii. The payments by the contractee are made to the contractor in instalments on the basis of the extent of the work completed and certified as complete by the contractee engineer or architect.

13.2.2 Steps in Contract Costing

Various steps involved in the process of contract costing are as follows:

1 **Cost Allocation**: Costs are allocated to individual contracts based on the resources utilized for each project. These costs may include direct materials, direct labour and direct expenses, as well as indirect costs, such as overheads and administrative expenses, which are apportioned to each contract based on an appropriate basis (*e.g.*, labour hours, machine hours or a percentage of direct costs).

2 **Cost Recording**: Costs are recorded and tracked throughout the duration of the contract using a separate cost ledger or a project management system. This enables organizations to monitor costs in real time and compare them against budgeted or estimated costs.

3 **Cost Analysis**: The accumulated costs are analyzed periodically to determine the contract's progress, profitability, and cost-efficiency. This analysis may involve comparing costs against budgeted costs, assessing the costs of individual activities or resources, and identifying areas where cost savings or improvements can be made.

4 **Cost Control**: Based on the cost analysis, organizations can implement cost control measures to ensure that the contract remains within budget and meets its financial targets. This may involve renegotiating supplier contracts, improving resource allocation, or implementing process improvements to reduce costs.

5 **Final Account**: Once the contract is completed, a final account is prepared, detailing the total costs incurred, the revenue earned, and the overall profitability of the contract. This information can be used to evaluate the success of the project and inform future pricing and bidding strategies.

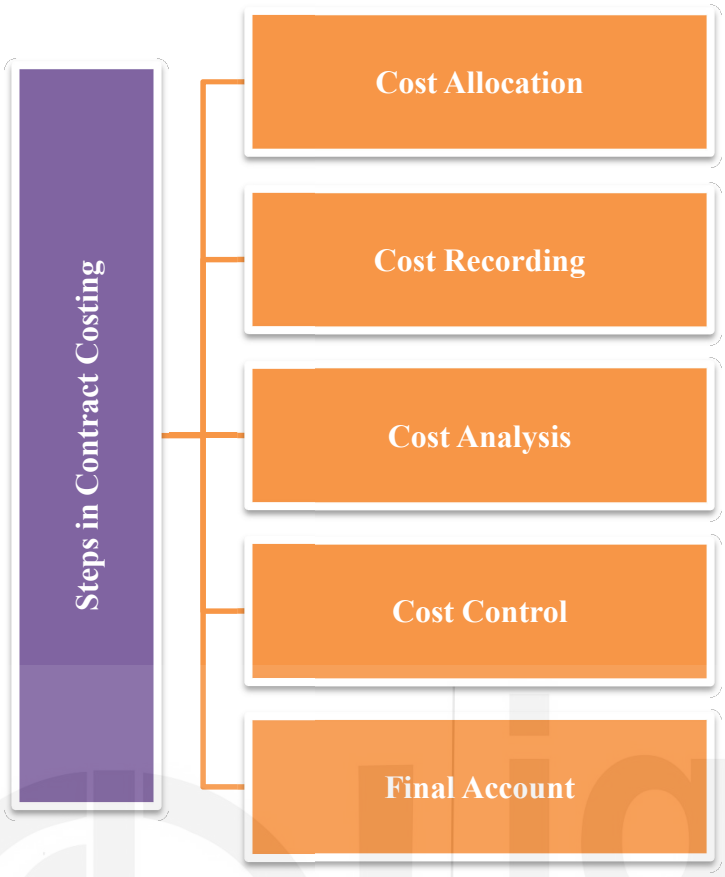

Figure 13.1: Steps in Contract Costing

Example of Contract Costing

Let us consider a hypothetical example involving a construction company that specializes in building residential houses.

Scenario: A construction company has entered into a contract to build a custom home for a client at an agreed price of □.300 crore. The construction company needs to manage the costs associated with this contract to ensure that it remains within budget and generates a profit. In this case, the construction company might apply contract costing as follows:

- **Cost Allocation**: The company allocates costs to the contract, including direct materials (e.g., bricks, cement, wood), direct labour (e.g., wages for construction workers, salaries of site supervisors, architects and engineers etc.), and direct expenses (e.g., equipment rentals, permits etc.). It also allocates indirect costs, such as overheads and administrative expenses, to the contract based on an appropriate basis (e.g., a percentage of direct costs or labour hours).

- **Cost Recording**: Throughout the construction process, the company records and tracks costs associated with the contract using a cost ledger or a project management system. This enables the company to monitor costs in real time and compare them against the budgeted amounts.

- **Cost Analysis**: Periodically, the company analyzes the costs incurred to determine the project's progress, profitability, and cost efficiency.

This may involve comparing costs against budgeted costs, assessing the costs of individual activities or resources, and identifying areas where cost savings or improvements can be made.

- **Cost Control**: Based on the cost analysis, the company implements cost control measures to ensure that the contract remains within budget and meets its financial targets. This may involve renegotiating supplier contracts, improving resource allocation, or implementing process improvements to reduce costs.

- **Final Account**: Once the construction of the custom home is completed, the company prepares a final account detailing the total costs incurred, the revenue earned from the client, and the overall profitability of the contract. This information can be used to evaluate the success of the project and inform future pricing and bidding strategies.

In this example, contract costing helps the construction company effectively manage the costs associated with building the custom home, ensuring that it remains within budget and generates a profit. This process contributes to better project management, financial performance, and competitiveness in the market.

13.2.3 Important Terms Used in Contract Costing

We need to understand the following terms while preparing the contract account. These are as follows:

1. **Cost of Work Certified or Value of Work Certified**: A contract is a continuous process to know the cost or value of the work completed on a particular date; assessment of the completion of work is carried out by an expert (it may be any professional like surveyor, architect, engineer etc.). The expert, based on his assessment, certifies the work completion in terms of percentage of total work. The cost or value of the certified portion is calculated and is known as Cost of work certified or Value of work certified respectively. Payment is made on the basis of work certification.

2. **Cost of Work Uncertified**: It represents the cost of the work that has been carried out by the contractor but has not been certified by the expert. It is always shown at cost price. There is no role of work uncertified in payment.

3. **Work-in-Progress**: It refers to the work which is not complete on the reporting date.

   Value of the work-in-progress = the cost of work completed, both certified and uncertified + the cost of work not yet completed + the amount of estimated/ notional profit (reserve for contingencies).

[Amount received from the contractee is subtracted from the WIP in the Balance Sheet]

In the Balance Sheet (prepared for management), the work-in-progress is usually shown under two heads, viz., certified and uncertified.

4. **Retention Money**: In a contract, a contractee generally keeps some amount payable to a contractor with himself as a security deposit. This security money upheld by the contractee is known as retention money.

   Retention money = Value of work certified- Payment made to a contractor

5. **Notional Profit**: It represents the difference between the value of work certified and the cost of work certified.

Value of Work Certified	×××
Add: Cost of Work not yet certified	×××
	×××
Less: Total cost of the contract to date	×××
Notional Profit	×××

6. **Estimated Profit**: It is the excess of the contract price over the estimated total cost of the contract. It is usually calculated in case of contracts likely to be completed.

7. **Escalation Clause**: In order to protect the contractor from the rise in the price, an escalation clause may be inserted in the contract. An escalation clause in a contract empowers a contractor to revise the price of the contract in case of an increase in the prices of inputs due to some reasons. As per this clause, the contract price is increased proportionately if there is a rise in input costs like material, labour or overheads.

13.2.4 Profit on Incomplete Contract

Profit on incomplete contracts at different stages as mentioned below:

(i) If the contract is in its early stages: No profit should be credited to the Profit and Loss Account. Profit should only be taken when the outcome of the contract can be assessed with reasonable accuracy. As a general rule, no profit should be recognized unless a contract is at least 25% complete.

(ii) If the contract is reasonably advanced: In this case, the portion of notional profit to be transferred to the Profit & Loss Account is based on the degree of completion of the contract. The degree of completion of the contract can be found out by comparing the work certified and the contract price (Cash received/Work Certified)

(a) If the degree of completion of work is above 25% but less than 50% of total work, ($\frac{1}{3}$ ×Notional Profit × Cash received ÷ Work Certified) will be transferred to the Profit & Loss Account and the remaining amount will be kept as reserve.

(b) If the degree of completion of work is more than or equal to 50% of the total work but less than 90%, ($\frac{2}{3}$ ×Notional Profit × Cash received ÷ Work Certified) will be transferred to the Profit & Loss Account and the remaining amount would be kept as reserve.

(iii) If the contract is almost complete (Degree of composition is 90% or more)

In this case, the portion of the profit to be transferred to the Profit & Loss Account is calculated by using the estimated total profit which is ascertained by subtracting the total cost to date and the additional cost to complete the contract from the contract price. The different formulas for such computations of profit are as follows:

1. Estimated Profit × Work Certified ÷ Contract Price or
2. Estimated Profit × Work Certified ÷ Contract Price × Cash Received ÷ Work Certified or
3. Estimated Profit × Total Cost to Date ÷ Estimated Total Cost or
4. Estimated Profit × Total Cost to Date ÷ Estimated Total Cost × Cash Received ÷ Work Certified

When an incomplete contract reveals a loss, the whole amount of the loss must be charged to the profit and loss account of the accounting year.

Check Your Progress Exercise 13.1

Note: a) Use the spaces given below for your answers.

b) Check your answer with those given at the end of the unit.

1. What is contract costing?

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2. Mention two features of contract costing.

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13.2.5 Illustrations

Illustration 1:

On 1 April 2022, X Ltd. started building a Cold Storage at a contract price of Rs.60, 00,000. During the year ended 31 March 2023, they incurred the following expenses:

Particulars	Amount (₹)
Materials purchased directly	5,00,000
Materials issued from stores	1,00,000
Direct wages	4,20,000
Plant	1,00,000
Overhead charges	30,000

Work to the value of ₹12, 00,000 had been certified on 31 March 2023, of which 75% had been received in cash.

The cost of work completed but not certified was ₹1, 05,000. Materials valued at ₹50,000 were on hand at the site. Depreciation is 20% p.a.

You are required to calculate notional profit and determine the treatment of notional profit

Solution:

(i) Calculation of Notional Profit:

Value of Work Certified	12,00,000
Add: Cost of Work not yet certified	1,05,000
	13,05,000
Less: Total cost of the contract to date **(Refer to working note)**	10,20,000
Notional Profit	2,85,000

Working Note:

Total cost of contract to date = Materials purchased directly + material issued from stores + direct wages + plant (at cost) + overhead charges (-) Material at site (-) Plant at site (cost- depreciation)

= 5,00,000+ 1,00,000+4,20,000+ 1,00,000 +30,000 (-)50,000 (-)80,000 (1,00,000-20% of 1,00,000)

=10, 20,000

(ii) Treatment of Notional profit

Here the value of Work certified is 12, 00,000 and the Contract price is 60, 00,000 i.e., Work certified is 20% of contract price. So due to this entire notional profit of 2, 85,000 has been kept as a reserve for contingencies.

If the contract is in its early stages, then as a general rule, no profit shall be recognized unless a contract is at least 25% complete (Work certified should be at least 25% of the Contract price)

Illustration 2:

A firm of Builders, carrying out large contracts maintains separate accounts for each contract. On 30th June, 2022, the following were shown as being the expenditure in connection with Contract No. 555.

Particulars	Amount (₹)
Materials purchased	1,16,126
Materials issued from stores	19,570
Wages	1,47,268
Direct expenses	4,052
Proportionate establishment expenses	17,440

The contract which had commenced on 1st February 2022 was for 6,00,000 and the amount certified by the architect, after deduction of 20% retention money, was 2,41,600 the work being certified on 30th June 2022. The materials on site were 19,716. You are required to calculate notional profit and determine the treatment of notional profit.

Answer:

(i) Calculation of Notional Profit:

Value of Work Certified (**Refer working note 1**)	3,02,000
Add: Cost of Work not yet certified	Nil
	3,02,000
Less: Total cost of the contract to date **(Refer working note 2)**	2,84,740
Notional Profit	**17,260**

Working Note 1

Work Certified = 2, 41,600 after deducting 20% of retention money

So, Work certified would be

2, 41,600 ÷ 80% = Rs 3, 02,000

*(80% denotes - 100% less deduction of 20% retention money)

Working Note 2

The total cost of the contract to date = materials purchased + material issued from stores + direct wages + direct expenses + proportionate establishment expenses (-) material at site =

1, 16,126+ 19,570+ 1, 47,268 + 4,052 + 17,440 (-) 19,716 = Rs 2,84,740

(ii) Treatment of notional profit

Since, the value of work certified (3, 02,000) is above 50% of contract value (6, 00,000) so amount transferred to Profit & Loss A/c = 2÷3 × 17,260 × 2,41,600÷3,02,000 = Rs 9,205.33 (2÷3 × Notional Profit × Cash received ÷ work certified) and balance Rs 8,054.67 (17,260-9,205.33) would be transferred to reserves for contingencies.

13.3 PROCESS COSTING

As per CIMA Official Terminology "Process costing is a 'form of costing applicable to continuous processes where process costs are attributed to the number of units produced. This may involve estimating the number of equivalent units in stock at the start and end of the period under consideration."

Process costing is that aspect of operation costing that is used to ascertain the cost of the product at each process or stage of manufacture, where processes are carried on. Process costing is a costing method used by companies to determine the cost of producing a large quantity of similar products or services.

13.3.1 Features of Process Costing

Salient features of process costing are as follows:

i. The finished product of one process becomes the raw material of the next process or operation and so on until the final product is obtained.

ii. Avoidable and unavoidable losses usually arise at different stages of manufacture for various reasons.

iii. It ensures a continuous flow of identical products

iv. Process cost centres are clearly defined and all costs are accumulated by the cost centres.

v. The accurate records of units and part units produced and cost incurred by each process are maintained.

vi. In order to obtain accurate average costs, it is necessary to measure the production at various stages of manufacture as all the input units may not be converted into finished goods.

vii. Joint products with or without by-products are simultaneously produced at one or more stages or processes of manufacture. The valuation of by-products and apportionment of joint costs before separation is an important aspect of this method of costing.

viii. Output is uniform and all units are exactly identical during one or more processes. So, the cost per unit of production can be ascertained only by averaging the expenditure incurred during a particular period.

13.3.2 Applications of Process Costing

Many industries use the process costing method. In fact, a process costing system can usually be devised in all industries except where job, batch, unit, or operation costing is necessary. In particular, the following are examples of industries where process costing is applied:

Table 13.1 Applications of Process Costing

Nature of Process	Industry
Chemical works	Textile, weaving, spinning etc.
Soap Making	Food products
Box Making	Canning factory
Distillation process	Coke works
Paper mills	Paint, ink, varnishing, etc.
Biscuit works	Meat products factory
Oil refining	Milk dairy

13.3.3 Important Terms Used in Process Costing

1. **Normal Process Loss:** It is the loss that is unavoidable on account of the inherent nature of the production process. Such loss can be estimated in advance on the basis of past experience or available data. The normal process loss is recorded only in terms of quantity and the cost per unit of usable production is increased accordingly. Where scrap possesses some value as a waste product or as raw material for an earlier process, the value thereof is credited to the process account. This reduces the cost of normal output; process loss is shared by usable units.

2. **Abnormal Process Loss**: Any loss caused by unexpected or abnormal conditions such as plant breakdown, sub-standard materials, carelessness, accident etc., or loss in excess of the margin anticipated for normal

process loss should be regarded as abnormal process loss. The units of abnormal loss or gain are calculated as under:

Abnormal loss (or gain) = Total Loss – Normal Loss

The valuation of abnormal loss should be done with the help of this formula: Value of Abnormal Loss = (Normal Cost of Normal Output) x Units of Abnormal Loss (Normal Output)

3. **Abnormal Gain**: We know that the margin allowed for normal loss is an estimate, (i.e., on the basis of expectation in process industries in normal conditions) and slight differences are bound to occur between the actual output of a process and that anticipated. These differences will not always represent increased loss, on occasions the actual loss will be less than that expected. Thus, when an actual loss in a process is smaller than what was expected, an abnormal gain results. The value of the gain will be calculated in a similar manner to an abnormal loss.

   The Abnormal Gain Account is to be debited for the loss of income on account of less quantity of sale of scrap available as a result of abnormal gain and the Normal Process Loss Account is credited accordingly. The balance is transferred to the Costing Profit and Loss Account as an abnormal gain.

4. **Equivalent Production:** This represents the production of a process in terms of completed units. In other words, it means converting the incomplete production units into the equivalent of complete units. In each process, an estimate is made of the percentage completion of any work-in-progress. A production schedule and a cost schedule will then be prepared. The work-in-progress is inspected and an estimate is made of the degree of completion, usually on a percentage basis. It is most important that this estimate is as accurate as possible because a mistake at this stage would affect the stock valuation used in the preparation of final accounts. The formula for equivalent production is:

   Equivalent units of work-in-progress = Actual no. of units in process of manufacture x Percentage of work completed

For example, if 20% of work has been done on the average of 1,000 units still in process, then 1,000 such units will be equal to 200 completed units. The cost of work-in-progress will be equal to 200 completed units.

13.3.4 Calculation of Equivalent Production

The following steps are worth noting in its calculation:

(a) State the opening work-in-progress in equivalent completed units by applying the percentage of work needed to complete the unfinished work of the previous period. If the opening work-in-progress is 100 units which is 40 percent completed, then the equivalent units of this will be 100 x 60% i.e., 60 units.

(b) Add to (a), the number of units started and completed during the period. This can be found by deducting the units in the closing work-in-progress from the number of units put into the process.

(c) Add to the above, the equivalent completed units of closing work-in-progress. This can be found by applying the percentage of work done on the finished units at the end of the period. There are mainly three methods of calculating cost per unit, out of which the FIFO method, Average method and Weighted Average Method are used in equivalent production.

(i) First in First out Method [FIFO]: In this method, the assumption is that the incomplete units from the opening stock are completed first and then the units introduced in the process are completed. The costs added in each process during the current period are prorated to the production necessary to complete the opening work in progress, to complete the units added in the process and units in the work in progress. The objective of the first in first out method is to value the inventory at the current costs and as such the main problem is to calculate the equivalent production under this method.

(ii) Average Method: Process costs are sometimes computed on the basis of average costs. Where the degree of completion of opening work in progress is not given, the average method is used. The average process cost is obtained by adding the cost of opening work in progress and the cost of units introduced in the process during the current period and dividing this total cost by the total equivalent units obtained by adding the number of units completed and equivalent units of the closing work in progress of each element, material, labour and overheads. The main object of the average method is to even out the fluctuations in prices and hence is used when the prices fluctuate widely during a particular period.

(iii) Weighted Average Method: If a manufacturing unit is manufacturing two or more products, that are quite dissimilar to each other, the weighted average method is used. Under this method, the weighted average is computed and used in the valuation of the incomplete units.

13.3.5 Joint and By-product Costing

i. Joint Products: In several industries, more than one product emerges from the manufacturing process. These products are sometimes produced intentionally while in some cases they emerge out of the main manufacturing process. Such products are termed as either joint products or by-products. Though sometimes these terms are used interchangeably, there is a major difference between the two and therefore it is necessary to understand clearly the difference between them. Similarly, there is a difference between the accounting of the two and hence it is essential to define clearly the concepts of joint products and by-products.

In CIMA Terminology defines joint products as “two or more products separated in the course of processing each having a sufficiently high

value to merit recognition as a main product". Joint products imply that they are produced from the same basic raw material, are comparatively of equal importance, are produced simultaneously by a common process and may require further processing after the point of separation.

ii. **By-Products:** The term 'by-products' is sometimes used synonymously with the term 'minor products. The by-product is a secondary product, which incidentally results from the manufacture of a main product. By-products are also produced from the same raw material and same process operations but they are secondary results of operation. The main difference between the joint product and byproduct is that there is no intention to produce the by-product while the joint products are produced intentionally. The relationship between the by-product and the main product changes with changes in economic or industrial conditions or with the advancement of science. The by-product of an industry may become a main product and the main product may become a by-product subsequently.

In CIMA Terminology, a By-product is "a product which is recovered incidentally from the material used in the manufacture of recognized main products such as having either a net realizable value or a usable value which is relatively low in comparison with the saleable value of the main products. By-products may further be processed to increase their realizable value". Thus, the term 'by-product' is generally used by businessmen and accountants to denote one or more products of relatively small value that are produced simultaneously with a product of greater value.

Example of joint and main product

For example, (a) in the sugar industry, sugar is the main product and molasses is a by-product (b) in coke ovens, gas and tar are incidentally produced in addition to the main product coke. Gas and tar are, therefore, treated as by-products. These minor secondary products have saleable or usable value and are incidentally produced in addition to the main product.

Check Your Progress Exercise 13.2

Note: a) Use the spaces given below for your answers.

b) Check your answer with those given at the end of the unit.

1. What is process costing?

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2. State the applications of process costing.

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13.3.6 Illustrations

Illustration 3 (Process Costing):

A product passes through two processes, Process –I and Process -II. Materials issued to Process -I amounted to ₹ 80,000, Wages ₹60,000 and manufacturing overheads were ₹54000. The normal loss anticipated was 5% of the input. 9500 units of output were produced and transferred from Process-I. There were no opening stocks. Input raw material issued to Process-I was 10000 units. Scrap has a realizable value of ₹ 4 per unit.

You are required to calculate the value of normal loss and units transferred to Process-II.

Solution

Given:

- Units introduced =10,000 units
- Units transferred to Process-II = 9,500 units
- Value of cost of Production = Materials issued to process-I + wages + manufacturing overheads

  = Rs 80,000 + Rs 60,000 + Rs 54,000 = Rs 1,94,000

  (i) Value of normal loss = Normal Loss units × Scrap in Rs per unit

  = 10000 × 5% normal loss units' × Rs 4 per unit

  = 500 units × Rs 4 per unit = Rs. 2,000

  (ii) Value of units transferred to Process-II =

$$\frac{Tota\square}{Tota\square} \quad \frac{(ScrapValue)}{(Units)} \times \text{Units Transferred}$$

$$= \frac{1{,}94{,}000-\square{,}000}{10{,}000-\square} \times 9{,}500 = \text{Rs } 1{,}92{,}000$$

Illustration 4 (Joint & By-products):

X, Y Ltd. manufactures product A which yields two by-products B and C. The actual joint expenses of manufacturing for a period were ₹8,200. The

profits on each product as a percentage of sales are 33-1/3%, 25% and 15% respectively. Subsequent expenses are as follows:

Particulars	A	B	C
Direct Material	100	75	25
Direct Labour	200	125	50
Overheads	150	125	75
	450	**325**	**150**
Sales	**6,000**	**4,000**	**2,500**

Apportion the joint expenses

Solution:

Statement Showing Apportionment of Joint Expenses

Serial	Particulars	A	B	C	Total
1	Sales	6,000	4,000	2,500	12,500
2	Less: Profit	2,000	1,000	375	3,375
3	Total Cost (Joint & Separate cost) (1 - 2)	4,000	3,000	2,125	9,125
4	Less: Separate Expenses (Given)	450	325	150	925
5	Share of Joint Expenses (3 – 4)	3,550	2,675	1,975	8,200

Activity 13.1:

Visit a dairy farm and collect information about the joint and by-products of the farm.

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13.4 LET US SUM UP

In this unit, you have already learnt the following:

- Contact costing is a method of cost accounting used to allocate, record, and analyze the costs associated with individual contracts or projects
- Contract Costing is applicable in industries where large, complex, and unique projects are undertaken, such as (a) construction, (b) engineering, and (c) manufacturing
- Process costing is a form of costing applicable to continuous processes where process costs are attributed to the number of units produced. This may involve estimating the number of equivalent units in stock at the start and end of the period under consideration.
- Process costing applies to (a) Chemical works (b)Soap Making (c)Box-Making (d)Distillation process (e) Paper Mills (f)Biscuit works (g)Oil refining etc. to name a few
- Two or more products separated in the course of processing each having a sufficiently high value to merit recognition as a main product is termed as Joint products.
- By-product is a product that is recovered incidentally from the material used in the manufacture of recognized main products such as having either a net realizable value or a usable value which is relatively low in comparison with the saleable value of the main products.

13.5 KEYWORDS

By-product : By-product is a product that is recovered incidentally from the material used in the manufacture of recognized main products such as having either a net realizable value or a usable value which is relatively low in comparison with the saleable value of the main products.

Contract Costing : Contact costing is a method of cost accounting used to allocate, record, and analyze the costs associated with individual contracts or projects

Contracts : Contracts refer to the final signed agreements between clients and suppliers.

Joint Product : Two or more products separated in the course of processing each having a sufficiently high value to

merit recognition as a main product is termed as Joint products.

Process Costing : Process costing is a method of cost accounting applicable to continuous processes where process costs are attributed to the number of units produced.

Process : Process is a series of activities (operations) that are linked to perform a specific objective.

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13.7 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 13.1

1. Contact costing is a method of cost accounting used to allocate, record, and analyze the costs associated with individual contracts or projects.

2. Two features of contract costing are:

(a) Contracts are executed at a contract site away from the contractor's premises.

(b) Contracts are jobs of a large size and may continue over more than one accounting period.

Check Your Progress Exercise 13.2

1. Process costing is a method of costing applicable to continuous processes where process costs are attributed to the number of units produced. This may involve estimating the number of equivalent units in stock at the start and end of the period under consideration.

2. Process costing applies to

a. Chemical works

b. Soap Making

c. Box-Making

d. Distillation process

e. Paper Mills

f. Biscuit works

g. Oil refining

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