

**PROCESS COSTING**  
**B.Com.Sem. VI**  
**Accounting & Finance - 6**  
**INTER PROCESS PROFIT METHOD**  
**Three Columnar Method**

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Following points are to be taken into consideration in inter process profit method of accounting:

1. In every process account column of particulars total amount, profit and cost amount is shown. In this method units are not given.
2. If inter process profit is given in opening stock, then inter process profit method will be applicable.
3. In every process, valuation of closing stock is based on the level of prime cost.
4. In every process actual production will be transferred by adding profit into next process.
5. Expenses are always taken as cost

**Remember**

- (1) Three columns are kept on each side of Process Accounts and Finished Stock Account. The total amount is shown in the first column, cost is shown in the second column and the third column shows the amount of profit included in total.
- (2) The closing stock is shown on the debit side as a deduction from total cost, instead of showing it on the credit side.
- (3) The cost is shown by the following formula.

$$\text{Closing Stock} \times \frac{\text{Cost}}{\text{Total}}$$

The difference between the total amount and cost is the unrealized profit.

**You have to be prepared following Accounts and Statements**

1. Process Accounts (three columnar method).
2. Finished Stock account (three columnar method).
3. Statement showing unrealized profit.
4. Stock valuation for balance sheet purpose.

**Example of Process Account as per three columnar method:**

Particulars	Total Rs.	Cost Rs,	Profit Rs.	Particulars	Total Rs.	Cost Rs,	Profit Rs.
To Opening Stock	2000	1400	600	By Process 2 A/c	54600	34287	20313
Process 1 A/c	33000	22000	11000				
Materials	2000	2000	---				
Wages	8000	8000	---				
Total	45000	33400	11700				
Less : Closing Stock	1500	1113	387				
Prime Cost	43500	32287	11213				
Factory Expenses	2000	2000	---				
Factory Cost	45500	34287	11213				
Profit(20 % Cost)	9100	---	9100				
Transfer Price	54600	34287	20313		54600	34287	20313

**Formula to find out cost value of closing stock :**

$$\text{Cost} = \frac{33400 \times 1500}{45000} = 1113$$

$$\text{profit} = 1500 - 1113 = 387$$

# PRACTICAL EXERSISCE

1. A Ltd. produces product X which passes through two processes before it is completed and transferred to finished stock. The following data relate to April 1999:

PR TICULARS	Process-1	Process -2	Finished Stock
Opening Stpck	7500	9000	22500
Direct materials	15000	15750	---
Direct wages	11200	11250	---
Factory overheads	10500	4500	---
Closing stock	3700	4500	11250
Inter process profit included in opening stock	---	1500	8250

Output of process 1 is transferred to process 2 at 25 % profit on the transfer price. Output of process 2 is transferred to finished stock at 20 % profit on the transfer price. Stocks in process are valued at prime cost.

Finished stock is valued at the price at which it is received from process 2. Sales during the period is Rs. 1,40,000.

Prepare : [1] Process Accounts [2] Finished Stock Account [3] Statement Showing total profit and unrealized profit.

2. A certain product of **Sona Ltd.** passes through two processes before it is transferred to Process 2, a profit of 25 % on transfer price is added and when the output of Process 2 is transferred to finished stock account, profit 25 % on cost is added. The following information is obtained for the month of March :

<b>PR TICULARS</b>	<b>Process-1</b>	<b>Process -2</b>	<b>Finished Stock</b>
Opening Stpck	10000	16000	20000
Direct materials	60000	12000	---
Direct wages	50000	30000	---
Factory overheads	14000	11000	---
Closing stock	20000	21000	27000
Inter process profit included in opening stock	---	4000	8000

Sales of finished goods Rs. 2,20,000.

Prepare : [1] Process Accounts [2] Finished Stock Account [3] Statement showing total profit and unrealized profit.

3. A certain product passes through three processes before it is transferred to finished stock. The following information is obtained for the month of March, 2004.

<b>PR TICULARS</b>	<b>Process-A Rs.</b>	<b>Process –B Rs.</b>	<b>Process- C Rs.</b>	<b>Finished Stock</b>
Opening Stock	40000	24000	20000	50000
Direct Materials	26000	40000	80000	---
Direct Wages	20000	21000	100000	---
Production Overheads	20000	50000	50000	---
Closing stock	10000	12000	64000	66000
Profit % on Transfer price to the next process	20 %	25 %	10 %	---

The reserve for unrealized profit for the opening stock of process 2 , process 3 and Finished stock were Rs. 4000, Rs. 5600 and Rs. 20,000 respectively.

Stocks in process are valued at prime cost and finished stock has been valued at the price at which was received from Process C. Sales during the period were Rs. 6,00,000.

Prepare and compute:

- [1] Process Accounts
- [2] Finished Stock Account
- [3] Statement showing total profit and unrealized profit.
- [4] Stock valuation for balance sheet purpose.

4. A certain product passes through three process before it is transferred to finished stock. The output of process A is transferred to process B at a price calculated to give a profit of 25% on the transfer price and output of process B and process C transferred to stock at profit of 20% on the transfer price.

<i>Particulars</i>	<i>Process A</i>	<i>Process B</i>	<i>Process C</i>	<i>Finished Stock</i>
Opening stock	25000	30000	20000	75000
Direct Material	50000	52500	75000	---
Direct Wages	37500	37500	40000	---
Factory Expense	35000	15000	100000	---
Closing Stock	12500	15000	10000	35500
Inter profit on Opening Stock	-----	5000	5000	27500

Stocks in process are valued at prime cost from which it is received from process C. During the year sales were Rs. 1000000.

Prepare:

1. Every process and finished stock account
2. Statement of actual realized profit.