Treatment of Normal Loss in Process Accounts

Normal losses are those which we can not stop. These are natural wastage.

For example, if you doing the business of timber on the basis of their weight. It is sure that after cutting of tree, weight of wood will decrease. So, this loss is normal loss. In process account's credit side, we just show the normal loss's units. Now, our total produced units will decrease. This will increase our cost of production per unit in any process. For example: If total cost of process A is Rs. 10,000. When we produce 100 units in A process, we have checked that due to natural reasons, we have just 90 units. Now, in A Process Account, we will show 100 units in debit side and 10 units of normal loss in credit side without writing its amount. Due to this our total cost of Rs. 10,000 will of 90 units. It means, cost per unit has increased from Rs. 100 per unit to Rs. 111 per unit.

2. Treatment of Abnormal Loss in Process Accounts

All those losses which happen due to abnormal reasons are called abnormal losses. Following are its main example.

1. If you use bad quality raw material in the production, there is big risk of wastage in production. So, use of bad quality raw material is the reason of abnormal loss.

2. Careless is also reason of abnormal loss. For example, due to the careless of worker, 5 units waste the products during production. So, loss of 5 units is the abnormal loss.

3. All those losses which are not normal will be the abnormal loss. For treating the abnormal loss in the process account, we need to calculate the value of abnormal loss.

a) When there is not any normal loss

Abnormal loss = Normal cost at normal production / normal output X units of abnormal loss

b) When there is normal loss

Abnormal loss = {Normal cost at normal production / (Total output – normal loss units)} X Units of abnormal loss. Example : In process A 100 units of raw materials were introduced at a cost of Rs. 1000. The other expenditure incurred by the process was Rs. 602 of the units introduced 10% are normally lost in the course of manufacture and they possess a scrap value of Rs. 3 each. The output of process A was only 75 units. Prepare process A account.

Process A Account

Debit Side	Units	Amount in Rs.	Credit Side	Units	Amount in Rs.
Raw material	100	1000	Normal Loss	10	-
Other Expenses	-	602	Sale of Scrap of normal wastage 10 units X Rs. 3 each	-	30
			Abnormal Loss	**15**	**262**
			Process B (Output) - balancing figure	75	1310
	100	1602		100	1602

*** Calculation of Abnormal loss in units and in value**

Total input = 100 units
Less normal loss in units = 10 units

Normal Output = 90 units
actual output of A process = 75 units

Abnormal loss in units = 15 units
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Value of Abnormal Loss

= Cost of Total Output - scrap sale of normal loss/ Normal Output X Units of Abnormal loss
= 1602 - 30 / 90 X 15 = Rs. 262

Normal Loss, Abnormal Loss and Abnormal Gain

Normal Loss:

Normal loss means that loss which is inherent in the processing operations. It can be expected or anticipated in advance i.e. at the time of estimation.

Accounting Treatment:

The cost of normal loss is considered as part of the cost of production in which it occurs. If normal loss units have any realizable scrap value, the process account is f credited by that amount. If there is no abnormal gain, then there is no necessity to maintain a separate account for normal loss.

Journal Entry:

(i) Normal Loss A/c …Dr.

To Process A/c

(ii) Cost Ledger Control A/c …Dr. (Scrap value)

Costing Profit & Loss A/c …Dr.

To Abnormal Loss

Abnormal Gain:

If the actual loss of a Process is less than that of expected loss then the difference between the two will be treated as abnormal gain. In another way we can define it as the difference between actual production and expected production.

Accounting Treatment:

The value of abnormal gain is transferred to the debit side of the relevant process and ultimately closed by crediting it to the Costing Profit and Loss Account.

Journal Entries:

(i) Process A/c…Dr.

To Abnormal Gain

(ii) Abnormal Gain A/c…Dr.

To Normal Loss

To Costing Profit & Loss A/c