

## Quadrant II - Notes

**Course Code:** DSE 7 COD 126

**Module Name:** Inter Process Profits (Part 1)

### Inter Process Profits

#### Introduction to Inter Process Profits

In process costing, goods from one process are transferred to the next process and finally to finished stock account. The goods in process costing are transferred at cost price from one process to another process.

#### Meaning of Inter Process Profit

Normally output of one process is transferred to the next process at cost. But sometimes, output of one process may be transferred to the other process at cost plus profit. This is termed as inter-process profit.

In such a case problem of unrealised profit arises on stock of process. In such a case process account is prepared as under.

#### Proforma of Process Account

##### Process I Account

Particulars	Total	Cost	Profit	Particulars	Total	Cost	Profit
To Opening Stock	XX	XX		By Process II Account	XX	XX	XX
To Direct Materials	XX	XX					
To Direct Wages	<u>XX</u>	<u>XX</u>					
Total	XX	XX					
Less: Closing Stock	<u>XX</u>	<u>XX</u>					
Prime Cost	XX	XX					
To Production Overheads	<u>XX</u>	<u>XX</u>					
Total Cost	XX	XX					
To Gross Profit	<u>XX</u>		<u>XX</u>				
	<u>XX</u>	<u>XX</u>	<u>XX</u>		<u>XX</u>	<u>XX</u>	<u>XX</u>

### Process II Account

Particulars	Total	Cost	Profit	Particulars	Total	Cost	Profit
To Opening Stock	XX	XX	XX	By Finished Stock A/c	XX	XX	XX
To Process I Account	XX	XX	XX				
To Direct Materials	XX	XX					
To Direct Wages	<u>XX</u>	<u>XX</u>					
Total	XX	XX	XX				
Less: Closing Stock	<u>XX</u>	<u>XX</u>	<u>XX</u>				
Prime Cost	XX	XX	XX				
To Production Overheads	<u>XX</u>	<u>XX</u>					
Total Cost	XX	XX	XX				
To Gross Profit	<u>XX</u>		<u>XX</u>				
	<u>XX</u>	<u>XX</u>	<u>XX</u>		<u>XX</u>	<u>XX</u>	<u>XX</u>

#### Formula to calculate Cost of Stock

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

#### Objectives of Inter Process Profit

- To assess the performance of the process operation.
- Comparison of costs with market price at each stage assist management to take 'make or buy' decisions.
- To decide whether the output should be sold without further processing or putting for further processing.