

Quadrant II – Transcript and Related Materials

Course Code: COD 126

Module Name: Meaning of equivalent production

Notes

Meaning of Equivalent Production: The term equivalent unit means a notional quantity of completed units substituted for an actual quantity of incomplete physical units in progress, when the aggregate work content of the incomplete units is deemed to be equivalent to that of the substituted quantity, (e.g. 100 units of 60% completed = 60 completed units).

Definition of Equivalent Production:

- The term “equivalent units” defines by C.I.M.A. as: **“notional whole units representing completed work”**. The term ‘equivalent production’ represents a technique through which incomplete units are expressed as completed units.
- As the incomplete units do not bear the same cost as completed units, it requires to be converted into their equivalent completed units for finding out the cost of process—both finished and unfinished units.

The formula of equivalent production is

- Equivalent units of work-in-progress

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

For example, if 70% work has been done on the average on 200 units still in process, then 200 such units will be equal to 140 completed units. The cost of work-in-progress will be equal to 140 completed units.

Procedure for Evaluation:

Find out equivalent production after taking into consideration the process losses, degree of completion of opening and/or closing stock.

(2) Find out net process cost according to elements of costs i.e., materials, labour and overheads.

(3) Ascertain cost per unit of equivalent production of each element of cost separately by dividing each element of costs by respective equivalent production units.

(4) Evaluate output finished and transferred and work-in-progress

Procedure for Accounting of Equivalent Production

The following three statements are to be prepared:

(i) Statement of Equivalent Production.

Equivalent production represents the production of a process in terms of completed units. In other words, it means converting the in-completed production into its equivalent of completed units.

(ii) Statement of Cost.

After preparing Statement of equivalent production, cost per unit of material, labour and overheads is ascertained. For this total expense is divided by equivalent production of material, labour and overhead.

(iii) Statement of Evaluation (i.e. apportionment of process costs).

After ascertaining per unit production cost of material, labour and overheads, to obtain total cost of produced units, units of abnormal wastage and at the end of period unfinished units and units of abnormal effectives, a statement of apportionment of cost is prepared.

(iv) Process Account

Lastly, Process Account is prepared by general method.

The problems on equivalent production may be divided into four groups:

I. When there is only closing work-in-progress but with no process losses.

II. When there is only closing work-in-progress but with process losses.

III. When there is opening as well as closing work-in-progress with no process losses.

IV. When there is opening as well as closing work-in-progress with process losses.