

# Management Accounting

Fall 2024  
Practical class 10  
TA Francisca Caldas



# AGENDA



## THEORETICAL RECAP

Production Losses



## CHAPTER 7 and 8

Problem 26

# Theoretical Class Recap (or not)

## Process Costing System with losses

- .....● So far, we have examined situations in which there are no losses i.e., all output within each process is fully completed. However, that is not necessarily the case

## Normal losses/Uncontrollable losses

- .....● Losses that are **inherent** to the production process; these occur under efficient operating conditions and are **unavoidable** (e.g. losses of wood when cutting wood to make furniture). As such, they are **included** in the **process cost**.

## Abnormal losses/controllable losses

- .....● Losses that are not expected to occur under efficient operating conditions; these losses are not an inherent part of the production process (e.g. incorrect cutting, wrong mixture). As such, they are not included in the process costs (it is rather treated as a period cost, hence they go directly into the P&L account and is not included in the FG valuation)

## Scrap Value

- .....● The worth of a physical asset's individual components (Residual Value) when the asset itself is deemed no longer usable

# Theoretical Class Recap (or not)

Process Costing System with losses – Relevant formulas

- .....● So far, we have examined situations in which there are no losses i.e., all output within each process is fully completed. However, that is not necessarily the case

$$\text{COGM per unit} = \frac{\text{Input Cost} - \text{Scrap Value of normal losses}}{\text{Expected Output}}$$