

CMA TEST – 19 (Solutions)

Time Allowed: 3 hours

Total Marks = 100 Marks

Answer to Question No.: 1

(a)

Particulars	Amount (₹)
Contract Price	25,00,000
Work Certified	24,00,000
Cash Received	21,60,000
Cost of Contract to date	19,80,000
Total Estimated Cost	
Cost of Contract to date	19,80,000
Add: Estimated Additional Cost	1,20,000
	21,00,000
Estimated Profit	
Contract Price	25,00,000
Less: Estimated Additional cost	(21,00,000)
	₹ 4,00,000

Computation of amount of profit to be taken to Profit and Loss A/c under different methods

Method 1	Estimated Profit $\times \frac{\text{Work Certified}}{\text{Contract Price}} = ₹ 4,00,000 \times \frac{₹ 24,00,000}{₹ 25,00,000} = ₹ 3,84,000$
Method 2	Estimated Profit $\times \frac{\text{Work Certified}}{\text{Contract Price}} \times \frac{\text{Cash Received}}{\text{Work Certified}} = ₹ 4,00,000 \times \frac{₹ 24,00,000}{₹ 25,00,000} \times \frac{₹ 21,60,000}{₹ 24,00,000} = ₹ 3,45,600$
Method 3	Estimated Profit $\times \frac{\text{Cost of Contract to date}}{\text{Total Estimated Cost}} = ₹ 4,00,000 \times \frac{₹ 19,80,000}{₹ 21,00,000} = ₹ 3,77,143$
Method 4	Estimated Profit $\times \frac{\text{Cost of Contract to date}}{\text{Total Estimated Cost}} \times \frac{\text{Cash Received}}{\text{Work Certified}} = ₹ 4,00,000 \times \frac{₹ 19,80,000}{₹ 21,00,000} \times \frac{₹ 21,60,000}{₹ 24,00,000} = ₹ 3,39,429$
Recommendation: - On conservative basis, it is recommended to transfer the least amount (i.e. ₹ 3,39,429) to Profit and Loss A/c.	

(b) Cost of material in one unit of final product = Input output ratio \times Material Price

$$\text{Cost of Material P} = \frac{125}{100} \times 30 = ₹ 37.50 \quad \text{Cost of Material P}_2 = \frac{120}{100} \times 32 = ₹ 38.40$$

$$\text{Cost of Material P}_1 = \frac{150}{100} \times 28 = ₹ 42 \quad \text{Cost of Material P}_3 = \frac{140}{100} \times 31 = ₹ 43.40$$

Of the above three substitutes material P₂ is most economical despite higher price. It is so due to higher productivity with P₂. Use of substitute P₂ will result in an increase in material cost of

$$₹ 38.40 - 37.50 = ₹ 0.90 \text{ per unit in final product.}$$

(c) Standard Time = 50 hours

Hourly Wage Rate = ₹ 15

Worker Garry

Assume actual hours

= x

₹

Hence, Time Wages (x hrs. \times ₹ 15/hr.)

= $15x$

Bonus (Rowan Plan) $\frac{x}{50} \times (50 - x) \times 15$

= $\frac{3}{10}x(50 - x)$

Total Earnings

= $15x + \frac{3}{10}x(50 - x)$

We are given that, effective hourly rate = ₹ 20

$$\frac{15x + \frac{3}{10}x(50 - x)}{x} = 20 \Rightarrow 15 + \frac{3}{10}(50 - x) = 20$$

Solving, we get $x = 33 \frac{1}{3}$ hours.

Hence, actual hours taken by worker Garry are $33 \frac{1}{3}$ hours.

Worker Larry

Time wages ($33 \frac{1}{3}$ hrs. \times ₹ 15/hr.)

= ₹ 5000

(+) Bonus (Halsey Plan) $\frac{50}{100} \left(50 - 33 \frac{1}{3}\right)$ hrs. \times ₹ 15/hr. = ₹ 125

Total Earnings

= ₹ 625

Effective hourly rate = $\frac{Rs. 625}{33 \frac{1}{3} \text{ hrs.}}$ = ₹ 18.75

(d)

Primary Distribution Summary (Direct Method)

Overheads Apportionment	Total	Production Department			Service Department	
		A	B	C	P	Q
Factory Rent(Area)(20:10:5:8:5)	48,000	20,000	10,000	5,000	8,000	5,000
Power (H.P. Hours)(8:8:3:2:2)	23,000	8,000	8,000	3,000	2,000	2,000
Depreciation (Value of machine) (40:30:10:15:5)	1,00,000	40,000	30,000	10,000	15,000	5,000
Store Room Expenses (No. of Requisitions)(5:3:10:8:4)	30,000	5,000	3,000	10,000	8,000	4,000
Indirect Material (Direct Material) (10:15:15:16:4)	60,000	10,000	15,000	15,000	16,000	4,000
Canteen Subsidy (No. of workers)(8:7:5:2:3)	25,000	8,000	7,000	5,000	2,000	3,000
Indirect Wages (Direct Labour) (20:10:10:3:2)	90,000	40,000	20,000	20,000	6,000	4,000
Employer's Contribution to E.S.I (Direct Labour)(20:10:10:3:2)	50,000	22,222	11,111	11,111	3,334	2,222
Light (Light points)(100:30:25:15:10)	18,000	10,000	3,000	2,500	1,500	1,000
Factory Supervision (No. of Workers)(8:7:5:2:3)	75,000	24,000	21,000	15,000	6,000	9,000
Traceable overheads	2,05,000	50,000	80,000	30,000	20,000	25,000
Direct Materials	2,00,000				1,60,000	40,000
Direct Labour	50,000				30,000	20,000
	9,74,000	2,37,222	2,08,111	1,26,611	2,77,834	1,24,222

Secondary Distribution Summary

Particulars	A	B	C	P	Q
As per Primary Distribution	2,37,222	2,08,111	1,26,611	2,77,834	1,24,222
Expenses of Department P re-distributed to Departments A, B, C and Q (5 : 3 : 7 : 5)	90,978	54,587	1,27,371	(3,63,914)	90,978
Expenses of Department Q re-distributed to Departments A, B, C and P (1 : 2 : 3 : 4)	21,520	43,040	64,560	86,080	2,15,200
	3,49,720	3,05,738	3,18,542		

Assume, total overheads of Department P = ₹ x and Department Q = ₹ y

Hence $x = 2,77,834 + \frac{4}{10}y$ and $y = 1,24,222 + \frac{5}{20}x$

Now, $x = 2,77,834 + \frac{4}{10} \left(1,24,222 + \frac{5}{20}x \right)$. Solving, we get $x = 3,63,914$ and $y = 2,15,200$

Answer to Question No.: 2

(a)

Process III A/c

Particulars	Units	Amount (₹)		Units	Amount (₹)
To Opening W.I.P.	2,000	25,750	By Normal Loss	2,500	7,500
To Process II A/c	53,000	4,11,500	By Process IV	48,000	7,19,750
To Direct Materials		1,97,600	By Closing WIP	5,000	61,500
To Direct Wages		97,600			
To Production Overheads		48,800			
To Abnormal Gain	500	7,500			
	55,500	7,88,750		55,500	7,88,750

Normal loss = $\frac{5}{100}$ [Opening WIP + Unit from Process II – Closing WIP]
 = $\frac{5}{100}$ (2,000 + 5,300 - 5,000 = 2,500 Units)

Statement of Equivalent Production (FIFO)

Units		Material (1)		Material (2)		Labour		Overhead	
In	Out	%	Quantity	%	Quantity	%	Quantity	%	Quantity
2,000	Op. WIP, completed 2,000	-	-	20	400	40	800	400	800
53,000	Introduced and completed 46,000	100	46,000	100	46,000	100	46,000	100	46,000
	Transferred 48,000								
	Normal Loss 2,500	-	-	-	-	-	-	-	-
	Closing WIP 5,000	100	5,000	70	3,500	50	2,500	50	2,500
	Abnormal Gain (500)	100	(500)	100	(500)	100	(500)	100	(500)
55,000	55,000		50,500		49,400		48,800		48,800

Statement of Cost per unit

Type of Cost	Amount (₹)	Equivalent Units	Cost per unit (₹)
Material (1)	4,11,500		
(-) Normal loss	7,500	50,500	8
Material (2)	1,97,600	49,400	4
Labour	97,600	48,800	2
Overheads	48,800	48,800	1

Statement of Value of Equivalent Production

Opening WIP, now completed	Material (1)	–	8	–	
	Material (2)	400	4	1,600	
	Labour	800	2	1,600	
	Overhead	800	1	800	4,000
Introduced and completed	Material (1)	46,000	8	3,68,000	
	Material (2)	46,000	4	1,84,000	
	Labour	46,000	2	92,000	
	Overhead	46,000	1	46,000	6,90,000
Abnormal Gain	Material (1)	500	8	4,000	
	Material (2)	500	4	2,000	
	Labour	500	2	1,000	
	Overhead	500	1	500	7,500
Closing WIP	Material (1)	5,000	8	40,000	
	Material (2)	3,500	4	14,000	
	Labour	2,500	2	5,000	
	Overhead	2,500	1	2,500	61,500

Computation of Total Cost of 48,000 units transferred to Process IV

2,000 units of Opening WIP			
– Cost already incurred	25,750		
– Cost now incurred	<u>4,000</u>	29,750	
46,000 Units out of introduced units	<u>6,90,000</u>	<u>7,19,750</u>	

(b) Productive Machine Hours

Total working time in a year	=		3,000 M. hrs.
(-) <u>Un-productive time</u>			
Maintenance	=	400 M. hrs.	
Set-up time (8% of 3,000 hrs)	=	240 M. hrs	640 M. hrs
	=		<u>2,360 M hrs.</u>

Computation of Machine Hour Rate

Particulars	Total	Per Machine Hr.
(A) Standing Charges		
Chemical (2,600 × 12)	31,200	
Repairs and maintenance	26,000	
Insurance (25,00,000 × 2%)	50,000	
Chargeable overheads (18,000 × 12)	2,16,000	
Operator salary (18,500 × 12 × 2 × 1/4)	<u>1,11,000</u>	4,34,200/2,360
Total Standing Charges	<u>4,34,200</u>	= 184
(B) Machine Running Expenses		
Depreciation (25,00,000 - 1,25,000) × $\frac{3,000 \text{ hours}}{25,000 \text{ hours}}$	2,85,000	120.76
Power (25 units per hour @ ₹ 5)	2,95,000	<u>125</u>
Machine Hour Rate		<u>429.76</u>

Answer to Question No.: 3

(a) **Job Cost Sheet for the year, 2014**

Particulars	Amount (₹)
Direct Materials	18,00,000
Direct Wages	9,50,000
Prime Cost	27,50,000
Factory overhead	3,80,000
Factory Cost	31,30,000
Administration overhead	2,50,400
Cost of Production	33,80,400

Note: Direct Materials = Opening Stock + Purchases – Closing Stock
 = ₹ 1,50,000 + ₹ 18,50,000 - ₹ 2,00,000 = ₹ 18,00,000

Overhead recovery rate: -

Factory overhead as % of Direct Labour = $(\text{₹ } 3,80,000 / \text{₹ } 9,50,000) \times 100 = 40\%$ of direct labour

Administration overhead as % of Factory Cost = $(\text{₹ } 2,50,400 / \text{₹ } 31,30,000) \times 100 = 8\%$ of factory cost

(ii) **Job Cost Sheet (Estimated price of Job in 2015)**

Particulars	Amount (₹)
Direct Materials	8,00,000
Direct Wages	4,50,000
Prime Cost	12,50,000
Factory overhead (40% of direct labour)	1,80,000
Factory Cost	14,30,000
Administration overhead (8% of factory cost)	1,14,400
Cost of Production	15,44,400
Selling and Distribution Overhead (Cost of delivery)	45,000
Cost of Sales	15,89,400
Profit (₹ 15,89,400 × 10/90)	1,76,600
Selling Price	17,66,000

(b) **Contract Account for the period of 1.7.2011 to 31.3.2012**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Material Issued	7,74,300	By Material at site c/d	75,800
To Labour (10,79,000 + 1,02,500)	11,81,500	By Material Sold	10,000
To Engineers' salary (20,500 × 9 months)	1,84,500	By Profit and Loss A/c (Loss on Sale)	3,500
To Supervisors' salary (9,000 × 9 × 3/4)	60,750	By Plant at site c/d	6,93,750
To Administration Expenses (4,60,600 – 10,000)	4,50,600	Less: $\left[\left(\frac{7,71,000 - 50,000}{7} \right) \times \frac{9}{12} \right]$	
To Plant sent to site	7,71,000	By Cost of Contract To Date c/d	26,39,600
	27,28,950		10,87,500
To Cost of Contract to date b/d	26,39,600	By WIP	
To Notional Profit c/d	2,70,300	a) Work certified	22,50,000
		b) Work uncertified	6,59,900
	29,09,900		29,09,900
To Profit & Loss Account	1,60,178	By Notional Profit b/d	2,70,300
To Reserve (WIP)	1,10,122		
	2,70,300		2,70,300

Computation of Work uncertified

Proportional of – Total works done = 2/3

– Work works done = 2/3

– Work uncertified = 2/3 – 1/2 = 1/6

Cost incurred to date on 2/3rd contract = ₹ 26,39,600Hence, proportionate cost related to 1/6th uncertified works

$$= \frac{26,39,600}{\left(\frac{2}{3}\right)} \times \left(\frac{1}{6}\right) = ₹ 6,59,600$$

Computation of estimated profit to be transferred to profit and loss account

$$= \frac{2}{3} \times \text{Notional Profit} \times \frac{\text{Work Certified}}{\text{Contract Price}} = \frac{2}{3} \times 2,70,300 \times \frac{20,00,000}{22,50,000} = ₹ 1,60,178$$

Answer to Question No.:4

(a)

Process A Account

Particulars	Units	Amount (₹)	Particulars	Units	Amount (₹)
To Opening WIP (80,000 + 15,000 + 45,000)	2,000	1,40,000	By Normal loss (5%) (₹ 20)	2,000	40,000
To Material	38,000	14,80,000	By Abnormal loss	1,000	72,000
To Labour		3,59,000	By Process B A/c	35,000	28,00,000
To Overheads		10,77,000	By Closing WIP	2,000	1,44,000
	40,000	30,56,000		40,000	30,56,000

Statement of equivalent production

Particulars	Units out	Materials		Labour and Overhead	
		%	Quantity	%	Quantity
Units completed	35,000	100	35,000	100	35,000
Normal loss	2,000	–	–	–	–
Abnormal loss	1,000	100	1,000	80	800
Closing WIP	2,000	100	2,000	80	1,600
			38,000		37,400

Statement of cost per unit

Type of cost	Materials (₹)	Labour and Overhead (₹)
Cost already incurred	1,40,000	15,000 + 45,000 = 60,000
Cost now incurred	14,80,000	3,59,000 + 10,77,000 = 14,36,000
(-) Normal Loss	40,000	
Total	15,20,000	14,90,000
Equivalent units	38,000	37,400
Average cost per unit	40	40

Statement of value of Equivalent production

Particulars	Type of cost	Equivalent units	Cost per unit	Cost	Total
Units completed	Materials	35,000	40	1,40,000	2,80,000
	Labour and Overheads	35,000	40	1,40,000	
Abnormal loss	Materials	1,000	40	40,000	72,000
	Labour and Overheads	800	40	32,000	
Closing WIP	Materials	2,000	40	80,000	1,44,000
	Labour and Overheads	1,600	40	64,000	

Normal Loss Account

Particulars	Units	Amount (₹)	Particulars	Units	Amount (₹)
To Process A A/c	2,000	40,000	By Bank A/c	2,000	40,000
	2,000	40,000		2,000	40,000

Abnormal Gain Account

Particulars	Units	Amount (₹)	Particulars	Units	Amount (₹)
To Process A A/c	1,000	72,000	By Bank A/c	1,000	20,000
			By Costing P & L A/c		52,000
	1,000	72,000		1,000	72,000

(b) (I) (1) Inventory turnover ratio (Raw Material)

$$= \frac{\text{Raw Material Consumed}}{\text{Average stock of Raw Material}} = \frac{\text{Rs.4,05,00,000}}{\text{RS. 22,50,000}} = 18 \text{ times}$$

$$\text{Average stock of raw material} = \frac{\text{Opening stock} + \text{Closing stock}}{2} = \frac{\text{Nil} + 45,00,000}{2} = ₹ 22,50,000$$

(2) Inventory turnover ratio (Finished Goods)

$$= \frac{\text{Cost of sales}}{\text{Average stock of finished goods}} = \frac{\text{Rs.4,05,00,000}}{\text{RS. 1,08,00,000}} = 3.75 \text{ times}$$

$$\text{Average stock of finished goods} = \frac{\text{Opening stock} + \text{Closing stock}}{2} = \frac{\text{Nil} + 2,16,00,000}{2} = ₹ 1,08,00,000$$

$$\text{(3) Input-output ratio} = \frac{\text{Input consumed}}{\text{Output obtained}} \times 100 = \frac{1,80,000 \text{ units}}{1,60,000 \text{ units}} = 100 = 112.5\%$$

$$\text{Input consumed (in quantity)} = \frac{\text{Rs.4,05,00,000}}{\text{RS. 225 p.u}} = 1,80,000 \text{ units}$$

$$\text{(4) Stock-out ratio} = \left(\frac{\text{Orders held up to stock shortage}}{\text{Total orders received}} \right) \times 100$$

$$= \frac{12,000 \text{ units}}{(1,00,000 + 12,000 + 8,000) \text{ Units}} \times 100 = 10\%$$

Explanation: - During the year, the company has received order of 1,20,000 units and out of which, the order of 12,000 units could not be fulfilled due to stock shortage. Hence, the company fails to fulfill 10% of total ordered quantity.

(II) Comments:-

- (1) Raw material turnover ratio (18 times) is maintained at high level which means that the consumption of raw material is at fast speed and stock of raw material is held for short period. This situation is favorable to the organization.
- (2) Finished goods turnover ratio (3.75 times) is maintained at low level which means that sale of finished goods is at slow speed and stock of finished goods is held for long period. This situation is unfavorable to the organization.
- (3) Input output ratio of 112.5% means that 12.5% of total input is wasted in manufacturing procedure.
- (4) Stock-out ratio indicates that the organization lacks internal control system in context of stock management.

Answer to Question No.: 5**(a) Total kms travelled by one bus**

In a day = $16 \times 8 = 128$ kms, in a month = $128 \times 24 = 3,072$ kms, in a year = $3,200 \times 10 = 30,720$ kms

Operating Cost Statement

Particulars	One Bus	25 Buses
Standing Charges		
1) Salary (25 drivers × 5,000 p.m.)	60,000	15,00,000
2) Cleaners (5 × 3,000 p.m.)	7,200	1,80,000
3) License Fee	2,300	57,500
4) Insurance	15,600	3,90,000
5) Repairs & Maintenance	16,400	4,10,000
6) Depreciation [(16,50,000 – 1,50,000)/16]	93,750	23,43,750
Total Standing Charges	1,95,250	48,81,250
Add: Diesel (₹ 18.50/10 kms. × 30,720 kms)	56,832	14,20,800
Total Cost	2,52,082	63,02,050

Cost to be recovered

Per bus per annum = ₹ 2,52,082 and Per bus per month = ₹ 21,006

Assume, cost recovery rate per student per month

Coming from distance upto 4 kms = $0.25x$

Coming from distance upto 8 kms = $0.50x$

Coming from distance upto 16 kms = x

Total students covered by one bus = 60 (senior) + 60 (junior) = 120. It includes

Coming from distance upto 4 kms = (18 students)(15%)

Coming from distance upto 8 kms = (36 students)(30%)

Coming from distance upto 16 kms = (66 students)(55%)

Hence, following equation can be formed:

$$(18 \text{ student})(0.25x / \text{student}) + (36 \text{ students})(0.50x / \text{student}) + (66 \text{ students})(x / \text{student}) = 21,006$$

Solving, we get $x = ₹ 237.36$.

Therefore, cost recovery rate per student per month

Coming from distance upto 4 kms = $0.25x = ₹ 59.34$

Coming from distance upto 8 kms = $0.50x = ₹ 118.68$

Coming from distance upto 16 kms = $x = ₹ 237.36$

(b)

(1) Production Budget

Particulars	Product 1	Product 2	Product 3
Budgeted Sales	9,000 units	15,000 units	12,000 units
(+) Closing Stock	1,000 units	--	2,000 units
(-) Opening Stock	---	(5,000 units)	(4,000 units)
Budgeted Production	10,000 units	10,000 units	10,000 units

(2) Direct Labour Hours Budget

Operation	Product	Units	Time/Unit	Total Time	
I	1	10,000	18 minutes	3,000 hours	15,000 hours
	2	10,000	42 minutes	7,000 hours	
	3	10,000	30 minutes	5,000 hours	
II	1	10,000	---	---	6,000 hours
	2	10,000	12 minutes	2,000 hours	
	3	10,000	24 minutes	4,000 hours	
III	1	10,000	9 minutes	1,500 hours	2,500 hours
	2	10,000	6 minutes	1,000 hours	
	3	10,000	---	---	

(3) Available Labour Hours per worker per quarter

Total number of hours in a quarter (13 weeks × 6 days × 8 hours) 624 hours

(-) Hours lost due to leave, etc. (124 hours)

Net available hours 500 hours

(4) Number of workers required

Operation 1 = 15,000 hours/ 500 hours per worker = 30 workers

Operation 2 = 6,000 hours/ 500 hours per worker = 12 workers

Operation 3 = 2,500 hours/ 500 hours per worker = 5 workers **47 workers**

(5) Direct Labour Cost Budget

<u>Operation</u>	<u>Labour Hours</u>	<u>Rate /Hour</u>	<u>Labour Cost</u>
I	15,000	₹ 16	₹ 2,40,000
II	6,000	₹ 20	₹ 1,20,000
III	<u>2,500</u>	₹ 24	₹ 60,000
	<u>23,500</u>		<u>₹ 4,20,000</u>

Answer to Question No.: 6

(a)

Sub- Contracting along with its Advantages

1. Sometimes the contractor may not find it feasible to do the entire work by his own efforts and he may entrust or delegate some portion of work to another person who is called the sub- contractor and the work delegated to him is known as "Sub-contract".
2. The procedure of sub-contracting is normally observed in complex projects where many specialized activities are involved and it becomes necessary to delegate some of the activities to other specialized organizations.
3. Sub – contractor is accountable to the main contractor and not the contractee.
4. Advantage of Sub-contracting:-
 - a) It leads to quick completion of contract.
 - b) Quality is improved due to expertise of sub-contractor in their respective jobs. Cost may be saved as the main contractor may find it more expensive to do the work himself.

(b)

Centralized Purchasing and Decentralized Purchasing

- 1) **CENTRALISED PURCHASING:-** Centralized purchasing is the system where one common purchasing department manages the purchasing function of all the departments of the organization. Although this system enables the organization to place the order in large quantities, it may slow down the procurement process.
- 2) **ADVATAGES OF CENTRALISED PURCHASING:**
 - a) Helps in availing quantity discount and cash discount. Hence, cost is reduced.
 - b) Prompt reporting of scrap, obsolete stock and storage losses.
- 3) **DECENTRALISED PURCHASING:-** Decentralized purchasing is a system where purchasing of material is made by various departments independently as per their own requirements. It helps to purchase the materials immediately in case of urgent needs.
- 4) **ADVATAGES OF DECENTRALISED PURCHASING:-**
 - a) Local supply sources are developed which reduces the transport cost.
 - b) Different departments are made accountable and responsible in relation to their own purchase.
- 5) **WHICH SYSTEM IS BEST? :-**It is to be decided by the organization keeping in mind the following factors:-
 - a) Nature and Quantity and quality of material to be purchased.
 - b) Location of purchase Function in business.

(c)

Traditional Method V/s ABC

Traditional Method	ABC
<p>1. Overheads are related to various cost centers (Departments).</p> <p>2. Cost are related to cost centers and hence are not realistic in context of recovery from customer.</p> <p>3. Blanket Recovery Rates are establishes for the business as a whole.</p> <p>4. Costs are assigned to cost units , i.e., a product , a service, a work order etc.</p> <p>5. Cost Centers can't be Eliminated. Hence, not suitable for cost control.</p>	<p>1. Overheads are related to activities and grouped into cost pool.</p> <p>2. Cost are related to activities and hence are more realistic in the context of recovery from customers.</p> <p>3. Activity – wise cost drivers are determined and as such, separate recovery rates are established.</p> <p>4. Costs are assigned to cost objects i.e., customer service segments, distribution channels, etc.</p> <p>5. Essential activities can be simplified and unnecessary activities can be eliminated very Much suitable for cost control.</p>

(d)

Inter – Process Profits

- 1) Under the normal circumstance, the output of one process is transferred to next process is transferred to next process at cost price. In other words, no profit is added while transferring the output to the next process.
- 2) However, if some amount of profit is considered while transferring the output to the next process, the profit so incorporated is known as “Inter- Process Profits”.
- 3) The amount of profit which is to be considered is decided on the basis of prevailing market conditions or conditions prevailing in the particular industry.
- 4) Objectives of Inter- process Profits:-
 - I. To ascertain whether the cost of production competes with the market prices.
 - II. To enable the transferee process to stand on its own efficiency.