Meaning & computation of abnormal effectives & losses

Abnormal Wastage:

Some losses are accidental or can be caused by carelessness. Example: by theft or loss by fire, flood, earthquake, war, accidents in transit, etc. Such losses are more or less abnormal. Suppose a part of goods is stolen, now this will reduce the value of stock and therefore profit on consignment. Now the best thing is to find out the cost of goods that are lost. After finding out the value, consignment a/c is credited and abnormal a/c is debited and then transferred to profit and loss a/c, so as to arrive at correct profit or loss of consignment.

Some businessmen also take an insurance policy in respect of goods sent or received. Such a policy is obtained only in respect of abnormal loss caused to goods.

Suppose 100 units of an article are introduced in Process No. 1 and the total costs incurred in that process amount to Rs. 4,500. If normal wastage is taken to be 10 per cent, then 90 units ought to have been produced and the cost per unit would have been 50 (Rs. 4,500/90).

Now, if the output, actually, is only 85 units, we cannot take the cost per unit to be 4,500/85 or Rs. 53. We must calculate the value of 5 units wasted unnecessarily. That will be at the rate of Rs. 50 per unit. Rs. 250 will be debited to the "Abnormal Wastage" Account and credited to Process I Account and the amount to be transferred to the next Process Account will be only 4,500-250 or Rs. 4,250 and credited to process I Account for 85 units. In this way, the effect of abnormality will be separated from the normal cost of production which alone can reflect the change in efficiency.

Abnormal Gain:

Sometimes it may happen that the actual loss in a process is less than the estimated normal loss or output is more than expected normal output. The difference is regarded as abnormal gain. It is debited to Process Account and credited to Abnormal Gain Account.

If in the above example 93 units were produced, the value of 3 units produced by extra efficiency will be similarly calculated, i.e., at the rate of Rs. 50. 150 will be put to the credit of the Abnormal Effective Account and debit of Process Account. To the next process 93 units will be transferred and the amount will be Rs. 4,500 + 150 or Rs.4, 650.

More output over the expected or normal output realized is called an abnormal gain. Abnormal gain arises because of an abnormal effective in the use of raw material or efficiency in performance so it is known as abnormal effective. Abnormal gain reduces the normal loss quantity so it comes in the form of profit to the industry. The value of an abnormal gain is assessed on the basis of production cost.

Method of determining the value of abnormal gain:

Value of abnormal gain = (Normal cost of normal output/Normal output) Abnormal gain qty.

Journal Entries

1. When the loss is irrecoverable:

Date	Particulars		Amount (Dr)	Amount (Cr)
1.	Abnormal loss a/c	Dr.	xxx	
	To Consignment a/c			Xxx
	(Being value of abnormal loss)			
2	Profit and Loss A/c	Dr	xxx	
	To Abnormal loss			Xxx
	(Being loss transferred)			

2. **When the loss is insured and is recoverable:**

(a) When full amount is recoverable

Date	Particulars		Amount (Dr)	Amount (Cr)
1.	Abnormal loss a/c	Dr .	Xxx	
	To Consignment a/c			xxx
	al loss valued)			

2.	Insurance company a/c	Dr .	Xxx	
	To Abnormal loss a/c			xxx
	(Being abnormal loss transferred to insurance co.)			

(b) When the loss is partly recoverable

Date	Particulars		Amount (Dr)	Amount (Cr)
1.	Abnormal loss a/c	Dr.	Xxx	
	To Consignment a/c			xxx
	(Being abnormal loss valued)			
2.	Insurance company a/c	Dr.	Xxx	
	Profit & loss a/c		Xxx	
	To Abnormal loss a/c			xxx
	(Being loss partly recoverable by insurance co. and the balance transferred to profit and loss a/c)			

Illustration

On 1st June 2018, Mr. A sent a consignment of 5,000kg of sugar, costing Rs 50 per kg to an agent Mr. B on a commission of 5% on gross sales. Expenses incurred by Mr. A are freight and insurance of Rs 1,000 and Dock charges and sundry expenses of Rs 400. Expenses incurred by Mr. B, are godown rent and insurance of Rs 400 and miscellaneous expenses of Rs 700.

Some packages containing 1000kg of sugar were damaged in transit and the contents had to be destroyed on landing as having become unfit for sale. 3,500kg of sugar was sold at Rs 60 per kg and on 30th June 2018, the date of closing accounts, the balance of the consignment remained unsold in the stock. You are required to make consignment account and Mr. B's account in the books of Mr. A, showing the amount due from Mr. B on 30th June 2018.

Solution

In the books of Mr. A

CONSIGNMENT A/C

Date	Particulars	Amount		Date	Particulars	Amount
1.06.18	To Goods sent on consignment	2,50,000		30.06.18	By Mr.B a/c- sale	2,10,000
					(Rs 3,500 x Rs 60)	
	To Bank a/c	1400			By profit and loss a/ c	50,280
					(Loss in transit)	
30.06.18	To Mr.B a/c	11,600			By consignment stock a/c	25,140
	To profit and loss a/c	22,420				
		2,85,420				2,85,420

Mr. B's A/c

Date	Particulars	Amount		Date	Particulars	Amount
30.06.18	To consignment a/c	2,10,000		30.06.18	By consignment a/ c	11,600
		2,10,000				2,10,000

Working note: Rs.

Calculation of unsold stock and lost in transit:

Cost of 5,000 kg @ Rs 50 2,50,000

Add: non-recurring expenses: 14,00

Cost for 5,000 kg 2,51,400

Value of unsold stock = 2,51,400 x (500/5000) = Rs. 25,140

Value of goods lost in transit = 2,51,400 x (1000/5000) = Rs. 50,280