

Students, today I will ~~throw~~ throw light on advantages and disadvantages of process costing:-

Advantages :-

- ① Process Costing helps determination of cost of each process and of the final product at short interval. It overhead rate as predetermined, unit costs can be computed very promptly even at weekly or monthly.
- ② The average cost can be easily determined when the method of production are standardised. Price quotations can be submitted more promptly with standardisation of processes.
- ③ It involves less clerical work and cost than job costing. Cost finding is simpler and less expensive.
- ④ Allocation of expenses can be easily made and the cost of each process accurately determined.
- ⑤ Use of standard costing system is very extensible.
- ⑥ Performance analytical and managerial control is facilitated easily.

Disadvantages & Limitation

- ① Process costing is based on historical cost. It may not be applicable for future decision making.
- ② The whole concept of process costing is based on average cost which do not reflect the true cost. Error in one step may influence other or subsequent cost.
- ③ When two or more products are produced in the same process, the joint cost are prorated to the various product using some weightage. The weightage are subjective and may change.
- ④ Unfinished units at the end of the period are expressed in equivalent production units. This introduces subjective element in scientific cost determination.