CA Inter CMA - September, 2021 Edition of ICAI Module
Chapter 9 : Job & Contract Costing : Illustration 1 - Page 9.9

Query : Sir, the journal entry given in ICAI module is not understandable. Please explain.

Solution :
First of all, to understand this entry, you have to first study the logic of journal entries discussed in the chapter of Cost Ledger Accounting. It is discussed in Volume III of our Classroom Notes.

Total Loss is 8% i.e. Rs. 8,000.
Loss is generally debited to Loss account and credited to Production A/c i.e. WIP A/c.
However, in the given case, loss is divided in 2 parts i.e. Normal Loss & Abnormal Loss
Normal Loss = 2% of 1,00,000 = Rs. 2,000 and
Abnormal Loss = remaining 6% of 1,00,000 = Rs. 6,000
Spoilage has a realisable value of Rs. 2,000; which will reduce the effective loss.
Realisable value is shared in the same proportion of loss i.e. in the ration of 2 : 6 i.e. 1 : 3 i.e. Rs. 500 and 1,500 respectively.
Hence, net value of normal loss = 2,000 - 500 = Rs. 1,500 (debited to Overheads A/c)
and net value of abnormal loss = 6,000 - 1,500 = Rs. 4,500 (debited to Costing P&L A/c)
Realisable Value of loss Rs. 2,000 (debited to GLA A/c instead of Cash or Bank A/c)
Production is reduced by Rs. 8,000 (credited to WIP A/c).