Cost Book Keeping 4

This Module includes

Cost Book Keeping

SLOB Mapped against the Module:

To provide a conceptual framework of the cost record keeping and its integration with financial accounting (CMLO 4a)

Module Learning Objectives:

After studying this module, the students will be able to –

- Conceptualise the methods of recording of cost transactions
- Rationalise the importance of maintaining integrated system of cost book keeping.
- Understand the reconciliation process of costing profit or loss with financial profit or loss.

Cost Book - Keeping

4.1

Introduction

Maintaining cost records is of prime importance, particularly due to legal provisions outlined in the Companies Act, 2013, and the Companies (Cost Records and Audit) Rules, 2014. Several reasons underscore the significance of cost records in India, some of which may be outlined below:

1. **Legal Compliance:** The Companies Act, 2013, mandates certain classes of companies to maintain cost records as specified by the government[1]. Adhering to these legal requirements is crucial for compliance and can help companies avoid penalties, legal consequences, or regulatory issues.

2. **Government Regulations:** The Companies (Cost Records and Audit) Rules, 2014[2], provide specific guidelines on the maintenance of cost records, including the classes of companies that need to comply. These rules are instrumental in ensuring standardized and transparent cost accounting practices across industries.

3. **Cost Audit requirement:** Companies falling within the specified classes are required to undergo cost audit. The cost audit ensures that the cost records are accurate and comply with the prescribed standards. The companies are also are required to submit the cost audit report to the Board of Directors and subsequently to the Central Government. This reporting ensures transparency and compliance with the legal framework.

Thus, for the specified companies[3] for which cost audit is mandatory, the maintenance of cost records is required.

As such, the financial accounting system is designed to create records exclusively for the monetary aspects of each business transaction. In contrast, the cost accounting system is established with the intention of fulfilling its own distinct set of objectives viz; cost ascertainment, cost control, cost reporting, etc. Both systems gather transactions from the same invoices, vouchers, or receipts. The cost accounting system then organizes costs based on functions, departments, or products. While real accounts and nominal accounts play a direct role in determining product costs, personal accounts and cash or bank accounts are not directly linked to ascertaining costs. In the maintenance of a cost accounting system, specific records are kept to document day-to-day transactions, and adherence to a double-entry system is not mandatory. Cost books in cost accounting are managed under two systems:

1. Section 148 of the Companies Act, 2013, grants the Central Government the authority to prescribe the maintenance of cost records for certain classes of companies.
2. In exercise of the powers conferred by Section 148, the Central Government has formulated the Companies (Cost Records and Audit) Rules, 2014, which specify the classes of companies that are required to maintain cost records. These classes are primarily determined based on the nature of the industry or business activities.
3. The Companies (Cost Records and Audit) Rules, 2014, provide the framework for identifying the classes of companies that are required to maintain cost records and undergo cost audit. The list of industries and the criteria for applicability may be revised by the Central Government from time to time.

1. Non-integral or non-integrated cost accounting, and
2. Integral or integrated cost accounting.

The integrated system combines the maintenance of cost and financial accounts, whereas the non-integrated system keeps these records separate.

Non-integrated cost accounting

Non-integrated cost accounting is a specialized accounting system that maintains separate ledgers for cost accounts and financial accounts within an organization. Unlike integrated systems that consolidate cost and financial information, the non-integrated approach focuses solely on capturing transactions related to the production or provision of specific products or services. This distinct accounting methodology is designed to offer a more detailed and targeted analysis of costs associated with various operational facets.

In a non-integrated cost accounting system, the cost accounts limit themselves to recording transactions directly linked to the product or service being offered. This typically includes expenses related to sales, production, and other items managed *within* the operational confines of the factory or service provision. By concentrating on these specific cost elements, non-integrated systems provide a more granular view of the financial implications of production processes.

One noteworthy feature of non-integrated systems is their ability to handle notional expenses, such as rent or interest on capital tied up in stock. Notional expenses are theoretical or imputed costs that may not involve actual cash outflows but are crucial for comprehensive cost analysis.

For example, accounting for notional rent allows for meaningful comparisons between factories, whether owned or rented, contributing to strategic decision-making.

Unlike financial accounting, non-integrated systems exclude certain elements such as general expenses, purchases, and balance sheet items like fixed assets, debtors, and creditors. The exclusion of these items results in a simplified set of accounts. The representation of the excluded items is consolidated into a single account known as the cost ledger control account.

In essence, non-integrated cost accounting systems provide organizations with a focused and detailed approach to understanding and managing the costs associated with specific products or services. By segregating cost accounts from financial accounts, this system allows for targeted analysis, cost control, and strategic decision-making within the operational context of the organization.

Basic Features of Non-Integral System:

1. Separate ledgers are maintained for cost and financial accounts.
2. Analogous to financial accounting, it is also based on double entry system.
3. There are no personal accounts because cost accounts do not show relationship with outsiders.
4. Cost accounts are concerned with impersonal accounts i.e., real and nominal accounts.
5. In real accounts, only stocks are shown in cost accounts.
6. Transactions affecting the nominal accounts are recorded separately in detail. Thus, cost accounting department is concerned mainly with the ascertainment of income and expenditure of business,
7. Under this system one main ledger (i.e., Cost Ledger) and various subsidiary ledgers are maintained,
8. Since the system is not properly integrated, some items may appear in financial ledgers only, while some other items appear only in cost ledger,
9. The profit or loss disclosed by the two sets of accounts for a particular period will never be the same and as such a reconciliation of costing profit or loss with that of financial accounts is essential.

Principal Ledgers in non-integrated system

In a non-integrated cost accounting system, two separate sets of books are maintained: one for cost accounts and the other for financial accounts. The cost accounts in this system do not show personal accounts and are concerned with impersonal accounts, i.e., real and nominal accounts. This system is characterized by the absence of personal accounts, the maintenance of separate ledgers for cost and financial accounts, and the use of control accounts to keep the two sets of accounts continuously in agreement. The following are the important accounts to be maintained under a non-integrated cost accounting system:

1.. The principal financial ledgers are:

   i. **General Ledger:** It contains all real, nominal and personal accounts except trade debtors and trade creditors account.

   ii. **Debtors Ledger:** It has personal accounts of trade debtors.

   iii. **Creditors Ledger:** It has personal accounts of trade creditors.

2. The principal cost ledgers are:

   i. **Cost Ledger:** It is the principal ledger in cost books which controls all other ledgers in the costing department. It contains all impersonal accounts and is similar to General Ledger of financial accounts.

   ii. **Stores Ledger:** It contains all stores related transactions.

   iii. **Work-in-Progress Ledger:** It is a subsidiary ledger. It contains a separate account for each job in progress. Each such account is debited with the materials costs, wages and overheads chargeable to the jobs and credited with the cost of work completed. The balance in this account shows the cost of uncertified work.

   iv. **Finished Goods Ledger:** It is a subsidiary ledger. It contains accounts of completely finished goods and jobs. The cost ledger is made self-balancing by opening a control account for each of the above subsidiary ledgers.

In addition to the above, various other ledger accounts may be needed for the recording of the transfers. Some of them are given below;

- **Wages Control Account –** Total wages (direct or indirect) paid or payable is debited to this account. Direct wages are transferred to work in progress account and indirect wages are transferred to respective overheads account i.e., factory, administration, selling and distribution.
- **Factory Overheads Control Account –** This account is debited with indirect manufacturing expenses incurred such as indirect material, indirect labour, indirect expenses. It is credited with the amount of overheads absorbed and is transferred to work in progress control account. The difference between overheads incurred and overheads absorbed (i.e., under or over absorbed overheads) is transferred to costing profit and loss account or overheads adjustment account.
- **Finished Goods Control Account –** This account is debited with the value of goods transferred from work in progress control account and administrative overheads recovered. This account is credited with the cost of sales account. The opening and closing balance represent the value of finished goods lying in godown.
- **Administration Overheads Control Account –** This account is debited with administration overheads incurred. Administration overheads recovered is credited to this account and debited to finished goods control account. The difference between administration overheads incurred and recovered is transferred to overheads adjustment account or costing profit and loss account.

- **Selling and Distribution Overheads Control Account –** This account is debited with selling and distribution overheads incurred. Selling and distribution overheads recovered is credited to this account and debited to cost of sales account. The difference between selling and distribution overheads incurred and recovered is transferred to overheads adjustment account or costing profit and loss account.
- **Cost of Sales Account –** This account is debited with the cost of finished goods transferred from finished goods control account and selling & distribution overheads recovered (transferred from selling and distribution overheads control account). The balance of this account is transferred to costing profit and loss account.
- **Costing Profit and Loss Account –** This account is debited with the amount of cost of sales (transferred from cost of sales account), under recovery of overheads and abnormal losses and is credited with sales value (the amount of sales value is debited to cost ledger control account), over absorbed overheads and abnormal gains. The net profit or loss in this account is transferred to cost ledger control account.
- **Overheads Adjustment Account –** This account will be debited for under recovery of overheads and credited with over recovery of overheads amount. The net balance in this account is transferred to costing profit and loss account. Sometimes, overheads adjustment account is not maintained and under / over absorbed overheads is transferred to costing profit and loss account from the respective overheads accounts.

Entries to Record Transactions under Non-Integrated System

Sl. No.	Particulars
1.	**Materials purchased** Stores Ledger Control account .... Dr. To General Ledger Adjustment a/c
2.	**Material purchased for a special job** Work in Progress Control a/c .... Dr. To General Ledger Adjustment a/c
3.	**For issue of direct materials to production department** Work in Progress Control a/c .... Dr. To Stores Ledger Control a/c
4.	**For issue of Indirect materials to production departments** Overheads Control a/c .... Dr. To Stores Ledger Control a/c
5.	**For returning materials to supplier** General Ledger Adjustment a/c .... Dr. To Stores Ledger Control a/c
6.	**For materials returned from production department** Stores Ledger Control a/c .... Dr. To Work in Progress Control a/c
7.	**For materials transferred from job to job** No entry is passed in control account. .... Dr. In work in progress ledger the following Entry is passed .... Dr. Transferee Job a/c .... Dr. To Transferor Job a/c

8.	**For total salary and wages paid** Wages Control a/c .... Dr. To General Ledger Adjustment a/c
9.	**For allocation of direct and Indirect labour** Work in Progress Control a/c .... Dr. Overheads Control a/c .... Dr. To Wages Control a/c
10.	**For recording direct expenses** Work in Progress Control a/c .... Dr. To General Ledger Adjustment a/c
11.	**For recording overheads incurred and accrued** Overheads Control a/c .... Dr. To General Ledger Adjustment a/c
12.	**For adjusting under or over absorption overheads** The overheads control account is closed by transferring to overheads suspense account.
13.	**For recording finished stock produced** Finished Goods Stock Ledger Control a/c .... Dr. To Work in Progress Control a/c
14.	**When finished goods are sold at cost** Cost of Sales a/c .... Dr. To Finished Goods Stock Ledger Control a/c
15.	**When finished goods are sold at total sales value** General Ledger Adjustment a/c .... Dr. To Costing Profit and Loss a/c
16.	**For recording sales returns** Costing Profit and Loss a/c .... Dr. To General Ledger Adjustment a/c
17.	**For recording total cost to make and sell** Cost of Sales a/c .... Dr. To Costing Profit and Loss a/c
18.	**For recording under absorption of overheads which is not yet adjusted** Costing Profit and Loss a/c .... Dr. To Overheads Suspense a/c
19.	**For recording over absorption of overheads which is not yet adjusted** Overheads Suspense a/c .... Dr. To Costing Profit and Loss a/c
20	**For recording profit** Costing Profit and Loss a/c .... Dr. To General Ledger Adjustment a/c

Illustration 1

Pass Journal Entries in the Cost Books of Sulekha Ltd which follows non-integrated system for the following transactions.

1. Materials worth ₹ 50,000 returned to stores from job
2. Gross total wages paid ₹ 96,000.
3. Employer's contribution to PF and State Insurance amount to ₹ 4000.
4. Wages analysis book detailed ₹ 40,000 direct labour,
5. ₹ 24,000 towards indirect factory labour
6. ₹ 20, 000 towards salaries to office staff and ₹ 16,000 for salaries to selling and distribution staff

Solution

Particulars	Dr. (Amount in ₹)	Cr. (Amount in ₹)
Stores Ledger Control A/c	50,000	
To Work-in-progress Control A/c		50,000
[Being material returned from stores]		
Wages Control A/c	1,00,000	
To General Ledger Adjustment A/c		96,000
To Provident Funds and Erployees State Insurance A/c		4,000
[Being gross total wages paid]		
Work-in-progress Control A/c	40,000	
Factory Overheads Control A/c	24,000	
Office Overheads Control A/c	20,000	
Selling Overheads Control A/c	16,000	
To Wages Control A/c		1,00,000
[Being wages allocated]		

Illustration 2

On 31st March, 2022 the following balances were extracted from the books of the Cocoon Ltd.

Particulars	**Dr. (₹)**	**Cr. (₹)**
Stores Ledger Control A/c	35,000	
Work in Progress Control A/c	38,000	
Finished Goods Control A/c	25,000	
Cost Ledger Control A/c		98,000
	98,000	98,000

The following transactions took place in April 2022:

Particulars	₹
Raw Materials:	
- Purchased	95,000
- Returned to suppliers	3,000
- Issued to production	98,000
- Returned to stores	3,000
Productive wages	40,000
Indirect wages	25,000
Factory overheads expenses incurred	50,000
Selling and Administrative expenses	40,000
Cost of finished goods transferred to warehouse	2,13,000
Cost of Goods Sold	2,10,000
Sales	3,00,000

Factory overheads are applied to production at 150% of direct wages, any under / over absorbed overheads being carried forward for adjustment in the subsequent months. All administrative and selling expenses are treated as period costs and charged off to the Profit and Loss Account of the month in which they are incurred.

Show the following Accounts:

a) Wages Control A/c

b) Cost of Goods Sold A/c

c) Selling and Administrative Expenses A/c

d) Cost Ledger Control A/c

e) Stores Ledger Control A/c

f) Work in Progress Control A/c

g) Finished Goods Stock Control A/c

h) Factory Overheads Control A/c

i) Costing Profit and Loss A/c

j) Trial Balance as at 30th April 2022

Solution:

Cost Ledger Control Account

Particulars	₹	Particulars	₹
To Stores Ledger Control A/c	3,000	By Balance b/d	98,000
To Costing Profit and Loss A/c	3,00,000	By Stores Ledger Control A/c	95,000
		By Wages Control A/c	40,000
To Balance c/d	95,000	By Wages Control A/c	25,000
		By Factory Overheads Control A/c	50,000
		By Selling and Administrative Exp A/c	40,000
		By Costing Profit and Loss A/c	50,000
	3,98,000		3,98,000

Stores Ledger Control Account

Particulars	₹	Particulars	₹
To Balance b/d	35,000	By Cost Ledger Control A/c	3,000
To Cost Ledger Control A/c	95,000	By Work in Progress Control A/c	98,000
To Work in Progress Control A/c	3,000	By Balance c/d	32,000
	1,33,000		1,33,000

Wages Control Account

Particulars	₹	Particulars	₹
To Cost Ledger Control A/c	40,000	By Work in Progress Control A/c	40,000
To Cost Ledger Control A/c	25,000	By Factory Overheads Control A/c	25,000
	65,000		65,000

Factory Overheads Control Account

Particulars	₹	Particulars	₹
To Wages Control A/c	25,000	By Work in Progress Control A/c (150% x 40,000)	60,000
To Cost Ledger Control A/c	50,000	By Balance c/d	15,000
	75,000		75,000

Work in Progress Control Account

Particulars	₹	Particulars	₹
To Balance b/d	38,000	By Stores Ledger Control A/c	3,000
To Stores Ledger Control A/c	98,000	By Finished Goods Stock Control A/c	2,13,000
To Wages Control A/c	40,000	By Balance c/d	20,000
To Factory Overheads Control A/c	60,000		
	2,36,000		2,36,000

Selling and Administrative Expenses Account

Particulars	₹	Particulars	₹
To Cost Ledger Control A/c	40,000	By Costing Profit and Loss A/c	40,000
	40,000		40,000

Finished Goods Stock Control Account

Particulars	₹	Particulars	₹
To Balance b/d	25,000	By Cost of Goods Sold A/c	2,10,000
To Work in Progress Control A/c	2,13,000	By Balance c/d	28,000
	2,38,000		2,38,000

Cost of Goods Sold Account

Particulars	₹	Particulars	₹
To Finished Goods Stock Control A/c	2,10,000	By Costing Profit and Loss A/c	2,10,000
	2,10,000		2,10,000

Costing Profit and Loss Account

Particulars	₹	Particulars	₹
To Selling & Administrative Exp A/c	40,000	By Cost Ledger Control A/c	3,00,000
To Cost of Goods Sold A/c	2,10,000		
To Cost Ledger Control A/c	50,000		
	3,00,000		3,00,000

Trial Balance as at 30-04-2022

Particulars	Dr. (₹)	Cr. (₹)
Stores Ledger Control A/c	32,000	
Work in Progress Control A/c	20,000	
Finished Goods Control A/c	28,000	
Factory Overheads Control A/c	15,000	
Cost Ledger Control A/c		95,000
	95,000	95,000

Reconciliation of Costing and Financial Profit

4.2

The reconciliation of cost accounting records with financial accounts is a critical process that aligns the detailed cost information maintained by an organization with its broader financial reporting. This practice ensures the consistency and accuracy of financial data across different accounting systems. In this introduction, we will explore the significance of reconciling cost and financial records, examining how this alignment contributes to transparency, regulatory compliance, and informed decision-making within the organizational framework. Additionally, we will delve into the key challenges and complexities involved in reconciling these two sets of records and highlight the proactive measures companies can take to streamline this reconciliation process.

Reasons for difference in Profits of Cost Accounts and Financial Accounts

The difference in profits between cost accounts and financial accounts can arise due to several reasons. These differences stem from the distinct purposes, principles, and scopes of these two accounting systems. Some of the most prominent reasons for variations in profits between cost accounts and financial accounts are given as under:

1. **Scope of Transactions:**
   - **Cost Accounts:** Focus primarily on transactions related to the production or provision of goods and services. Direct costs, indirect costs, and overheads associated with operational activities are emphasized.
   - **Financial Accounts:** Encompass a broader scope, including all financial transactions of the company. This involves not only operational activities but also financing, investing, and non-operational income and expenses.
2. **Timing of Recognition:**
   - **Cost Accounts:** Emphasize the recognition of costs as they are incurred, often on an accrual basis, focusing on the timing of production.
   - **Financial Accounts:** Adhere to generally accepted accounting principles (GAAP) and recognize revenues and expenses based on accrual or cash basis, with an emphasis on periodicity.
3. **Inventory Valuation:**
   - **Cost Accounts:** May use different methods for valuing inventory, such as standard costing or activity-based costing, which can lead to variations in the cost of goods sold.
   - **Financial Accounts:** Follow specific accounting standards (AS, Ind AS) for inventory valuation, which may differ from cost accounting methods.
4. **Treatment of Overheads:**
   - **Cost Accounts:** Allocate overheads costs based on predetermined rates or cost drivers specific to production activities.

- **Financial Accounts:** May allocate overheads differently or include additional overheads not directly linked to production.

5. **Treatment of Non-Operational Items:**

- **Cost Accounts:** Focus on operational costs directly related to the core business activities.
- **Financial Accounts:** Include non-operational items such as interest, taxes, and extraordinary items, which can significantly impact net profit.

The specific items of difference may be categorized as under;

(i) Items shown in Financial Accounts

There are a number of items which are included in financial accounts but do not find place in cost accounts. They may be items of income or expense; the former increases the profit and latter reduces the profit.

A. Purely Financial Charges

a) Loss arising from the sale of fixed assets.

b) Loss on sale of investments, discount on debentures, etc.

c) Interest on bank loan, mortgage and debentures.

d) Expenses in connection with issue and transfer of shares

B. Appropriation of Profits

a) Donations and charities

b) Income tax

c) Dividend paid

d) Transfer to Reserves

C. Writing off Intangible and Fictitious Assets

a) Goodwill

b) Patents and Copyrights

c) Advertisement

d) Preliminary Expenses

D. Pure Financial Incomes

a) Rent received or Profit on Sale of Fixed Assets.

b) Share transfer fee received

c) Interest received on Bank Deposits.

d) Dividend received etc.

(ii) Items shown only in Cost Accounts

There are certain items which are included in cost accounts and not in financial accounts. Such items are very few.

e.g., Interest on capital employed, rent for own premises etc

(iii) Over or Under Absorption of Overheads

Overheads are absorbed in Cost Accounts on a certain predetermined estimated basis, while in Financial Accounts, actual amounts incurred are recorded. If there is any over or under absorption, it leads to differences in the profits of both sets of books

(iv) Differences due to different basis of stock valuation and depreciation methods.

Objectives of Reconciliation

a) To assure the mathematical accuracy and reliability of cost accounts.

b) To have proper cost control and ascertainment.

c) To find out the reasons for the profit or loss shown by the financial accounts.

d) To ensure correct profit or loss in financial accounts.

e) To ensure true and fair view of balance sheet of the business concern.

Procedure of Reconciliation

Profit as per Financial Accounts

Add:

1. Items of income included in Cost Accounts but not in Financial Accounts.
2. Items of expenditure included in Financial Accounts and not in Cost Accounts.
3. Amounts by which items of income have been shown in excess in Cost Accounts over the corresponding entries in Financial Accounts.
4. Amounts by which items of expenditure have been shown in excess in Financial Accounts over the corresponding entries in Cost Accounts.
5. Under absorption of Overheads in Cost Accounts.
6. The amount by which closing stock of inventory is overvalued in Cost Accounts.
7. The amount by which opening stock of inventory is undervalued in Cost Accounts.

Less:

1. Items of income included in Financial Accounts but not in Cost Accounts.
2. Items of expenditure (as interest on capital, rent on owned premises etc) included in Cost Accounts but not in Financial Accounts.
3. Amounts by which items of expenditure have been shown in excess in Cost Accounts as compared to the corresponding entries in Financial Accounts.
4. Amounts by which items of incomes have been shown in excess in Financial Accounts as compared to the corresponding entries in Cost Accounts.
5. Over absorption of overheads in Cost Accounts.
6. The amount by which closing stock of inventory in undervalued in Cost Accounts.
7. The amount by which opening stock of inventory is overvalued in Cost Accounts.

Profit as per Cost Accounts

Illustration 3

The net profits of a manufacturing company appeared at ₹ 64,500 as per financial records for the year ended 31st December, 2022. The cost books however, showed a net profit of ₹ 86,460 for the same period. A careful scrutiny of the figures from both the sets of accounts revealed the following facts.

	Particulars	**₹**
1.	Income tax provided in financial books	20,000
2.	Bank Interest (Cr) in financial books	250
3.	Work overheads under recovered	1,550
4.	Depreciation charged in financial records	5,600
5.	Depreciation recovered in cost	6,000
6.	Administrative overheads over-recovered	850
7.	Loss due to obsolescence charged in financial accounts	2,800
8.	Interest on investments not included in cost accounts	4,000
9.	Stores adjustments (Credit in financial books)	240
10.	Loss due to depreciation in stock value	3,350

Prepare Reconciliation Statement.

Solution:

Statement showing Reconciliation of Profit shown by Cost and Financial Accounts as on 31-12-2022

	Amount (₹)	**Amount (₹)**
Profit as per Financial Accounts		64,500
Add: Income tax provided in financial accounts only	20,000	
Works overheads under recovered	1,550	
Loss due to obsolescence charged in financial accounts only	2,800	
Loss due to depreciation in stock value (recorded in financial accounts only)	3,350	27,700
		92,200
Less: Bank interest credited in financial accounts only	250	
Over recovery of depreciation in cost accounts (6,000 – 5,600)	400	
Administrative Overheads over recovered	850	
Interest on investments not included in cost accounts	4,000	
Stores adjustments (credit in financial accounts)	240	5,740
Profit as per Cost Accounts		86,460

Illustration 4

The net profits shown by financial accounts of a company amounted to ₹ 18,550 whilst the profits disclosed by company's cost account for that period were ₹ 28,660. On reconciling the figures, the following difference were noted.

		Amount (₹)
i.	Director's fee not charged in cost accounts	650
ii.	A provision for bad and doubtful debts	570
iii.	Bank interest (cr.)	30
iv.	Income tax	8,300

v. Overheads in the cost accounts were estimated at ₹ 8,500. The charges shown by the financial books was ₹8,320.

vi. Work was started during the year on a new factory and expenditure ₹ 16,000 was incurred. Depreciation of 5% was provided in financial accounts.

Prepare a Statement Reconciling the figures shown by the cost and financial accounts.

Solution:

Statement showing Reconciliation of Profit shown by Cost and Financial Accounts

	Amount (₹)	Amount (₹)
Profit as per Financial Accounts		18,550
Add: Director's fee charged in financial accounts only	650	
Provision for Bad Debt charged in financial accounts only	570	
Income tax shown in financial accounts only	8,300	
Depreciation shown in financial accounts only 16,000 x 5%	800	10,320
		28,870
Less: Bank interest credited in financial accounts only	30	
Over recovery of overheads in cost accounts (8,500 – 8,320)	180	210
Profit as per Cost Accounts		28,660

Illustration 5

During a particular year, the auditors certified the financial accounts, showing profit of ₹ 1,68,000 whereas the same, as per costing books was coming out to be ₹ 2,40,000. Given the following information you are asked to prepare a Reconciliation Statement showing the reasons for the gap.

Trading and Profit & Loss Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock A/c	8,20,000	By Sales A/c	34,65,000
To Purchases A/c	24,72,000	By Closing stock A/c	7,50,000
To Direct wages A/c	2,30,000		
To Factory overheads A/c	2,10,000		
To Gross Profit c/d	4,83,000		
	42,15,000		42,15,000
To Administration Expenses A/c	95,000	By Gross Profit b/d	4,83,000
To Selling Expenses A/c	2,25,000	By Sundry Income A/c	5,000
To Net Profit	1,68,000		
	4,88,000		4,88,000

The costing records show:

i. Book value of closing stock ₹ 7,80,000.

ii. Factory overheads have been absorbed to the extent of ₹ 1,89,800.

iii. Sundry income is not considered.

iv. Total absorption of direct wages ₹ 2,46,000.

v. Administration expense are covered at 3% of selling price.

vi. Selling prices include 5% for selling expenses.

Solution:

Statement showing Reconciliation of Profit shown by Cost and Financial Accounts

	Amount (₹)	Amount (₹)
Profit as per Financial Accounts		1,68,000
Add: Over Valuation of Closing Stock as per Cost Accounts		
(7,80,000 – 7,50,000)	30,000	
Under recovery of factory overheads (2,10,000 – 1,89,800)	20,200	
Under recovery of Selling Expenses in Cost Accounts		
(2,25,000 – 5% x 34,65,000) = (2,25,000 – 1,73,250)	51,750	1,01,950
		2,69,950
Less: Sundry Income not considered in Cost Accounts	5,000	
Over recovery of wages in cost accounts (2,46,000 – 2,30,000)	16,000	
Over recovery of administration expenses in cost accounts		
(3% x 34,65,000 – 95,000) = (1,03,950 – 95,000)	8,950	29,950
Profit as per Cost Accounts		2,40,000

Illustration 6

A transistor manufacturer, who commenced his business on 1st June, 2022 supplies you with the following information and asks you to prepare a statement showing the profit per transistor sold. Wages and materials are to be charged at actual cost, works overheads at 75% of wages and office overheads at 30% of works cost. Number of transistors manufactured and sold during the year was 540.

Other particulars:

Materials per set	₹ 240
Wages per set	₹ 80
Selling price per set	₹600

If the actual works expenses were ₹32,160 and office expenses were ₹ 61,800, prepare a Reconciliation Statement.

Solution:

Cost Sheet (Computation of Profit as per Cost Accounts)

Particulars Production = 540 transistor set	Cost Per unit ₹	Total Cost ₹
Material	240	1,29,600
Wages	80	43,200
Prime Cost	320	1,72,800
Add: Works Overheads (75% x Wages)	60	32,400
Works Cost	380	2,05,200
Add: Office Overheads (30% x Works Cost)	114	61,560
Cost of Production / Total Cost	494	2,66,760
Add: Profit (Bal. fig.)	106	57,240
Sales	600	3,24,000

Trading and Profit & Loss Account (Computation of Profit as per Financial Accounts)

Particulars	₹	Particulars	₹
To Material A/c	1,29,600	By Sales A/c	3,24,000
To Wages A/c	43,200		
To Works Overheads A/c	32,160		
To Gross Profit c/d	1,19,040		
	3,24,000		3,24,000
To Office Expenses A/c	61,800	By Gross Profit b/d	1,19,040
To Net Profit c/d	57,240		
	1,19,040		1,19,040

Statement showing Reconciliation of Profit shown by Cost and Financial Accounts

	Amount (₹)	Amount (₹)
Profit as per Financial Accounts		57,240
Add: Under recovery of Office Expenses (61,800 – 61,560)	240	240
		57,480
Less: Over recovery of Works Overheads (32,400 – 32,160)	240	240
Profit as per Cost Accounts		57,240

Illustration 7

Given below is the Trading and Profit & Loss Account of Vikas Electronics for the accounting year ended 31st March, 2022.

Dr. **Trading and Profit & Loss Account** **Cr**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Direct Materials (consumed) A/c	3,00,000	By Sales A/c (2,50,000 units @ ₹ 3)	7,50,000
To Direct Wages A/c	2,00,000		
To Factory Expenses A/c	1,20,000		
To Office Expenses A/c	40,000		
To Selling and Distribution Exp. A/c	80,000		
To Net Profit	10,000		
	7,50,000		7,50,000

Normal output of the factory is 2,00,000 units. Factory overheads are fixed upto ₹ 60,000 and office expenses are fixed for all practical purposes, selling and distribution expenses are fixed to the extent of ₹ 50,000 the rest are variable.

Prepare a Statement of Reconciliation of Profit as per Cost Accounts and Financial Accounts.

Solution:

Cost Sheet (Computation of Profit as per Cost Accounts)

Particulars	₹	₹
Material		3,00,000
Wages		2,00,000
Prime Cost		5,00,000
Add: Works Overheads		
Fixed	75,000	
Variable (₹ 1,20,000 - ₹ 60,000)	60,000	1,35,000
Works Cost		6,35,000
Add: Office Expenses		50,000

Cost of Production		6,85,000
Add: Selling and Distribution Overheads		
Fixed	62,500	
Variable (₹ 80,000 - ₹ 50,000)	30,000	92,500
Cost of Sales		7,77,500
Less: Loss		27,500
Sales		7,50,000

Statement showing Reconciliation of Profit shown by Cost and Financial Accounts

	Amount (₹)	Amount (₹)
Profit as per Financial Accounts		10,000
Less: Over recovery of Works Overheads (1,35,000 – 1,20,000)	15,000	
Over recovery of Office Expenses (50,000 – 40,000)	10,000	
Over recovery of Selling and Distribution Overheads (92,500 – 80,000)	12,500	37,500
Profit / (Loss) as per Cost Accounts		27,500

Illustration 8

The financial profit and loss account of a manufacturing company for the year ended 31st March, 2021 is given below:

Dr. **Trading and Profit & Loss Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock A/c		By Sales A/c	4,60,000
- Raw Materials	25,000	By Closing Stock A/c	
- Finished Stock	40,000	- Raw Materials	30,000
- WIP	12,500	- Finished Stock	15,000
To Purchases A/c	1,71,000	- WIP	20,700
To Wages (Factory) A/c	30,000		
To Electric Power (Factory) A/c	65,000		
To Gross Profit c/d	1,82,200		
	5,25,700		5,25,700
To Administration Expenses A/c	20,500	By Gross Profit b/d	1,88,200
To Selling Expenses A/c	46,500	By Miscellaneous Revenue A/c	26,800
To Bad Debts A/c	15,600		
To Net Profit	1,32,400		
	2,15,000		2,15,000

The cost accounts of the concern showed a net profit of ₹ 1,32,200. It is seen that the costing profit and loss account is arrived at on the basis of figures furnished below:

Opening stock of raw materials, finished stock and work in progress ₹ 90,800.

Closing stock of raw materials, finished stock and work in progress ₹ 69,500.

Administration Expenses and Miscellaneous Revenue not considered in Cost Accounts.

You are required to prepare a Memorandum Reconciliation Account and reconcile the difference in the profit and loss account.

Solution:

Memorandum Reconciliation Account

Particulars	₹	Particulars	₹
To Over Valuation of Opening Stock in Cost A/c (90,800 – 77,500)	13,300	By Profit as per Financial A/c	1,32,400
To Miscellaneous Revenue not considered in Cost A/c	26,800	By Over Valuation of Closing Stock in Cost A/c (69,500 – 65,700)	3,800
		By Bad Debts not considered in Cost A/c	15,600
To Profit as per Cost Accounts	1,32,200	By Administration Expenses not considered in Cost A/c	20,500
	1,72,300		1,72,300

Valuation of Closing Stock as per Financial Accounts (30,000 + 15,000 + 20,700) = ₹ 65,700

Valuation of Opening Stock as per Financial Accounts (25,000 + 40,000 + 12,500) = ₹ 77,500

Illustration 9

The following represent the Trading and Profit & Loss Account of a manufacturer of a standard fire extinguisher:

Dr. **Trading and Profit & Loss Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Material (used) A/c	29,150.0	By Sales A/c	75,000.000
To Productive wages A/c	18,610.00	By Stock of Finished Goods A/c	1,812.50
To Factory expenses A/c	14,055.00	By Work in progress A/c	
To Gross Profit c/d	20,527.50	- Materials	2,800.00
		- Labour	1,560.00
		- Overheads	1,170.00
	82,342.50		82,342.50
To Administration expenses A/c	13,650	By Gross Profit b/d	20,527.50
To Net Profit	6,877.50		
	20,527.50		20,527.50

1,550 Extinguishers were manufactured during the year, and 1,500 were sold during the same period. The cost records showed that Factory overheads work out at ₹ 8.25 and Administrative Overheads at ₹ 9.0625 per article produced; the Cost Accounts showing an estimated total profit of ₹ 7,031.25 for the year.

From the forgoing information you are required to prepare

a) Factory Overheads Control Account

b) Administration Overheads Control Account in Costing books and

c) An account showing reconciliation between the total net profit as per the Cost Accounts and the net profit shown in Financial Books

Solution:

Factory Overheads Control Account

Particulars	₹	Particulars	₹
To General Ledger Adjustment A/c	14,055.00	By Finished Goods Control A/c	
		(1,550 x 8.25)	12,787.50
		By WIP Control A/c	1,170.00
		By Under Recovery	97.50
	14,055.00		14,055.00

Administration Overheads Control Account

Particulars	₹	Particulars	₹
To General Ledger Adjustment A/c	13,650.00	By Finished Goods Control A/c	14,046.875
To Over recovery	396.875	(1,550 x 9.0625)	
	14,046.875		14,046.875

Memorandum Reconciliation Account

Particulars	₹	Particulars	₹
To Over Recovery of Administrative Overheads	396.875	By Profit as per Financial A/c	6,877.500
		By Under Recovery of Factory Overheads	97.500
To Profit as per Cost Accounts	7,031.250	By Over Valuation of Closing Stock in Cost Accounts	
		(2,265.625 – 1,812.50) (WN 1)	
		Alternatively: 50 x 9.0625	453.125
	7,428.125		7,428.125

Workings:

1. Cost Sheet

	₹	₹	p.u. ₹
Materials		29,150.00	
Wages		18,610.00	
Prime Cost		47,760	
Add: Factory Expenses	1,550 x 8.25	12,787.50	
		60,547.50	
Less: Closing WIP			
Material	2,800.00		
Wages	1,560.00	4,360.00	
Works Cost		56,187.50	
Add: Administration Overheads	1,550 x 9.0625	14,046.875	
Cost of Production		70,234.375	
Less: Closing Stock of Finished Goods	$\frac{70,234.375}{1,550} \times 50$	2,265.625	
Cost of Goods Sold		67,968.75	

Integrated Accounting 4.3

Integrated Accounting is a system where there is a singular set of records being maintained for cost and financial transactions. It eliminates the need for separate accounts in cost accounting and financial accounting. This streamline results in the consolidation of Profit & Loss Accounts, leading to the preparation of a single Profit & Loss Account. This integrated approach facilitates a comprehensive understanding of the cost of each unit and fulfills the legal obligation for balance sheet preparation. Moreover, it provides essential information for the needs of both the costing and finance departments. Notably, there is no creation of a General Ledger Control Account in this integrated system. There is no need for reconciliation of costing and financial results. It serves the purpose of both the accounts.

It's crucial to recognize that integrated accounts serve as a hybrid approach, combining elements of both non-integrated and financial accounting systems. Unlike the non-integrated system, integrated accounts involve the preparation of personal and real accounts, departing from the practice of passing all entries through a general ledger adjustment account. In contrast to the financial accounting system, which lacks a foundation in cost accounting, the integrated accounting system incorporates both personal and real accounts while maintaining a basis in the cost accounting system.

Essential features of Integrated Accounting System

1. Financial transactions not typically required for cost accounting, such as internal cost transactions, prepayments, and accruals, are recorded separately.
2. The stores control account is used to record transactions related to stores. It is debited with the cost of stores purchased, and the corresponding credit is given to either cash or sundry creditors, depending on whether the purchase is made for cash or credit.
3. Wages control account is debited with the wages paid, and a contra-credit is recorded in the cash or bank account.
4. Overheads expenses are debited to the overheads control account, and the corresponding credit is given to either cash, bank account, or sundry creditors.
5. Transactions involving materials, labor costs, and overheads are posted in the stores, wages, and overheads control accounts after conducting suitable cost analysis. At the end of the period, the totals are transferred to the work-in-progress accounts by crediting various control accounts. This process, known as "making third," involves day-to-day cost analysis and is not recorded as typical ledger transactions but serves as a form of cost analysis.
6. All advance payments are credited, and accruals are debited to the respective control accounts through contra entries in the prepayments and accrual accounts.
7. In the cost analysis of capital expenditure, the capital asset account is debited, and respective control accounts are credited.

Advantages of Integrated Accounting System

1. In this system, there is no need to reconcile costing profit with financial profit because only one Profit and Loss Account is generated.
2. Substantial reduction in clerical workload is achieved, given that only a single set of books is managed.
3. Retrieving information is straightforward and rapid.
4. This system is cost-effective as it operates on the principle of centralizing the accounting function.

Pre-requisites of integrated accounts

The pre-requisites for integrated accounts include the following:

1. Management needs to decide the extent of integration between the two sets of books. Some entities may opt for integration up to the primary cost or factory cost stage, while others may choose complete integration of the entire accounting records.
2. A suitable coding system must be established to fulfill the accounting requirements of both financial and cost accounts.
3. An agreed-upon routine should be in place for handling provisions for accruals, prepaid expenses, and other adjustments necessary for preparing interim accounts.
4. There should be seamless coordination between the staff responsible for the financial and cost aspects of the accounts, ensuring the efficient processing of accounting documents.

The following table shows the comparative journal entries in financial accounts, cost accounts and integral accounts:

Sl. No.	Transactions	Financial Accounts	Cost Accounts	Integral Accounts
1.	Credit purchase of Material	Purchases A/c Dr To Creditors	Material Control A/c Dr To G L Adjustment A/c	Material Control A/c Dr To Creditors A/c
2.	Cash purchase of Material	Purchase A/c Dr To Cash / Bank A/c	Material Control A/c Dr To G L Adjustment A/c	Material Control A/c Dr To Cash / Bank A/c
3.	Purchase of special material for direct use in job	Purchases A/c Dr To Cash/Creditors A/c	WIP Control A/c Dr To G L Adjustment A/c	WIP Control A/c Dr To Cash / Creditors A/c
4.	Purchase of materials for repairs	Purchases A/c Dr To Cash / Creditors A/c	Factory OH Control A/c Dr To G L Adjustment A/c	Factory OH Control A/c Dr To Cash / Creditors A/c
5.	Materials returned to suppliers	Creditors A/c Dr To Purchases A/c	G L Adjustment A/c Dr To Material Control A/c	Creditors A/c Dr To Material Control A/c
6.	Payment to creditors for supplies made	Creditors A/c Dr To Cash / Bank A/c	No Entry	Creditors A/c Dr To Cash / Bank A/c
7.	Issue of direct materials to production shop	No Entry	WIP Control A/c Dr To Materials Control A/c	WIP Control A/c Dr To Material Control A/c

8.	Issue of indirect materials to production shops	No Entry	Factory OH Control A/c Dr To Material Control A/c	Factory OH Control A/c Dr To Material Control A/c
9.	Return of direct materials to stores	No Entry	Material Control A/c Dr To WIP Control A/c	Material Control A/c Dr To WIP Control A/c
10.	Return of indirect materials to stores	No Entry	Material Control A/c Dr To Factory OH Control A/c	Material Control A/c Dr To Factory OH Control A/c
11.	Materials transferred from one job to another	No Entry	No Entry	No Entry
12.	Adjustment of normal depreciation in material stocks	No Entry	Factory OH Control A/c Dr To Material Control A/c	Factory OH Control A/c Dr To Material Control A/c
13.	Adjustment of normal surplus in material stocks	No Entry	Material Control A/c Dr To Factory OH Control A/c	Material Control A/c Dr To Factory OH Control A/c
14.	Payment of Wages	Wages A/c Dr To Cash / Bank A/c	Wages Control A/c Dr To G L Adjustment A/c	Wages Control A/c Dr To Cash / Bank A/c
15.	Analysis of distribution of wages	No Entry	WIP Control A/c Dr Factory OH Control A/c Dr Admin OH Control A/c Dr S&D OH Control A/c Dr To Wages Control A/c	WIP Control A/c Dr Factory OH Control A/c Dr Admin OH Control A/c Dr S&D OH Control A/c Dr To Wages Control A/c
16.	Payment of Expenses	Expenses A/c Dr To Cash / Bank A/c	Factory OH Control A/c Dr Admin OH Control A/c Dr S&D OH Control A/c Dr To G L Adjustment A/c	Factory OH Control A/c Dr Admin OH Control A/c Dr S&D OH Control A/c Dr To Cash /Bank A/c
17.	Recording of Depreciation	Depreciation A/c Dr To Asset A/c	Factory OH Control A/c Dr Admin OH Control A/c Dr S&D OH Control A/c Dr To G L Adjustment A/c	Factory OH Control A/c Dr Admin OH Control A/c Dr S&D OH Control A/c Dr To Asset A/c
18.	Absorption of Factory Overheads	No Entry	WIP Control A/c Dr To Factory OH Control A/c	WIP Control A/c Dr To Factory OH Control A/c
19.	Spoiled / Defective work	No Entry	Costing Profit & Loss A/c Dr To WIP Control A/c	Costing Profit & Loss A/c Dr To WIP Control A/c
20.	Recording of Cost of Jobs completed	No Entry	Finished Goods Control A/c Dr To WIP Control A/c	Finished Goods Control A/c Dr To WIP Control A/c

21.	Recording of Cost of Goods Sold	No Entry	Cost of Sales A/c Dr To Finished Goods Control A/c	Cost of Sales A/c Dr To Finished Goods Control A/c
22.	Recording of Sales	Cash / Debtors A/c Dr To Sales A/c	G L Adjustment A/c Dr To Costing P & L A/c	Cash / Debtors A/c Dr To Profit and Loss A/c
23.	Absorption of Administration Overheads	No Entry	Finished Goods Control A/c Dr To Admin OH Control A/c	Finished Goods Control A/c Dr To Admin OH Control A/c
24.	Absorption of Selling Overheads	No Entry	Cost of Sales A/c Dr To S & D OH Control A/c	Cost of Sales A/c Dr To S&D OH Control A/c
25.	Under absorption of Overheads	No Entry	Costing Profit and Loss A/c Dr To Overheads Adjustment A/c	Profit and Loss A/c Dr To Overheads Adjustment A/c
26.	Over absorption of Overheads	No Entry	Overheads Adjustment A/c Dr To Costing Profit and Loss A/c	Overheads Adjustment A/c Dr To Profit and Loss A/c

Note:

- G L Adjustment - General Ledger Adjustment
- WIP Control - Work in Progress Control
- Factory OH Control - Factory Overheads Control
- Admin OH Control - Administration Overheads Control
- S & D OH Control - Selling and Distribution Overheads Control
- Costing P & L - Costing Profit and Loss

Illustration 10

Journalise the following transactions assuming that cost and financial accounts are integrated:

Particulars	Amount (₹)
Raw material purchased	40,000
Direct materials issued to production	30,000
Wages paid (30% indirect)	24,000
Wages charged to production	16,800
Manufacturing expenses incurred	19,000
Manufacturing overheads charged to Production	18,000
Selling and distribution cost	4,000
Finished products (at cost)	40,000
Sales	58,000
Closing stock	Nil
Receipts from debtors	13,800
Payments to creditors	12,000

Solution:

Journal

Particulars		Dr. Amount (₹)	Cr. Amount (₹)
Material Control A/c	Dr	40,000	
To Cash A/c			40,000
Work in Progress Control A/c	Dr	30,000	
To Material Control A/c			30,000
Wages Control A/c	Dr	24,000	
To Cash A/c			24,000
Factory Overheads Control A/c (24,000 × 30%)	Dr	7,200	
To Wages Control A/c			7,200
Work in Progress Control A/c (24,000 × 70%)	Dr	16,800	
To Wages Control A/c			16,800
Factory Overheads Control A/c	Dr	19,000	
To Cash			19,000
Work in Progress Control A/c	Dr	18,000	
To Factory Overheads Control A/c			18,000
Selling and Distribution Overheads Control A/c	Dr	4,000	
To Cash A/c			4,000
Cost of Sales A/c	Dr	4,000	
To Selling and Distribution Overheads A/c			4,000
Finished Goods Control A/c	Dr	40,000	
To Work in Progress Control A/c			40,000
Debtors A/c	Dr	58,000	
To Profit and Loss A/c			58,000
Cash A/c	Dr	13,800	
To Debtors A/c			13,800
Creditors A/c	Dr	12,000	
To Cash A/c			12,000

Illustration 11

Pass the journal entries for the following transactions in a double entry cost accounting system:

Particulars	Amount (₹)
a) Issue of Material:	
- Direct	5,50,000
- Indirect	1,50,000
b) Allocation of wages and salaries:	
- Direct	2,00,000
- Indirect	40,000
c) Overheads absorbed in jobs:	
- Factory	1,50,000
- Administration	50,000
- Selling	30,000
d) Under / Over absorbed overheads:	
- Factory (Over)	20,000
- Administration (Under)	10,000

Solution:

Journal

Particulars		**Dr.**	**Cr.**
		Amount (₹)	**Amount (₹)**
Work in Progress Control A/c	Dr	5,50,000	
Factory Overheads Control A/c	Dr	1,50,000	
To Material Control A/c			7,00,000
Work in Progress Control A/c	Dr	2,00,000	
Factory Overheads Control A/c	Dr	40,000	
To Wages Control A/c			2,40,000
Work in Progress Control A/c	Dr	1,50,000	
To Factory Overheads Control A/c			1,50,000
Finished Goods Control A/c	Dr	50,000	
To Administrative Overheads Control A/c			50,000
Cost of Sales A/c	Dr	30,000	
To Selling and Distribution Overheads Control A/c			30,000
Factory Overheads Control A/c	Dr	20,000	
To Costing Profit and Loss A/c			20,000
Costing Profit and Loss A/c	Dr	10,000	
To Administrative Overheads Control A/c			10,000

Illustration 12

ASA LLP maintains Integrated Accounts of Cost and Financial Accounts. From the following details write up Control Accounts of a factory and prepare a Trial Balance.

Particulars	Amount (₹)
Share Capital	3,00,000
Reserve	2,00,000
Sundry Creditors	5,00,000
Plant and Machinery	5,75,000
Sundry Debtors	2,00,000
Closing Stock (Stores)	1,50,000
Bank and Cash Balance	75,000

Transactions during the year were as follows:

Particulars	₹
Stores purchased	10,00,000
Stores issued to production	10,50,000
Stores in hand	95,000
Direct wages incurred	6,50,000
Direct wages charged to production	6,00,000
Manufacturing expenses incurred	3,00,000
Manufacturing expenses charged to production	2,75,000
Selling and distribution expenses	1,00,000
Finished stock production (at cost)	18,00,000
Sales at selling price	22,00,000
Closing stock (Finished Goods)	95,000
Payment to creditors	11,00,000
Receipts from debtors	21,00,000

Solution:

Share Capital Account

Particulars	₹	Particulars	₹
To Balance c/d	3,00,000	By Balance b/d	3,00,000
	3,00,000		3,00,000

Reserve Account

Particulars	₹	Particulars	₹
To Balance c/d	5,15,000	By Balance b/d	2,00,000
		By Profit and Loss A/c	3,15,000
	5,15,000		5,15,000

Sundry Creditors Account

Particulars	₹	Particulars	₹
To Cash and Bank A/c	11,00,000	By Balance b/d	5,00,000
To Balance c/d	4,00,000	By Material Control A/c	10,00,000
	15,00,000		15,00,000

Plant and Machinery Account

Particulars	₹	Particulars	₹
To Balance b/d	5,75,000	By Balance c/d	5,75,000
	5,75,000		5,75,000

Sundry Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d	2,00,000	By Cash and Bank A/c	21,00,000
To Profit and Loss A/c	22,00,000	By Balance c/d	3,00,000
	24,00,000		24,00,000

Material Control Account

Particulars	₹	Particulars	₹
To Balance b/d	1,50,000	By Work in Progress Control A/c	10,50,000
To Sundry Creditors A/c	10,00,000	By Manufacturing OH Control A/c (Bal. fig.)	5,000
		By Balance c/d	95,000
	11,50,000		11,50,000

Cash and Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	75,000	By Wages Control A/c	6,50,000
To Sundry Debtors A/c	21,00,000	By Manufacturing OH Control A/c	3,00,000
		By S & D Overheads Control A/c	1,00,000
		By Sundry Creditors A/c	11,00,000
		By Balance c/d	25,000
	21,75,000		21,75,000

Work in Progress Control Account

Particulars	₹	Particulars	₹
To Material Control A/c	10,50,000	By Finished Goods Control A/c	18,00,000
To Wages Control A/c	6,00,000	By Balance c/d	1,25,000
To Manufacturing OH Control A/c	2,75,000		
	19,25,000		19,25,000

Wages Control Account

Particulars	₹	Particulars	₹
To Cash and Bank A/c	6,50,000	By Work in Progress Control A/c	6,00,000
		By Manufacturing OH Control A/c (Bal. fig.)	50,000
	6,50,000		6,50,000

Manufacturing Overheads Control Account

Particulars	₹	Particulars	₹
To Cash and Bank A/c	3,00,000	By Work in Progress Control A/c	2,75,000
To Material Control A/c	5,000	By Profit and Loss A/c (Bal. fig.)	80,000
To Wages Control A/c	50,000	(Under recovery)	
	3,55,000		3,55,000

Selling and Distribution Overheads Control Account

Particulars	₹	Particulars	₹
To Cash and Bank A/c	1,00,000	By Cost of Sales A/c (Bal. fig. transferred)	1,00,000
	1,00,000		1,00,000

Finished Goods Control Account

Particulars	₹	Particulars	₹
To Work in Progress Control A/c	18,00,000	By Cost of Sales A/c (Bal. fig. transferred)	17,05,000
		By Balance c/d	95,000
	18,00,000		18,00,000

Profit and Loss Account

Particulars	₹	Particulars	₹
To Manufacturing OH Control A/c	80,000	By Sundry Debtors A/c	22,00,000
To Cost of Sales A/c	18,05,000		
To Reserve A/c	3,15,000		
	22,00,000		22,00,000

Cost of Sales Account

Particulars	₹	Particulars	₹
To S & D Overheads Control A/c	1,00,000	By Profit and Loss A/c	18,05,000
To Finished Goods Control A/c	17,05,000		
	18,05,000		18,05,000

Trial Balance

Particulars	Dr. (₹)	Cr. (₹)
Share Capital		3,00,000
Reserve		5,15,000
Sundry Creditors		4,00,000
Plant and Machinery	5,75,000	
Sundry Debtors	3,00,000	
Closing Stock		
- Material	95,000	
- WIP	1,25,000	
- Finished Goods	95,000	
Cash and Bank	25,000	
	12,15,000	**12,15,000**

Illustration 13

The following balances are shown in the Cost Ledger of Vazir Ltd as on 1st October, 2022:

Particulars	Dr. (₹)	Cr. (₹)
Work-in-Progress	7,056	
Factory Overheads Suspense Account	360	
Finished Stock Account	5,274	
Stores Ledger Control Account	9,450	
Administration Overheads Suspense Account	180	
General Ledger Adjustment Account		22,320

Transactions for the year ended 31/03/2022

Particulars	Amount (₹)

Stores issued to production	45,370
Stores purchased	52,400
Material purchased for direct issued to production	1,135
Wages paid (including indirect labour ₹ 2,520)	57,600
Finished goods sold	1,18,800
Administration expenses	5,400
Selling expenses	6,000
Factory overheads	15,600
Stores issued for Capital Work in Progress	1,500
Finished goods transferred to warehouse	1,08,000
Store issued for factory repairs	2,000
Factory overheads recovered to production	16,830
Administration overheads charged to production	4,580
Factory overheads applicable unfinished work	3,080
Selling overheads allocated to sales	5,500
Stores lost due to fire in store (not insured)	150
Finished goods stock on 30/03/2022	14,274

You are required to record the entries in the cost ledger for the year ended 30th September, 2022 and prepare a Trial Balance as on that date.

Solution:

Work in Progress Control Account

Particulars	₹	Particulars		₹
To Balance b/d	7,056	By Finished Goods Control A/c		1,08,000
To Material Control A/c	45,370	By Balance c/d		20,551
To General Ledger Adjustment A/c	1,135	- Factory OH	3,080	
To Wages Control A/c	55,080	- Others	17,471	
To Factory Overheads Control A/c	16,830			
To Factory Overheads Suspense A/c	3,080			
	1,28,551			1,28,551

Factory Overheads Suspense Account

Particulars	₹	Particulars	₹

To Balance b/d	360	By Work in Progress Control A/c	16,830
To Wages Control A/c	2,520	By Work in Progress Control A/c	3,080
To General Ledger Adjustment A/c	15,600	By Balance c/d	570
To Material Control A/c	2,000		
	20,480		20,480

Finished Goods Control Account

Particulars	₹	Particulars	₹
To Balance b/d	5,274	By Cost of Sales A/c	1,03,580
To Work in Progress A/c	1,08,000	By Balance c/d	14,274
To Administrative OH Suspense A/c	4,580		
	1,17,854		1,17,854

Material Control Account

Particulars	₹	Particulars	₹
To Balance b/d	9,450	By Work in Progress Control A/c	45,370
To General Ledger Adjustment A/c	52,400	By Capital Work in Progress A/c	1,500
		By Factory Overheads Suspense A/c	2,000
		By Costing Profit and Loss A/c	150
		By Balance c/d	12,830
	61,850		61,850

Administration Overheads Suspense Account

Particulars	₹	Particulars	₹
To Balance b/d	180	By Finished Goods Control A/c	4,580
To General Ledger Adjustment A/c	5,400	By Balance c/d	1,000
	5,580		5,580

General Ledger Adjustment Account

Particulars	₹	Particulars	₹
To Costing Profit and Loss A/c	1,18,800	By Balance b/d	22,320
To Balance c/d	51,225	By Material Control A/c	52,400
		By Work in Progress Control A/c	1,135
		By Wages Control A/c	57,600
		By Administration OH Control A/c	5,400
		By S&D OH Control A/c	6,000
		By Factory Overheads Suspense A/c	15,600
		By Costing Profit and Loss A/c	9,570
	1,70,025		1,70,025

Wages Control Account

Particulars	₹	Particulars	₹

To General Ledger Adjustment A/c	57,600	By Work in Progress Control A/c By Factory Overheads Suspense A/c	55,080 2,520
	57,600		57,600

Costing Profit and Loss A/c

Particulars	₹	Particulars	₹
To Material Control A/c To Cost of Sales A/c To General Ledger Adjustment A/c	150 1,09,080 9,570	By General Ledger Adjustment A/c	1,18,800
	1,18,800		1,18,800

Selling and Distribution Overheads Control A/c

Particulars	₹	Particulars	₹
To General Ledger Adjustment A/c	6,000	By Cost of Sales A/c By Balance c/d	5,500 500
	6,000		6,000

Capital Work in Progress Account

Particulars	₹	Particulars	₹
To Material Control A/c	1,500	By Balance c/d	1,500
	1,500		1,500

Cost of Sales Account

Particulars	₹	Particulars	₹
To S & D OH Control A/c To Finished Goods Control A/c	5,500 1,03,580	By Costing Profit and Loss A/c	1,09,080
	1,09,080		1,09,080

Trial Balance

Particulars	Dr. (₹)	Cr. (₹)
Work in Progress Control A/c	20,551	
Factory Overheads Suspense A/c	570	
Finished Goods Control A/c	14,274	
Material Control A/c	12,830	
Administrative Overheads Suspense A/c	1,000	
General Ledger Adjustment A/c		51,225
Capital Work in Progress A/c	1,500	
Selling and Distribution Overheads Control A/c	500	
	51,225	51,225

Exercise

A. Theoretical Questions:

⊙ Multiple Choice Questions

1. Which of the following items is not included in preparation of cost sheet?
   A. Carriage inward
   B. Purchase returns
   C. Sales commission
   D. Interest paid

2. Which of the following items is not excluded while preparing a cost sheet?
   A. Goodwill written off
   B. Provision for taxation
   C. Property tax on factory building
   D. Transfer to reserves

3. Which of the following are direct expenses?
   i. The cost of special designs, drawings or layouts
   ii. The hire of tools or equipment for a particular job
   iii. Salesman's wages
   iv. Rent, rates and insurance of a factory
   A. (i) and (ii)
   B. (i) and (iii)
   C. (i) and (iv)
   D. (iii) and (iv)

4. What is prime cost?
   A. Total direct cost only
   B. Total indirect costs only
   C. Total non-production csots
   D. Total production costs

5. Which of the following is not an element of works overheads?
   A. Sales manager's salary
   B. Plant manager's salary
   C. Factory repairman's wages
   D. Product inspector's salary

6. For the purpose of Cost Sheet preparation, costs are classified based on:

   A. Functions

   B. Relevance

   C. Variability

   D. Nature

7. Salary paid to an office supervisor is a part of:

   A. Direct expenses

   B. Administration cost

   C. Quality control cost

   D. Factory overheads

8. Audit fees paid to cost auditors is part of:

   A. Selling and distribution cost

   B. Production cost

   C. Administration cost

   D. Not recorded in the cost sheet

9. A company has set up a laboratory for testing of products for compliance with standards. Salary of this laboratory stuffs are part of:

   A. Direct expenses

   B. Quality control cost

   C. Works overheads

   D. Research and development cost

10. Canteen expenses for factory workers are part of:

    A. Administration cost

    B. Factory overheads

    C. Marketing cost

    D. None of the above

11. Which of the following does not form part of prime cost?

    A. GST paid on raw materials (input credit can be claimed)

    B. Cost of transportation paid to bring materials to factory

    C. Cost of packing

    D. Overtime premium paid to workers

12. A company pays royalty to State Government on the basis of production, it is treated as:
    A. Direct expenses
    B. Factory overheads
    C. Direct Material Cost
    D. Administration Cost

13. In Reconciliation Statements, expenses shown only in financial accounts are:
    A. Added to financial profit
    B. Deducted from financial profit
    C. Ignored
    D. Added to costing profit

14. In Reconciliation Statement, expenses shown only in cost accounts are:
    A. Added to financial profit
    B. Deducted from financial profit
    C. Ignored
    D. Deducted from costing profit

15. In Reconciliation Statement, transfers to reserves are:
    A. Added to financial profit
    B. Deducted from financial profit
    C. Ignored
    D. Added to costing profit

16. In Reconciliation Statement, incomes shown only in financial accounts are:
    A. Added to financial profit
    B. Deducted from financial profit
    C. Ignored
    D. Deducted from costing profit

17. In Reconciliation Statement, Closing Stock undervalued in Financial Accounts is
    A. Added to financial profit
    B. Deducted from financial profit
    C. Ignored
    D. Added to costing profit

18. Under non-integrated accounting system:

    A. Separate ledgers are maintained for cost and financial accounts

    B. Same ledger is maintained for cost and financial accounts by accountants

    C. (A) and (B) both

    D. None of the above

19. Under non-integrated accounting system, the account made to complete double entry is:

    A. Finished goods control account

    B. Work in progress control account

    C. Stores ledger control account

    D. General ledger adjustment account

20. Under non-integrated system of accounting, purchase of raw material is debited to

    A. Purchase account

    B. Material control account / stores ledger control account

    C. General ledger adjustment account

    D. None of the above

21. When costing loss is ₹ 5,600, administrative overheads under-absorbed being ₹ 600, the loss as per financial accounts should be ________ .

    A. ₹ 5,000

    B. ₹ 5,600

    C. ₹ 6,200

    D. None of the above

22. Which of the following items should be added to costing profit to arrive at financial profit?

    A. Income tax paid

    B. Over absorption of works overheads

    C. Interest paid on debentures

    D. All of the above

23. Integral accounts eliminate the necessity of operating ________ .

    A. Cost ledger control account

    B. Store ledger control account

    C. Overheads adjustment account

    D. None of the above

24. What is the primary goal of introducing integrated accounting?
    a. Maintaining separate records
    b. Streamlining cost analysis
    c. Increasing clerical efforts
    d. Reconciling accounts annually
25. Why is reconciliation important in accounting?
    a. To complicate financial reporting
    b. To identify differences in profits
    c. To avoid integration
    d. To discourage cost analysis
26. What characterizes a non-integrated cost accounting system?
    a. Unified ledger system
    b. Separate cost and financial accounts
    c. Sole reliance on cost principles
    d. Complex reconciliation processes
27. In a non-integrated system, what ledger is used for recording indirect costs?
    a. Cost ledger control account
    b. Overheads ledger
    c. Financial ledger
    d. General ledger
28. Which ledger records direct costs in a non-integrated system?
    a. General ledger
    b. Cost ledger control account
    c. Prime cost ledger
    d. Financial ledger
29. What is the primary purpose of the overheads ledger in a non-integrated system?
    a. Recording direct costs
    b. Managing general ledger entries
    c. Controlling indirect costs
    d. Maintaining financial transactions

30. How is the purchase of raw materials typically recorded in a non-integrated system?
    a. Credit to cash account
    b. Debit to general ledger
    c. Debit to stores control account
    d. Credit to sundry creditors
31. What entry is made to record wages paid in a non-integrated system?
    a. Credit entry
    b. Debit entry
    c. Contra entry
    d. No entry is made
32. What is a significant benefit of reconciling cost accounting records with financial accounts?
    a. Increased clerical efforts
    b. Improved transparency
    c. Limited financial reporting
    d. Reduced reconciliation complexity
33. When is the reconciliation of cost accounting records and financial accounts particularly important?
    a. Only in integrated systems
    b. During tax season
    c. At the end of the financial year
    d. In non-integrated systems
34. What defines an integrated accounting system?
    a. Separation of cost and financial records
    b. Streamlining reconciliation
    c. Sole reliance on financial principles
    d. Consolidation of cost and financial information
35. Why is an integrated accounting system considered cost-effective?
    a. Increased clerical workload
    b. Centralization of accounting functions
    c. Complexity of financial reporting
    d. Limited coordination between staff

36. A firm operates an integrated cost and financial accounting system.

    The accounting entries for an issue of direct materials to production would be

    a. DR work in progress control account; CR stores control account

    b. DR finished goods account; CR stores control account

    c. DR stores control account; CR work in progress control account

    d. DR cost of sales account; CR work in progress control account

37. A firm operates an integrated cost and financial accounting system. The accounting entries for direct wages transferred to WIP A/c would be:

    a. Debit Wages control account, Credit Work in progress account

    b. Debit Work in progress account, Credit Wages control account

    c. Debit Cost of sales account, Credit Work in progress account

    d. Debit Finished goods account, Credit Work in progress account

38. A firm operates an integrated cost and financial accounting system. The accounting entries for indirect wages incurred would be:

    a. Debit Wages control account Credit Overheads control account

    b. Debit Work in progress account Credit Wages control account

    c. Debit Overheads control account Credit Wages control account

    d. Debit Wages control account Credit Work in progress account

Answer:

1	**D**	**2**	**C**	**3**	**A**	**4**	**A**	**5**	**A**	**6**	**A**	**7**	**B**	**8**	**C**
9	**B**	**10**	**B**	**11**	**D**	**12**	**A**	**13**	**A**	**14**	**B**	**15**	**A**	**16**	**B**
17	**A**	**18**	**A**	**19**	**D**	**20**	**B**	**21**	**C**	**22**	**B**	**23**	**A**	**24**	**B**
25	**B**	**26**	**B**	**27**	**A**	**28**	**C**	**29**	**C**	**30**	**C**	**31**	**B**	**32**	**B**
33	**C**	**34**	**D**	**35**	**B**	**36**	**A**	**37**	**B**	**38**	**C**				

State True or False:

1. Total cost = Prime cost + All indirect costs.
2. Closing of work in progress should be valued on the basis of prime cost.
3. Closing stock of finished goods should be valued on the basis of cost of sales.
4. Production cost includes only direct costs related to the production.
5. Primary packaging cost is included in distribution cost.
6. Notional interest on owner's capital appears only in financial profit and loss account.
7. Goodwill written off appears only in cost accounts.
8. Overheads are taken on estimated basis in financial accounts.
9. Expenses which appear only in financial accounts and not in cost accounts, are generally notional items.
10. Need for Reconciliation arise in case of integrated system of accounts.
11. Cost ledger control account makes the cost ledger self-balancing.
12. Stock ledger contains the accounts of all items of finished goods.
13. The purpose of cost control accounts is to control the cost.
14. Cost control accounts are prepared on the basis of double entry system.
15. The balancing in costing profit and loss account represents under or over absorption of overheads.

Answer:

1	**T**	**2**	**F**	**3**	**F**	**4**	**F**	**5**	**F**	**6**	**F**	**7**	**F**	**8**	**F**
9	**F**	**10**	**F**	**11**	**T**	**12**	**T**	**13**	**F**	**14**	**T**	**15**	**F**		

Fill in the Blanks

1. Prime cost + Overheads = ____________
2. Total cost + Profit = ___________
3. __________ + Profit = Sales
4. Direct Material + _________ + Direct Expenses = Prime Cost
5. Salary paid to factory manager is an item of _________.
6. In Reconciliation Statements, income shown only in Financial Accounts are _____________.
7. In Reconciliation Statements, expenses shown only in cost accounts are __________.
8. In Reconciliations Statements, overheads Over-Recovered in cost accounts are ____________.
9. In Reconciliation Statements, overheads Under Recovered in cost accounts are ____________.
10. Notional remuneration to owner is expense debited only in __________.
11. All the transactions relating to materials are recorded through _________.
12. The net balance of ___________ represents net profit or net loss.
13. WIP ledger contains the accounts of all the __________ which are under ___________.
14. The two traditional systems of accounting for integration of cost and financial accounts are the ______ and __________.
15. Under integrated accounting system, the accounting entry for payment of wages is to debit ________ and to credit cash

Answer:

1	**Total Cost**	2	**Selling price**
3	**Cost of sales**	4	**Direct Wages**
5	**Factory Overheads**	6	**Added to Costing Profit.**
7	**Deducted from Financial Profit / Added to Costing Profit**	8	**Deducted from financial profit / added to costing profit**
9	**Added to financial profit / deducted from costing profit.**	10	**Cost Accounts**
11	**Stores ledger control account**	12	**Costing Profit and Loss**
13	**Jobs or works in process, several job accounts**	14	**Double entry method, third entry method**
15	**Wages Control Accounts**		

- **Short answer type questions:**

1. Mention six items which are not shown in preparation of cost sheet. Also state the reason for which they are not included in the cost sheet.

2. 'Maintaining of cost records, cost of audit of the same and reporting is mandatory for specified companies' – explain the statement with reference to the Companies Act 2013.

3. What is Non-integrated cost accounting? What are its basic features?

4. What are the reasons for difference in Profits of Cost Accounts and Financial Accounts?

5. What is integrated accounting system? What are the essential feature of such accounting system?