(v) Penalties and fines

(vi) Losses due to scrapping of machinery

(vii) Remuneration paid to the proprietor in excess of a fair reward for services rendered.

(b) Purely financial incomes:-

(i) Interest received on bank deposits

(ii) Profits made on the sale of investments, fixed assets, etc.

(iii) Transfer fees received

(iv) Rent receivable

(v) Interest, dividends, etc. received on investments.

(vi) Brokerage received

(vii) Discount, commission received

Abnormal gains and losses:-

(i) Losses or gains on sale of fixed assets.

(ii) Loss to business property on account of theft, fire or other natural calamities.

In addition to above abnormal items (gain and losses) may also be excluded from cost accounts. Alternatively, these may be taken to costing profit and loss account.

4.3 INTEGRAL ACCOUNTING

Integrated accounting system is the name given to a system of accounting, where by cost and financial accounts are kept in the same set of books. Obviously, then there will be no separate set of books for costing and financial records. Integral accounts provide or meet the information required by costing and financial accounts.

Features of Integrated Accounting System:

(a) Complete analysis of costs and sales are kept.

(b) Complete details of all payments in cash are kept.

(c) Complete details of all assets and liabilities are kept and this system does not use a notional accounts to represent all impersonal accounts.

(d) Under this system, general ledger adjustment is not at all maintained and detailed accounts of assets and liabilities are maintained.

Advantages of integrated accounting system:

The main advantages of integrated accounts are as follows

(a) No need for Reconciliation: The question of reconciling costing profit and financial profit does not arise, as there is one figure of profit only

(b) Significant saving in the clerical efforts, as only one set of books is maintained.

(c) Retrieving of information is easy & quick

(d) It is economical also as it is based in the concept of centralization of accounting function

Essential pre-requisites for integrated accounts:

The essential pre-requisites for integrated accounts include the following steps

(a) The managements decision about the extent of integration of the two sets of books, some concerns find it useful to integrate upto the stage of primary cost or factory cost, while others prefer full integration of the entire accounting records.

(b) A suitable coding system must be made available so as to serve the accounting purposes of financial and cost accounts.

(c) An agreed routine, with regard to the treatment of provision for accruals, prepaid expenses, other adjustment necessary for preparation of interim accounts.

(d) Perfect coordination should exist between the staff responsible for the financial and cost aspects of the accounts and an efficient processing of accounting documents should be ensured.

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

Sl. No.	Transaction	Financial Accounts	Cost Accounts	Integral Accounts
(i)	Credit purchase of Material	Purchases A/c Dr To, Creditors A/c	Material Control A/c Dr To, General Ledger A/c	Material Control A/c Dr To, Creditors
(ii)	Cash purchase of materials	Purchases A/c Dr To, Bank / Cash. A/c	Material Control A/c Dr To, General Ledger A/c	Material Control A/c Dr To, Cash
(iii)	Purchase of special material for direct use in job	Purchases A/c Dr To, Cash / Creditors. A/c	WIP Control A/c Dr To, General Ledger Adj A/c	WIP Contrtol A/c Dr To, Cash or Creditors A/c
(iv)	Purchase of materials for repairs	Purchases A/c Dr To, Cash/Creditors. A/c	Factory OH control A/c Dr To, General Ledger Adj A/c	Factory OH control A/c Dr To, Cash / Creditors A/c
(v)	Materials returned to suppliers	Creditors A/c Dr To, Purchases A/c	General Ledger Control A/c. Dr To Material control A/c	Creditors A/c Dr To, Material Control A/c
(vi)	Payments to creditors for supplies made	Creditors A/c Dr To, Cash A/c	No Entry	Creditors A/c Dr To, Cash A/c
(vii)	Issue of direct materials to production shops	No Entry	WIP Control A/c Dr To, Materials Control A/c	WIP Control A/c Dr To, Materials Control A/c
(viii)	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
(ix)	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
(x)	Return of indirect materials to stores	No Entry	Material Control A/c Dr To, Factory Overheads A/c	Material Control A/c Dr To, Factory Overheads A/c
(xi)	Materials transferred from one Job to another	No Entry	No Entry	No Entry
(xii)	Adjustment of normal depreciation in material stocks	No Entry	Factory Overheads Control A/c Dr To, Material Control A/c	Factory Overheads Control A/c Dr To, Material Control A/c

Sl. No.	Transaction	Financial Accounts	Cost Accounts	Integral Accounts
(xiii)	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
(xiv)	Payment of wages & Salaries	Wages & Salaries A/c Dr To Cash / Bank A/c	Wages Control A/c Dr To, General Ledger A/c	Wages & Salaries A/c Dr To, Cash / Bank A/c
(xv)	Analysis of distribution of wages	No Entry	WIP Control A/c Dr POH Control A/c Dr Admin OH Control A/c Dr Sellings Dis OH Control A/c Dr To, Wages Control A/c.	WIP Control A/c Dr POH Control A/c Dr Admin OH Control A/c Dr Sellings Dis OH Control A/c Dr To, Wages Control A/c.
(xvi)	Payment of Expenses	Expenses A/c Dr To, Cash A/c	POH Control A/c Dr Admin OH Control A/c Dr Selling & Dis OH Control A/c Dr To, General Ledger Adj A/c	POH Control A/c Dr Admin OH Control A/c Dr Selling & Dis OH Control A/c Dr To, Cash A/c
(xvii)	Recording of Depreciation	Depreciation A/c Dr To, Asset A/c	POH Control A/c Dr Admin OH Control A/c Dr Selling & Dis OH Control A/c Dr To, General Ledger Adj A/c	POH Control A/c Dr Admin OH Control A/c Dr Selling & Dis OH Control A/c Dr To, Asset A/c
(xviii)	Absorption of Factory Overheads	No Entry	WIP Control A/c Dr To, Factory Overheads A/c	WIP Control A/c Dr To, Factory Overheads A/c
(xix)	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
(xx)	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
(xxi)	Recording of Cost of goods sold	No Entry	Cost of Sales A/c Dr To, Finished goods A/c	Cost of Sales A/c Dr To, Finished goods Control A/c
(xxii)	Recording of sales	Cash/ Debtor A/c Dr To, Sales A/c	General Ledger Control A/c Dr To, Costing P&L A/c	Cash / Debors A/c Dr To, P&L A/c
(xxiii)	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
(xxiv)	Absorption of Selling Overheads	No Entry	Cost of Sales A/c Dr To, Selling & Dis. Overheads Control A/c	Cost of Sales A/c Dr To, Selling & Dis. OH Control A/c
(xxv)	Under absorption of overheads	No Entry	Costing Profit & Loss A/c Dr To, OH Control A/c	Profit & Loss A/c Dr To, OH control A/c
(xxvi)	Over absorption of overheads	No Entry	OH Control A/c Dr To, Costing P&L A/c	OH Control A/c Dr To, Costing P&L A/c

Illustration 1 :

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

Particulars	₹
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 overhead 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:

Journals

		Dr.	**Cr.**
Particulars		₹	₹
Material Control A/c	Dr	40,000	
To, Creditors 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	Dr	7,200	
To, Wages Control A/c			7,200
Work-in-Progress Control A/c	Dr	16,800	
To, Wages Control A/c			16,800
Factory Overhead Control A/c	Dr	19,000	
To, Cash A/c			19,000
Work-in-Progress Control A/c	Dr	18,000	
To, Factory overhead Control A/c			18,000
S & D O.H. Control A/c	Dr	4,000	
To, Cash A/c			4,000
Cost of Sales A/c	Dr	4,000	
To, Selling & Distribution Overhead Control 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 & 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 2 :

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

	Particulars	₹
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
	Admn . (Under)	10,000

Solution:

Journals

		Dr.	Cr.
Particulars		₹	₹
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	
Finished goods Control A/c	Dr	50,000	
Cost of Sales A/c	Dr	30,000	
To Factory Overhead Control A/c			1,50,000
To Administrative Overhead Control A/c			50,000
To Selling Overhead Control A/c			30,000
Costing Profit & Loss A/c	Dr	10,000	
To Administrative Overhead Control A/c			10,000
Factory Overhead Control A/c	Dr	20,000	
To Costing Profit & Loss A/c			20,000

Illustration 3 :

Messsrs Essbee Ltd. 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	₹
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	1,50,000
Bank & 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	95,000
Payments to creditors	11,00,000
Receipts from debtors	21,00,000

Solution:

Dr. **Creditors Account** **Cr.**

Particulars	₹	Particulars	₹
To, Cash 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**
		By, Balance b/d	4,00,000

Dr. **Debtors Account** **Cr.**

Particulars	₹	Particulars	₹
To, Balance b/d	2,00,000	By, Cash A/c	21,00,000
To, P & L A/c	22,00,000	By, Balance c/d	3,00,000
	24,00,000		**24,00,000**
To, Balance b/d	3,00,000		

Dr. **Material Control A/c (or) Stores Ledger Control Account** **Cr.**

Particulars	₹	Particulars	₹
To, Balance b/d	1,50,000	By, Work-in-Progress Control A/c	10,50,000
To, Creditors A/c	10,00,000	By, Manufacturing Overhead Control A/c	5,000
		By, Balance c/d	95,000
	11,50,000		**11,50,000**
To, Balance b/d	95,000		

Dr. **Cash & Bank Account** **Cr.**

Particulars	₹	Particulars	₹
To, Balance b/d	75,000	By, Wages Control A/c	6,50,000
To, Debtors A/c	21,00,000	By, Manufacturing Overhead Control A/c	3,00,000
		By, Selling and Distribution O.H. Control A/c	1,00,000
		By, Creditors A/c	11,00,000
		By, Balance c/d	25,000
	21,75,000		**21,75,000**
To, Balance b/d	25,000		

Dr. **Work-in-Progress Control Account** Cr.

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

Dr. **Wages Control Account** Cr.

Particulars	₹	Particulars	₹
To Cash & Bank A/c	6,50,000	By, Work-in-Progress Control A/c	6,00,000
		By, Manufactures Overhead Control A/c	50,000
	6,50,000		**6,50,000**

Dr. **(Factory) Manufacturing Overhead Control Account** Cr.

Particulars	₹	Particulars	₹
To, Cash	3,00,000	By, Work-in-Progress Control A/c	2,75,000
To, Material Control A/c	5,000	By, Profit & Loss A/c	80,000
To, Wages Control A/c	50,000		
	3,55,000		**3,55,000**

Dr. **Selling & Distribution Overhead Control Account** Cr.

Particulars	₹	Particulars	₹
To, Cash A/c	1,00,000	By, Cost of Sales A/c	1,00,000
	1,00,000		**1,00,000**

Dr. **Finished goods Control Account** Cr.

Particulars	₹	Particulars	₹
To, Work-in-Progress Control A/c	18,00,000	By, Cost of Sales	17,05,000
		By, Balance c/d	95,000
	18,00,000		**18,00,000**
To, Balance b/d	95,000		

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

Particulars	₹	Particulars	₹
To, Factory Overheads Control A/c	80,000	By, Debtors A/c (Sale)	22,00,000
To, Cost of Sales	18,05,000		
To, Reserve A/c (Profit)	3,15,000		
	22,00,000		**22,00,000**

Dr. **Cost of Sales Account** Cr.

Particulars	₹	Particulars	₹
To, Selling & Distribution Control A/c	1,00,000	By, Profit & Loss A/c	18,05,000
To, Finished Goods Control A/c	17,05,000		
	18,05,000		**18,05,000**

Trial Balance

Particulars	Debit ₹	Credit ₹
Share Capital		3,00,000
Reserves		
(2,00,000 + 3,15,000)		5,15,000
Creditors		4,00,000
Plant & Machinery	5,75,000	
Debtors	3,00,000	
Closing Stock:		
Material	95,000	
Work-in-progress	1,25,000	
Finished goods	95,000	
Cash & bank	25,000	
	12,15,000	**12,15,000**

Illustration 4 :

The following balances are shown in the Cost Ledger of Vinak Ltd. as on 1st October, 2016:

Particulars	Dr. (₹)	Cr.(₹)
Work in progress Account	7,056	
Factory overheads suspense Account	360	
Finished stock Account	5,274	
Stores Ledger Control Account	9,450	
Administration Overheads Suspense A/C	180	
General Ledger Adjustment Account		22,320

Transactions for the year ended 30th september, 2017

Particulars	₹
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
Store 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
Administration expenses on unfinished work	850
Finished goods stock on 30.9.2016	14,274

You are required to record the entries in the cost ledger for the year ended 30th September, 2017 and prepare a Trial Balance as on that date.

Solution:

Dr. **Work-in-Progress Control Account** **Cr.**

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		
To, General Ledger Adjustment A/c	1,135	Factory Overhead	3,080	
To, Wages control A/c	55,080	Admn. O.H.	850	
To, Factory overhead control A/c	16,830	Material & Wages	22,051	25,981
To, Administrative Overhead Control A/c	4,580			
To, Factory Overhead Control A/c	3080			
To, Administrative Overhead Control A/c	850			
	1,33,981			**1,33,981**
To Balance b/d	25,981			

Dr. **Factory Overhead Suspense Account** **Cr.**

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

Dr. **Finished Goods Control Account** **Cr.**

Particulars	₹	Particulars	₹
To, Balance b/d	5,274	By, Cost of Sales A/c	99,000
To, Work-in-progress Control A/c	1,08,000	By, Balance c/d	14,274
	1,13,274		**1,13,274**
To, Balance b/d	14,274		

Dr. **Material Control Account** **Cr.**

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 Control A/c	1,500
		By, Factory Overhead Suspense A/c	2,000
		By, Costing Profit & Loss A/c	150
		By, Balance c/d	12,830
	61,850		**61,850**
To, Balance b/d	12,830		

Dr. **Administrative Overhead Control Account** **Cr.**

Particulars	₹	Particulars	₹
To, Balance c/d	180	By, Work-in-Progress Control A/c	4,580
To, General Ledger Adjustment A/c	5,400	By, Work-in-Progress Control A/c	850
		By, Balance c/d	150
	5,580		**5,580**
To, balance b/d	150		

General Ledger Adjustment (GLA) Account

Dr. (or) Cost Ledger Control (CLC) Account Cr.

Particulars	₹	Particulars	₹
To, Costing Profit & Loss A/c	1,18,800	By, Balance b/d	22,320
To, Balance c/d	55,805	By, Material Control A/c	52,400
		By, Work-in-Progress Control A/c	1,135
		By, Wages Control A/c	57,600
		By, Administrative Overhead Control A/c	5,400
		By, Factory Overhead Control A/c	15,600
		By, Selling and Distribution Overhead Control A/c	6,000
		By, Costing Profit & Loss A/c	14,150
	1,74,605		**1,74,605**
		By Balance b/d	55,805

Dr. Wages Control Account Cr.

Particulars	₹	Particulars	₹
To, General Ledger Adjustment A/c	57,600	By, Work-in-Progress Control A/c	55,080
		By, Factory Overhead Control A/c	2,520
	57,600		**57,600**

Dr. Costing Profit & Loss Account Cr.

Particulars	₹	Particulars	₹
To, Material Control A/c	150	By, General Ledger Adjustment Control A/c (Sales)	1,18,800
To, Cost of Sales	1,04,500		
To, General Ledger Adjustment Control A/c (profit)	14,150		
	1,18,800		**1,18,800**

Dr. Selling and Distribution Overhead Control Account Cr.

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

Dr. Capital Work-in-progress Account Cr.

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

Dr. Cost of Sales Account Cr.

Particulars	₹	Particulars	₹
To, Selling & Distribution Control A/c	5,500	By, Costing Profit & Loss A/c	1,04,500
To, Finished Goods Control A/c	99,000		
	1,04,500		**1,04,500**

Trial Balance

Particulars	Debit ₹	Credit ₹
Work-in-Progress Control	25,981	
Factory overhead Suspense	570	
Finished Goods Control	14,274	
Material Control	12,830	
Administrative Overhead Control	150	
General Ledger Adjustment		55,805
Selling and Distribution Overhead Control	500	
Capital Work-in-Progress	1,500	
	55,805	**55,805**

4.4 RECONCILIATION OF COST ACCOUNTING RECORDS WITH FINANCIAL ACCOUNTS

Where no separate accounts are maintained for costing and finance, the question of reconciliation does not arise. But where the cost and financial accounts are maintained independently of each other, it is indispensable to reconcile them. Though both the sets of accounts are same as far as the basic transactions are concerned but there are differences in the profits of two sets of books.

Reasons for difference in profits of cost and financial accounts:

(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 expenses, 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 of companies 'Share Transfer Office'.

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 & 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 and in Financial Accounts, actual amounts incurred are recorded. If there is any over or under absorption it leads to difference in the profits of both sets of books.

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

Objects 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 for reconciliation

Take Profits as per Financial Accounts.

Add :

(a) Items of income included in Cost Accounts but not in Financial Accounts.

(b) Items of expenditure included in Financial and not in Cost Accounts.

(c) Amounts by which items of income have been shown in excess in Cost Accounts over the corresponding entries in Financial Accounts.

(d) Amounts by which items of expenditure have been shown in excess in Financial Accounts over the corresponding entries in Cost Accounts.

(e) Under absorption of overheads in Cost Accounts.

(f) The amount by which closing stock of inventory is overvalued in Cost Accounts.

(g) The amount by which opening stock of inventory is undervalued in Cost Accounts.

Less :

(a) Items of income included in Financial Accounts but not in Cost Accounts.

(b) Items of expenditure (as interest on Capital, Rent on owned premises etc.) included in Cost Accounts but not in Financial Accounts.

(c) Amounts by which items of expenditure have been shown in excess in Cost Accounts as compared to the corresponding entries in Financial Accounts.

(d) Amounts by which items of incomes have been shown in excess in Financial Accounts as compared to the corresponding entries in Cost Accounts.

(e) Over absorption of overheads in Cost Accounts.

(f) The amount by which closing stock of inventory is undervalued in Cost Accounts.

(g) The amount by which opening stock of inventory is overvalued in Cost Accounts.

Illustration 5 :

The net profits of a manufacturing company appeared at ₹ 64,500 as per financial records for the year ended 31st December, 2016. 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.

		₹
(i)	Income-tax provided in financial books	20,000
(ii)	Bank Interest (Cr) in financial books	250
(iii)	Work overhead under recovered	1,550
(iv)	Depreciation charged in financial records	5,600
(v)	Depreciation recovered in cost	6,000
(vi)	Administrative overheads over-recovered	850
(vii)	Loss due to obsolescence charged in financial accounts	2,800
(viii)	Interest on Investments not included in cost accounts	4,000
(ix)	Stores adjustments (Credit in financial books)	240
(x)	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 31-12-2016:

Particulars	Amount ₹	Amount ₹
Profit as per Financial Accounts		64,500
Add: Income tax provided in financial books only.	20,000	
Works overhead under recovered	1,550	
Loss to obsolescence considered. Financial A/c only.	2,800	
Loss due to depreciation in stock	3,350	27,700
		92,200
Less: Bank interest credited in financial books.	250	
Over recovery of depreciation	400	
Administration OH's over recovered	850	
Interest on investment not included in cost books	4,000	
Stores adjustment	240	5,740
Profit as per Cost Accounts		86,460

Illustration 6 :

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.

		₹
(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

Particulars	Amount ₹	Amount ₹
Profit as per Financial Accounts		18,550
Add: Directors fee	650	
Provision for bad debts	570	
Income tax	8,300	
Depreciation in financial books only	800	10,320
		28,870
Less: Bank interest	30	
Over recovery of overheads	180	210
Profit as per Cost Accounts		28,660

Illustration 7:

M/s Mysore Petro Ltd. showed a net loss of ₹ 2,08,000 as per their financial accounts for the year ended 31st March, 2017. The cost accounts, however, disclosed a net loss of ₹1,64,000 for the same period. The following information was revealed as a result of the scrutiny of the figures of both the sets of books.

		₹
(i)	Factory overhead under recovered	3,000
(ii)	Administration overhead over recovered	2,000
(iii)	Depreciation charged in financial books	60,000
(iv)	Depreciation recovered in costs	65,000
(v)	Interest on investment not included in costs	10,000
(vi)	Income-tax provided	60,000
(vii)	Transfer fee (in financial Books)	1,000
(viii)	Stores adjustment (credit in financial books)	1,000

Prepare Reconciliation Statement.

Solution:

Statement Showing Reconciliation of Profit Shown by Cost and Financial Accounts

Particulars	**Amount** ₹	**Amount** ₹
Profit as per Financial Accounts		(2,08,000)
Add: Under recovery of factory overheads	3,000	
Income tax	60,000	63,000
		(1,45,000)
Less: Over recovery of Administration OH	2,000	
Over recovery of depreciation	5,000	
Interest on investments considered in Financial A/c	10,000	
Transfer fee	1,000	
Stores adjustment	1,000	19,000
Loss as per Cost Accounts		(1,64,000)

Illustration 8 :

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.

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

Particulars	₹	Particulars	₹
To, Opening stock A/c	8,25,000	By, Sales	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 overhead A/c	2,10,000		
To, G.P. C/d	4,83,000		
	42,15,000		42,15,000
To, Admn.Expenses A/c	95,000	By, G.P. 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) Administrative expenses 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

Particulars	Amount (₹)	Amount (₹)
Profit as per Financial Accounts		1,68,000
Add: Over valuation of Closing stock in Cost Accounts (7,80,000 - 7,50,000)	30,000	
Under recovery of works overhead (2,10,000 - 1,89,800)	20,200	
Under recovery of selling expenses in Cost Accounts. (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 (2,46,000 - 2,30,000)	16,000	
Over recovery Administration expenses (1,03,950** - 95,000)	8,950	29,950
Profit as per Cost Accounts		2,40,000

* 5% of 34,65,000 = 1,73,250

** 3% of 34,65,000 = 1,03,950

Illustration 9 :

A transistor manufacturer, who commenced his business on 1st June, 2017 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 overhead at 75% of wages and office overhead 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 (or) Statement of Cost and Profit

Particulars	Unit (₹)	Total (₹)
Material Wages	240 80	1,29,600 43,200
Prime cost	320	1,72,800
(+) Works overhead (75% of wages)	60	32,400
Works cost	380	2,05,200
(+) Office overheads (30% of work cost)	114	61,560
Total cost	494	2,66,760
(+) Profit	106	57,240
Sales	**600**	**3,24,000**

Dr.	Trading and Profit & Loss Account		Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To, Materials 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	1,19,040		
	3,24,000		3,24,000
To, Office Expenses	61,800	By, Gross Profit b/d	1,19,040
To, Net Profit	57,240		
	1,19,040		1,19,040

Statement of Reconciliation

Particulars	Amount ₹
Profit as per Financial Accounts	57,240
(-) Over recovery of works overheads (32,160 - 32,400)	(240)
(+) Under recovery of office expenses (61,800 - 61,560)	240
Profit as per Cost Accounts	57,240

Illustration 10 :

Given below is the Trading and Profit and Loss Account of Vikas Electronics for the accounting year ended 31st March, 2017.

Dr.	Trading and Profit & Loss Account		Cr.

Particulars	₹	Particulars	₹
To, Direct Materials consumed	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 & 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 (or) Statement of Cost and Profit

Particulars	Amount ₹	Amount ₹
Material consumed Direct wages		3,00,000 2,00,000
Prime cost		5,00,000
(+) **Works/Factory expenses** Fixed (60,000 x 2,50,000/2,00,000) Variable (1,20,000 - 60,000)	 75,000 60,000	 1,35,000
Works cost		6,35,000
(+) Office expenses (40,000 x 2,50,000/2,00,000)		50,000
Cost of production		6,85,000
(+) **Selling & Distribution expenses** Fixed (50,000 x 2,50,000/2,00,000) Variable (1,20,000 - 60,000)	 62,500 30,000	 92,500
Cost of sales/Total cost		7,77,500
(-) Loss		(27,500)
Sales		7,50,000

Statement of Reconciliation

Particulars	Amount ₹	Amount ₹
Profit as per Financial Accounts		10,000
Add:		
Less: Over recovery of factory overheads (1,35,000 - 1,20,000) Over recovery of office expenses (50,000 - 40,000) Over recovery of Selling & Distribution overheads (92,500 - 80,000)	15,000 10,000 12,500	 37,500
Loss as per Cost Accounts		27,500

Illustration 11 :

The following is the Trading and Profit and Loss account of M/s. Time and Trading limited for the year ended 31.12.2016.

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

Particulars	₹	Particulars	₹
To, Materials consumed	7,08,000	By, Sales A/c (30,000 units)	15,00,000
To, Direct Wages A/c	3,71,000	By, Finished stock A/c (1,000 units)	40,000
To, Works overheads A/c	2,13,000	By, Work-in-progress:	
To, Admn. overheads A/c	95,500	Materials	17,000
To, Selling and Distribution overheads A/c	1,13,500	Wages	8,000
To, Net profit	69,000	Works OH	5,000
	15,70,000		15,70,000

Manufacturing a standard unit, the company's cost records show that:

(i) Works overheads have been charged to work-in-progress at 20% on prime cost.

(ii) Administration overheads have been recovered at ₹3 per finished unit.

(iii) Selling and distribution overheads have been recovered at ₹4 per unit sold.

(iv) The unabsorbed or over absorbed overheads have not been adjusted into costing profit and loss account.

Prepare:

(a) A Costing Profit and Loss Account indicating Net Profit.

(b) A Statement Reconciling the Profit as disclosed by Cost Accounts and that shown in Financial Accounts.

Solution:

Costing Profit & Loss Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To, Materials To, Direct wages	7,08,000 3,71,000	By, Sales	15,00,000
Prime Cost	10,79,000		
To, Works OH (20%)	2,15,800		
	12,94,800		
(-) Closing WIP	30,000		
Works cost	12,64,800		
To, Administration OH's (31,000 x 3)	93,000		
Cost of Production	13,57,800		
(-) Closing stock (13,57,800 x 1,000/31,000)	43,800		
Cost of goods sold	13,14,000		
To, Selling expenses (30,000 x 4)	1,20,000		
	14,34,000		
To Profit	66,000		
	15,00,000		15,00,000

Statement of Reconciliation

Particulars	**Amount ₹**	**Amount ₹**
Profit as per Financial Accounts		69,000
Add: Under recovery of Admn. overheads (95,500 - 93,000) Over valuation of closing stock in Cost A/c's (43,800 - 40,000)	2,500 3,800	 6,300
Less: Over recovery of Works overheads (2,15,800 - 2,13,800) Over recovery of Selling & Distribution overheads (1,20,000 - 1,13,500)	2,800 6,500	 9,300
Profit as per Cost Accounts		66,000

Illustration 12 :

The financial profit and loss account of a manufacturing company for the year ended 31st March, 2017 is given below:

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

Particulars	₹	₹	Particulars	₹
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		Materials	30,000
W.I.P.	12,500	77,500	Finished stock	15,000
To, Purchases A/c		1,20,000	W.I.P.	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, Misc. Revenue A/c	26,800
To, Bad Debts A/c		15,600		
To, Net Profit A/c		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

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

Solution:

Dr. **Memorandum Reconciliation Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To, Over valuation of op. stock in Cost A/c	13,300	By, Profit as per financial A/c	1,32,400
To, Miscellaneous revenue	26,800	By, Over valuation of closing Stock in cost A/c	3,800
To, Profit as per cost A/c	1,32,200	By, Bad debts not considered in cost A/c.	15,600
		By, Admn. expenses not considered in cost A/c	20,500
	1,72,300		1,72,300

Illustration 13 :

The following figures have been extracted from financial accounts of a manufacturing firm for the first year of its operation.

	₹
Direct material consumption	50,00,000
Direct wages	30,00,000
Factory OH	16,00,000
Administration OH	7,00,000
Selling and distribution OH	9,60,000
Bad debts	80,000
Preliminary expenses written off	40,000
Legal charges	10,000
Dividends received	1,00,000
Interest on deposit received	20,000
Sales (1,20,000 units)	1,20,00,000
Closing stock	
Finished stock - 4,000 units	3,20,000
Work-in-progress	2,40,000

The cost accounts for the same period reveal that the direct material consumption was ₹56,00,000. Factory OH recovered at 20% on prime cost; Administration OH is recovered @ ₹6 per unit of production; Selling and Distribution OH are recovered at ₹8 per unit sold.

You are required to prepare Costing and Financial Profit and Loss Accounts and reconcile the difference in the profit in the two sets of accounts.

Solution:

Dr. **Costing P & L Accoount** **Cr.**

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To, Materials To, Direct wages	56,00,000 30,00,000	By, Sales	1,20,00,000
To, Prime cost	86,00,000		
To, Factory OH's (20%)	17,20,000		
	1,03,20,000		
(-) Closing WIP	2,40,000		
Factory Cost	1,00,80,000		
To, Admin. OH's (1,24,000 x 6)	7,44,000		
Cost of Production	1,08,24,000		
(-) Closing stock of FG (1,08,24,000 x 4,000/1,24,000)	3,49,161		
Cost of goods sold	1,04,74,839		
To, Selling overheads	9,60,000		
To, Profit	5,65,161		
	1,20,00,000		1,20,00,000

Dr. **Financial Trading and P & L Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To, Materials A/c	50,00,000	By, Dividend A/c	1,00,000
To, Wages A/c	30,00,000	By, Interest on deposit	20,000
To, Factory OH A/c	16,00,000	By, Sales A/c	1,20,00,000
To, Admn. OH A/c	7,00,000	By, Closing stock A/c	
To, S & D OH A/c	9,60,000	Finished goods	3,20,000
To, Bad debts A/c	80,000	WIP	2,40,000
To, Preliminary expenses written off	40,000		
To, Legal charges A/c	10,000		
To, Net Profit	12,90,000		
	12,68,000		12,68,000

Statement of Reconciliation

Particulars	Amount ₹	Amount ₹
Profit as per Financial Accounts		12,90,000
Add: Over valuation of cl. Stock of Finished goods in Cost Accounts	29,161	
Pure financial expenses not considered in Cost Accounts (80,000 + 40,000 + 10,000)	1,30,000	1,59,161
Less: Over recovery of material	6,00,000	
Over recovery of FOH	1,20,000	
Over recovery of AOH	44,000	
Financial incomes not considered in Cost Accounts.	1,20,000	8,84,000
Profit as per Cost Accounts		5,65,161

Illustration 14 :

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

Dr. **Trading and P & L Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To, Materials used	29,150.00	By, Sales A/c	75,000.00
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		
To, Gross Profit c/d	20,527.50	By, Work-in-progress:	
		Materials	2,800.00
		Labour	1,560.00
		Overheads	1,170.00
	82,342.50		82,342.50
To, Administration expenses A/c	13,650.00	By, Gross Profit b/d	20,527.00
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 Overhead Control of 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:

Dr. Factory Overhead Control Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To, GLA A/c	14,055	By, FG control (1550 x 8.25)	12,787.50
		By, WIP	1,170.00
		By, Under recovery	97.50
	14,055		14,055

Dr. Administration Overhead Control Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To, GLA A/c	13,650.000	By, FG (1550 x 9.0625)	14,046.875
To, Over recovery	396.875		
	14,046.875		14,046.875

Dr. Memorandum Reconciliation Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To, Over recovery of AOH	396.875	By, Profit as per Financial A/c	6,877.500
To, Profit as per Cost Accounts	**7,031.250**	By, Under recovery of FOH	97.500
		By, Over Valuation of Closing Stock in Cost Accounts (50 x 9.0625)	453.125
	7,428.125		7,428.125