



COST

ACCOUNTING

SYSTEM

CONCEPT NO. 1: INTRODUCTION

1.1 - Requirement for Cost Records

- Sec. 148 CA 2013: Central Government to Specify Audit of Items of Cost in Respect of Certain Companies
- Notified Date of Section: 01/04/2014
- Section 148 of the Companies Act, 2013 read with Companies (Cost Records and Audit) Rules, 2014 deals with provisions relating to maintenance of Cost Records and Cost Audit requirement.
- The Central Government by order has specified certain companies engaged in production of certain goods or services to which these rules are applicable.
- Cost audit benefits to identify the wasteful expenditure enabling the companies to augment cost competitiveness and profitability. Thus, cost audit benefits shareholders, consumers and society at large.

1.2 - Applicability of Cost Records (Rule 3)

Every company including foreign company

which is engaged in the production of goods or providing services as specified in Table 'A' (Regulated Sectors) & Table 'B' (Non-regulated Sectors)

having an overall turnover from all its products and services of ₹ 35.00 crore or more during the immediately preceding financial year

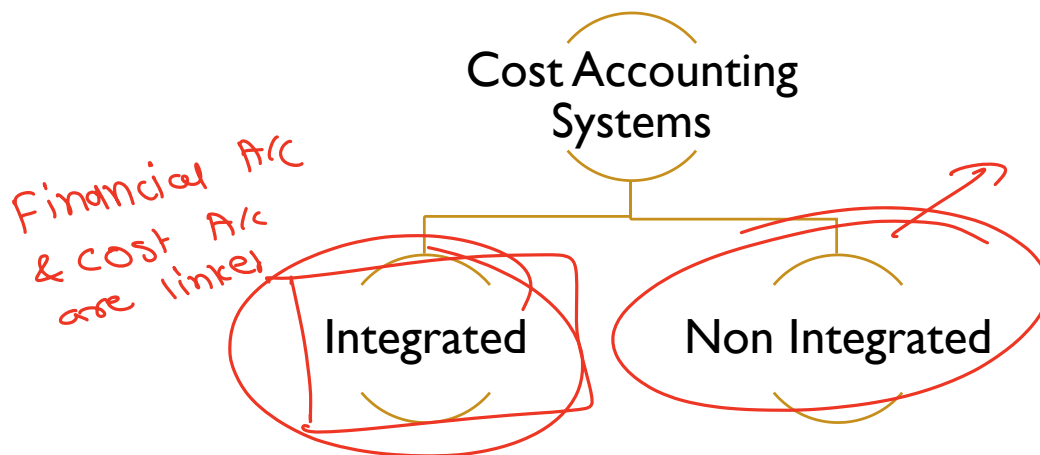
have to maintain the cost records for such products or services in their books of accounts in Form CRA-I.

1.3 - Application of Cost Audit (Rule 4)

Every company will have to get its cost records audited in accordance with rules, if:

Particulars	Table A (Regulatory)	Table B (Non-Regulatory)
Overall annual turnover from all its products and services during the immediately preceding financial year and	₹ 50.00 crore or more	₹ 100.00 crore or more
Aggregate turnover of the individual product or products or services or services for which cost records are required to be maintained	₹ 25.00 crore or more	₹ 35.00 cores or more

1.4 - Types of Costing Systems



Accounting system should state in clear terms whether cost and financial transactions should be integrated or kept separately (Non- integrated).

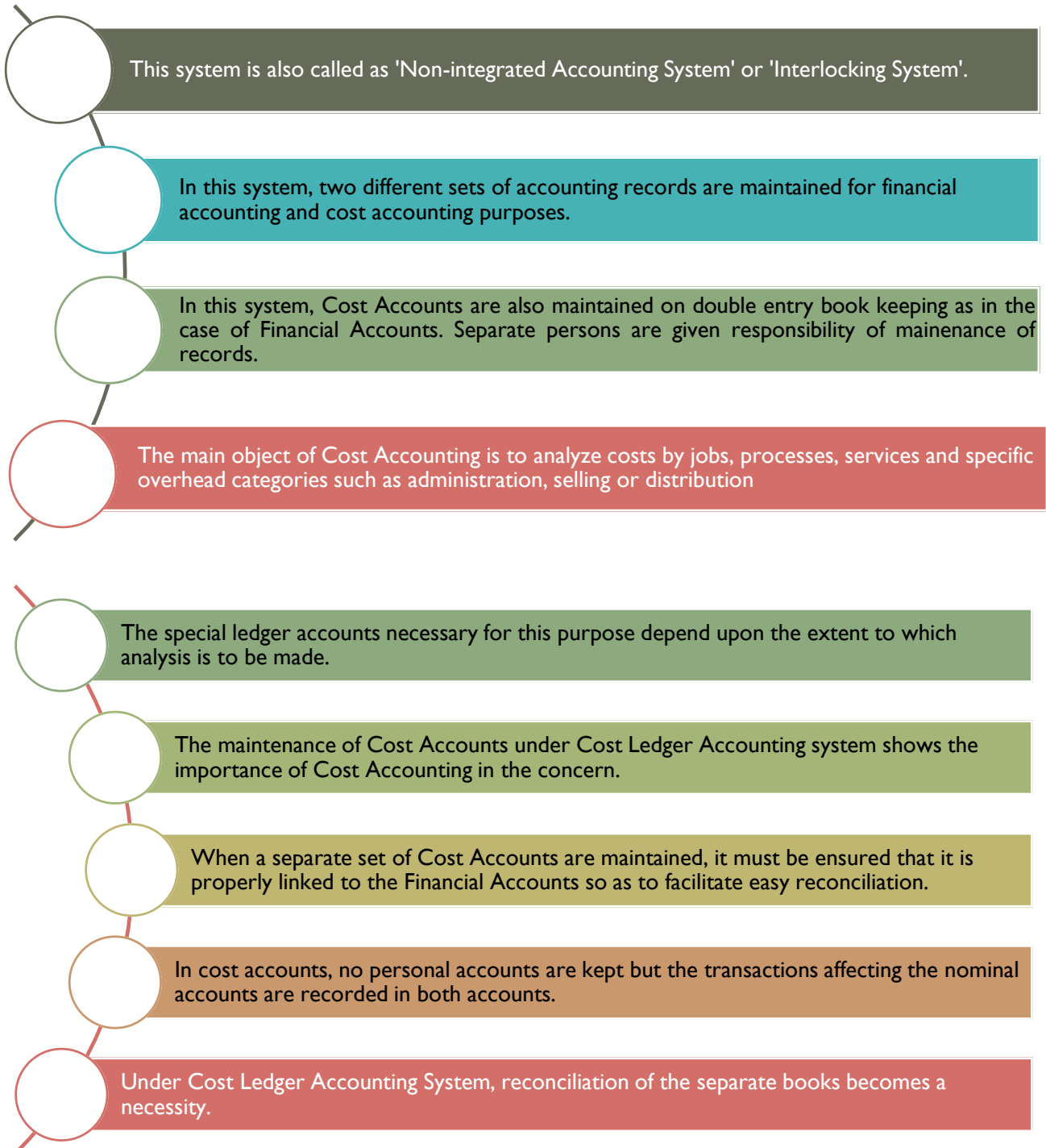
Where cost and financial accounting records are integrated, the system so evolved is known as integrated or integral accounting.

In case cost and financial transactions are kept separately, the system is called Non-Integrated Accounting or Cost Ledger Accounting System.

While non-integrated system of accounting necessitates reconciliation between financial and cost accounts, no reconciliation between two sets of accounts is required under integrated accounting.

CONCEPT NO. 2: COST LEDGER ACCOUNTING SYSTEM

2.1 - Key Features of Cost Ledger Accounting System



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2.2 - Principal Ledgers in Cost Ledger Accounting System

Stores Ledger

- It contains all the accounts relating to the raw materials (Direct + Indirect), components etc.

Work in Progress Ledger

- It contains separate account for each job/ work in progress.

Finished Goods Ledger

- It contains a separate account for each item of finished product.

General / Cost Ledger

Real/Personal

- It contains all the accounts for various expenses, sales, profit and loss and the control accounts.

2.3 - Important Accounts in Cost Ledger Accounting System



2.4 - Formats of Various Control Accounts

Cost Ledger Control A/c

Particulars	₹	Particulars	₹
To Costing profit and loss A/c (sales)	xxx	By Balance b/d	xxx
To Balance c/d	xxx	By Stores ledger control A/c	xxx
		By Wages control A/c	xxx
		By Production overhead A/c	xxx
		By Administration overhead A/c	xxx
		By Selling and distribution overhead A/c	xxx
		By Costing profit and loss A/c (profit)	xxx
	xxx		xxx

Stores Ledger Control A/c

Particulars	₹	Particulars	₹
To Balance b/d	xxx	By WIP ledger control A/c	xxx
To Cost ledger control A/c (Purchases)	xxx	By Production overhead A/c	xxx
		By Administration overhead A/c	xxx
		By Selling and distribution overhead A/c	xxx
		By Balance c/d	xxx
	xxx		xxx

Work-in-Progress Ledger Control A/c

Particulars	₹	Particulars	₹
To Balance b/d	xxx	By Finished goods ledger control A/c (transfer)	xxx
To Stores ledger control A/c	xxx	By Balance c/d	xxx
To Wages control A/c	xxx		
To Production overhead A/c	xxx		
	xxx		xxx

Finished Goods Ledger Control A/c

Particulars	₹	Particulars	₹
To Balance b/d	xxx	By Cost of sales A/c (transfer)	xxx
To Administrative overhead A/c (Related to Production)	xxx	By Balance c/d	xxx
To WIP ledger control A/c (transfer)	xxx		
	xxx		xxx

Wages Control A/c

Particulars	₹	Particulars	₹
To Cost ledger control A/c	xxx	By WIP ledger control A/c	xxx
		By Production overhead A/c	xxx
	xxx		xxx

Production Overhead A/c

Particulars	₹	Particulars	₹
To Balance b/d	xxx	By WIP ledger control A/c	xxx
To Stores ledger control A/c	xxx	By Balance c/d	xxx
To Wages control A/c	xxx		
To Cost ledger control A/c	xxx		
	xxx		xxx

Note: Under/Over Absorption is assumed to be carried forward.

Administration Overhead A/c

Particulars	₹	Particulars	₹
To Stores ledger control A/c	xxx	By Balance b/d	xxx
To Cost ledger control A/c	xxx	By Finished goods ledger control A/c	xxx
To Balance c/d	xxx	By Cost of sales A/c	xxx
	xxx		xxx

Note: Under/Over Absorption is assumed to be carried forward.

Selling and Distribution Overhead A/c

Particulars	₹	Particulars	₹
To Stores ledger control A/c	xxx	By Balance b/d	xxx
To Cost ledger control A/c	xxx	By Cost of sales A/c	xxx
To Balance c/d	xxx		
	xxx		Xxx

Note: Under/Over Absorption is assumed to be carried forward.

Cost of Sales A/c

Particulars	₹	Particulars	₹
To Finished goods ledger control A/c (transfer)	xxx	By Costing profit and loss A/c (transfer)	xxx
To Selling and distribution overhead A/c	xxx		
To Administration overhead A/c	xxx		
	xxx		xxx

Costing Profit and Loss A/c

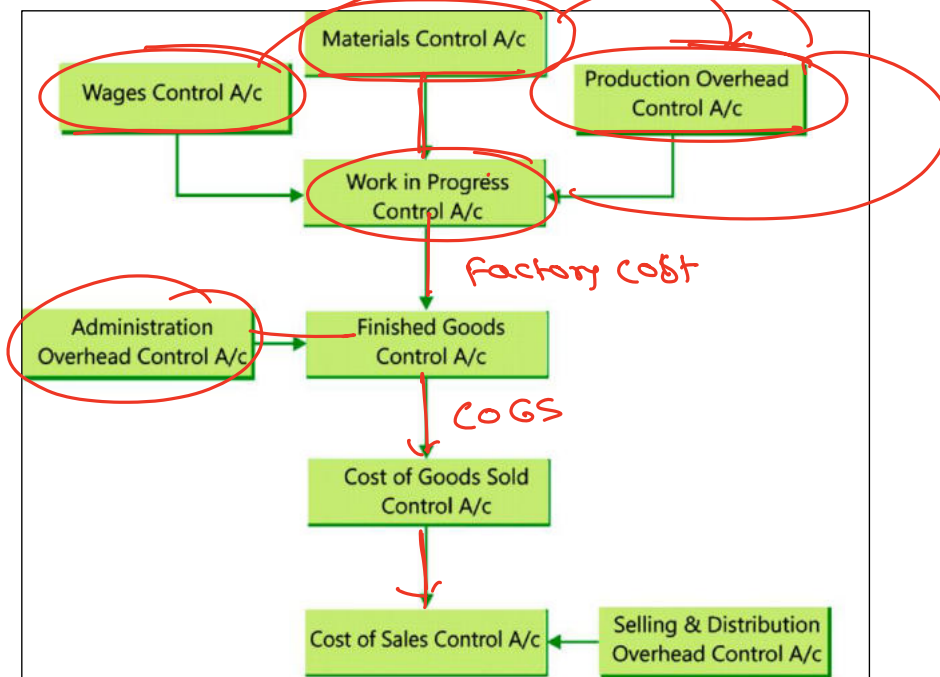
Particulars	₹	Particulars	₹
To Cost of sales A/c (transfer)	xxx	By Cost ledger control A/c (sales)	xxx
To Cost ledger control A/c (profit)	xxx		
	xxx		xxx

Note: Abnormal items, UA/OA will also come in addition to above.

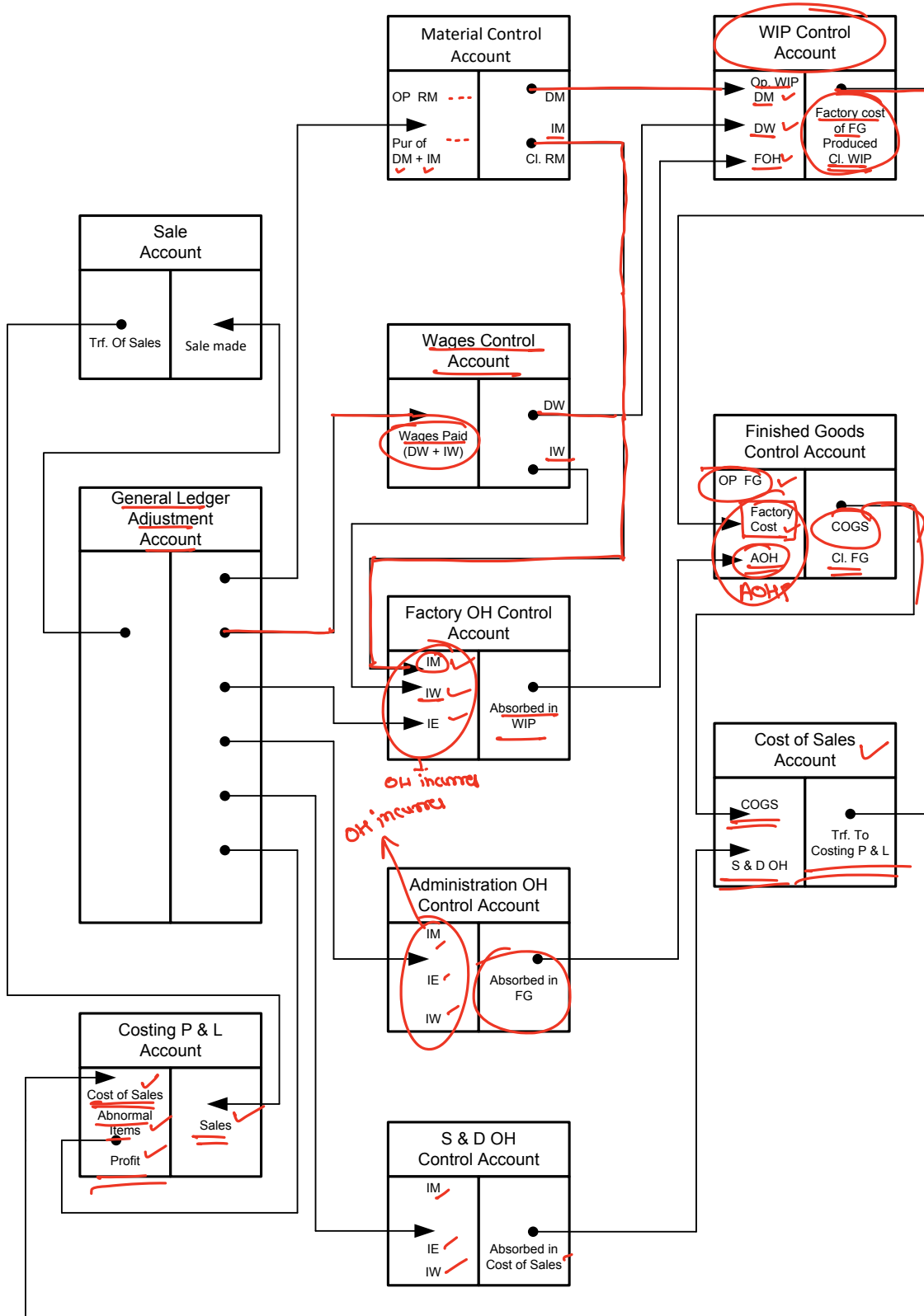
Trial Balance as on 31st March,

Particulars	Debit (₹)	Credit (₹)
Stores ledger control A/c	xxx	
Work-in-progress ledger control A/c	xxx	
Finished goods ledger control A/c	xxx	
Production overhead A/c		xxx
Administration overhead A/c	xxx	
Selling and distribution overhead A/c	xxx	
Cost ledger control A/c		xxx
	xxx	xxx

2.5 - Diagrammatic Presentation of Flow in Cost Ledger Accounting System

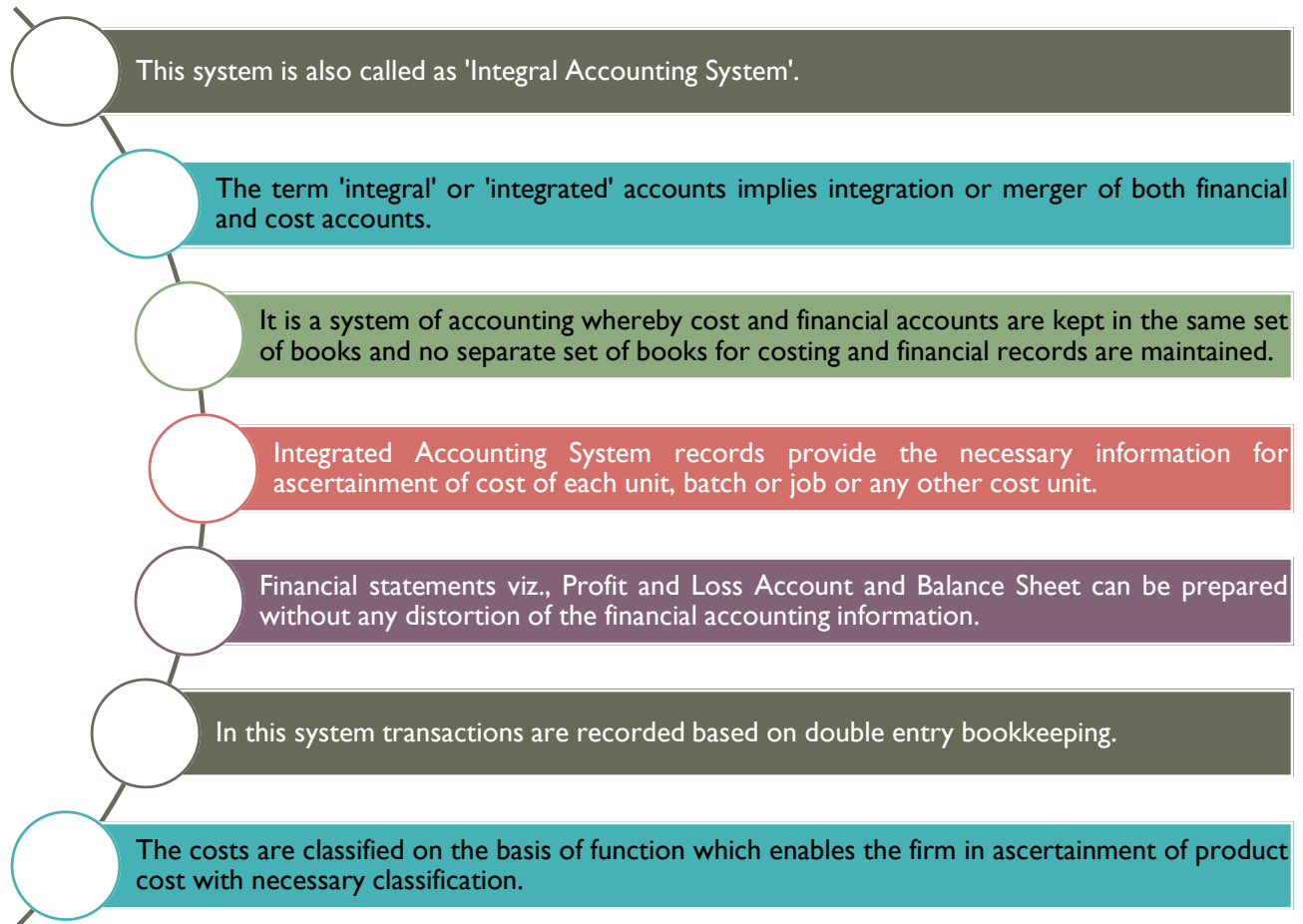


2.6 – Overview of The Non-Integrated System

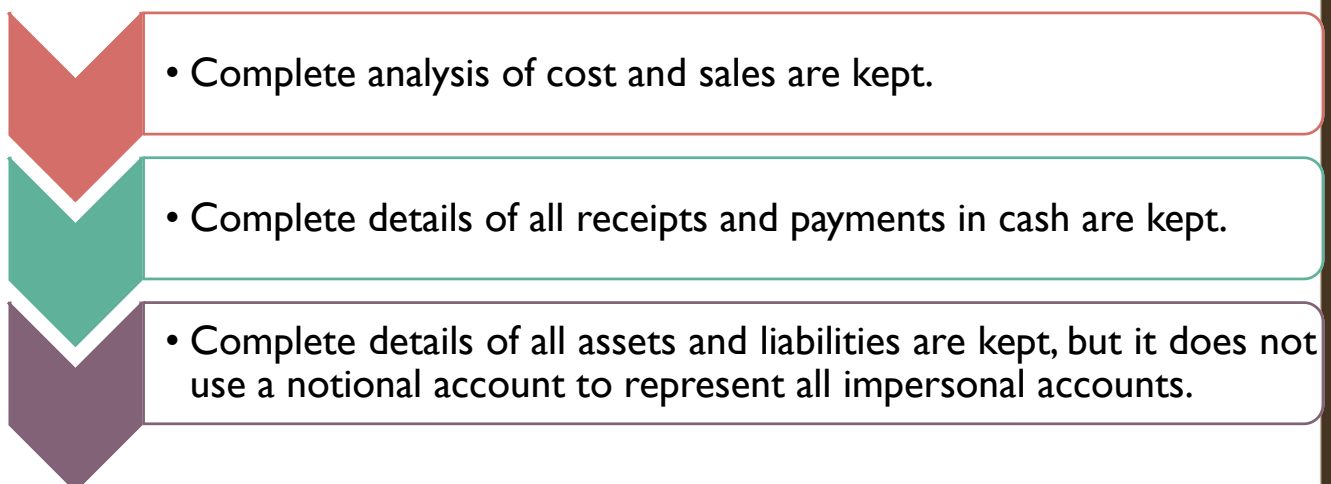


CONCEPT NO. 3: INTEGRAL SYSTEM OF ACCOUNTING

3.1 - Meaning of Integrated System



3.2 - Features



Examples:

- (a) The purchase of raw material is analyzed by its nature and directly posted into Stores Ledger Control Account, Work-in-progress Ledger Control Account or Overhead Account. In pure financial accounting we just debit purchase Account.
- (b) Similarly the payment of direct wages, posting is directly made into Wages Control Account or Overheads Control Account.

3.3 - Advantages of Integrated System

① In this system only one set of accounts are maintained and there will be single profit figure. The necessity of preparation of reconciliation statement does not arise.

② The maintenance of one set of accounts avoids the duplication of efforts and substantial time and expense is saved.

There will not be any delay in getting information from the accounting records for financial and costing purposes.

This system can be more advantageous only if operated in computerized environment and mechanized accounting.

With the integration of cost and financial accounts, centralization of accounting and information is possible and it saves both time and expense.

The simplification of accounting procedures helps in better control of the operations.

It furnish all information regarding cost of each product, job or operation and variances will also be highlighted for effective control purpose.

3.4 - Essential pre-requisites for integrated accounts

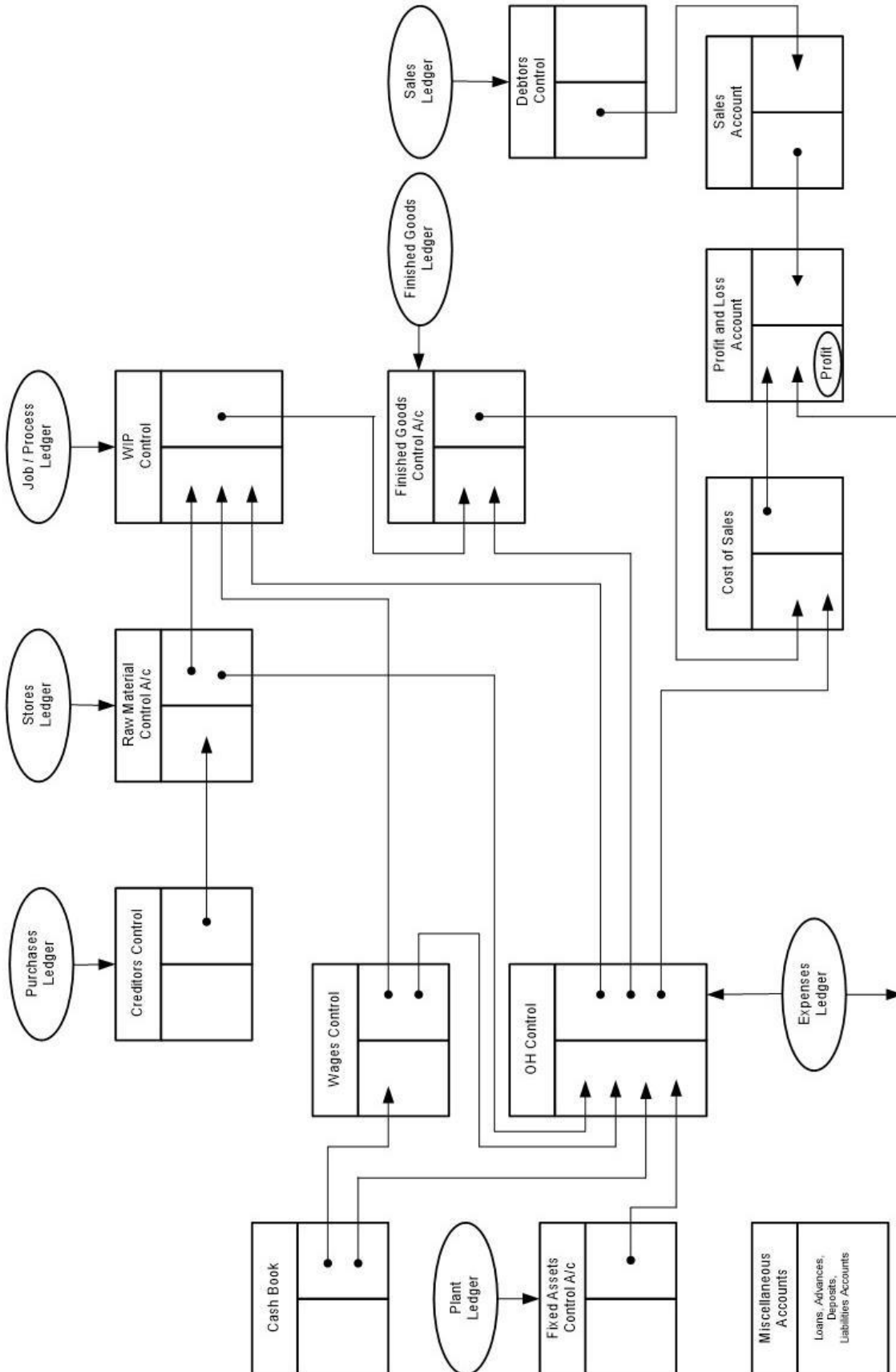
The management's decision about the extent of integration of the two sets of books.

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

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

Perfect coordination should exist between the staff responsible for the financial and cost accounts and an efficient processing of accounting document should be ensured.

3.5 - Overview of Integrated System



CONCEPT NO. 4: JOURNAL ENTRIES

Sr. No.	Transaction	Cost Ledger Accounting (Non-Integrated Accounting)	Integral Accounting
1.	Purchase of material (Direct + Indirect)	Store ledger control A/c. ...Dr. To General Ledger Adj. A/c.	Store ledger control A/c. ...Dr. To Creditors / Cash A/c.
2.	Purchase of material for direct use in Job or process	Work-in-progress A/c. ...Dr. To General Ledger Adj. A/c.	Work-in-progress A/c. ...Dr. To Creditors / Cash A/c.
3.	Purchase of materials for immediate repair work	Factory overhead Control A/c...Dr. To General Ledger Adj. A/c.	Factory OH Control A/c.Dr. To Creditors / Cash A/c.
4.	Return of materials to suppliers	General Ledger Adj. A/c. ...Dr To Store Ledger Control A/c.	Creditors / Cash A/c. ...Dr. To Store Ledger Control A/c
5.	Payment to creditors	No Entry	Creditors A/c. ...Dr. To Cash/Bank A/c.
6.	Issue of direct materials for production	Work-in-progress A/c. ...Dr. To Store Ledger Control A/c.	Work-in-progress A/c. ...Dr. To Store Ledger Control A/c.
7.	Issue of material for capital order	Capital WIP A/c. ...Dr. To Store Ledger Control A/c.	Capital work-in-progress A/c. ...Dr. To Store Ledger Control A/c
8.	Issue of Indirect materials to shops <i>In</i>	Factory OH Control A/c. ...Dr. Admin OH control A/c.Dr. S & D OH control A/c To Store Ledger Control A/c.	Factory OH Control A/c. ...Dr. Admin OH control A/c.Dr. S & D OH control A/c To Store Ledger Control A/c.
9.	Return of direct materials to stores	Store Ledger Control A/c. ...Dr. To Work-in-progress A/c.	Store Ledger Control A/c. ...Dr. To Work-in-progress A/c.
10.	Return of Indirect materials to stores	Store Ledger Control A/c. ...Dr. To Factory OH Control A/c. To Admin OH Control A/c To S & D OH Control A/c	Store Ledger Control A/c. ...Dr. To Factory OH Control A/c. To Admin OH Control A/c To S & D OH Control A/c
11.	Materials transfers	No entry required except internal recording in the respective job ledger.	No entry required except internal recording in the respective job ledger.

Sr. No.	Transaction	Cost Ledger Accounting (Non-Integrated Accounting)	Integral Accounting
12.	Abnormal loss of material, pilferage spoilage etc.	Costing Profit and Loss A/c ...Dr. To Store Ledger Control A/c.	Profit and Loss A/c ...Dr. To Store Ledger Control A/c.
13.	Payment of wages (Direct + Indirect)	Wage control A/c ...Dr. To General Ledger Adj. A/c.	Wage control A/c ...Dr. To Bank A/c.
14.	Analysis and distribution of wages	Work-in-progress A/c ...Dr. (DW) Capital WIP A/c ...Dr. (C) Factory OH control A/c ...Dr. Admin OH control A/c ...Dr. Selling & Distr. OH control A/c Dr To Wage Control A/c.	Work-in-progress A/c ...Dr. Capital work-in-progress A/c ...Dr. Factory overhead control A/c ...Dr. Admi. OH control A/c ...Dr. Selling & Distr. OH control A/c Dr. To Wage Control A/c.
15.	Payment of Indirect expenses / providing for depreciation <i>OH insured</i>	Factory OH control A/c ...Dr. Admi. OH control A/c Dr. Selling & Distr. OH control A/c Dr. To General Ledger Adj. A/c.	Factory overhead control A/c ...Dr. Admi. OH control A/c Dr. Selling & Distr. OH control A/c Dr. To Creditors / Cash A/c. To Fixed Asset A/c.
16.	Absorption of factory overheads	Work-in-progress A/c ...Dr. To Factory OH Control A/c	Work-in-progress A/c ...Dr. To Factory OH Control A/c.
17.	Transfer of manufactured goods (At factory cost)	Finished Goods Control A/c ...Dr. To Work-in-progress A/c.	Finished Goods Control A/c ...Dr. To Work-in-progress A/c.
18.	Absorption of administration overhead (See Note 1 & 2)	Finished Goods Control A/c ...Dr. To Admin OH control A/c.	Finished Goods Control A/c ...Dr. To Admi. OH control A/c.
19.	Cost of goods sold <i>Transfer of COGS</i>	Cost of sales A/c ...Dr. To Finished Goods Control A/c.	Cost of Sales A/c ...Dr. To Finished Goods Control A/c.
20.	Absorption of selling and distribution overheads	Cost of sales A/c ...Dr. To Selling and distr. OH control A/c	Cost of Sales A/c ...Dr. To Selling and distr. OH control A/c
21.	Sales	General Ledger Adj. A/c ...Dr. To Sales A/c.	Cash/Debtors A/c ...Dr. To Sales A/c.
22.	Transfer of cost of sales	Costing Profit and Loss A/c ...Dr. To Cost of Sales A/c.	Profit and Loss A/c ...Dr. To Cost of Sales A/c.
23.	Transfer of Sales	Sales A/c ...Dr. To Costing Profit and Loss A/c	Sales A/c ...Dr. To Profit and Loss A/c

Sr. No.	Transaction	Cost Ledger Accounting (Non-Integrated Accounting)	Integral Accounting
24.	<u>Under absorption of overheads</u> (See Note 3)	✓ Costing Profit and Loss A/c ...Dr. ✓ Finished Goods A/c ...Dr. ✓ Work-in-progress A/c ...Dr. ✓ Cost of Sales A/cDr. Overhead suspense A/c ...Dr. To <u>Respective OH control A/c.</u>	Profit and Loss A/c ...Dr. Finished Goods A/c ...Dr. Work-in-progress A/c ...Dr. Overhead suspense A/c ...Dr. Cost of Sales A/c ...Dr. To <u>Respective OH control A/c.</u>
25.	<u>Over absorption of overheads</u>	Reverse Entry No. 24	Reverse Entry No. 24
26.	<u>Transfer of Capital Asset</u>	General Ledger Adj. A/c ...Dr. To Capital Work-in- progress	Capital Asset A/c ...Dr. To Capital Work-in-progress
27.	<u>Transfer of Profit</u> (optional)	Costing Profit and Loss A/c ...Dr. To General Ledger Adj. A/c.	Profit and Loss A/c ...Dr. To Proprietor's Capital A/c.

Notes:

- Administrative overheads may be treated as cost of manufacture. In that case administrative overheads may be absorbed to Work-in-progress account instead of Finished Goods account
- Administrative overheads may be treated as cost of sales. In that case administrative overheads are transferred to Cost of Sales account instead of Finished Goods account. **AOHG**

Basically Treatment of Admin OH depends upon nature of Admin overheads.

3. A. Entries for under Absorption:

Sr. No.	Method	Accounting Entry
1.	<u>Carry forward of under Absorption</u>	No Entry <u>OR</u> Respective overhead suspense A/c To <u>Respective overhead control A/c.</u> In next year this entry will be reversed.
2.	<u>Transfer to Costing P & L</u> (Abnormal VA)	Costing P & L A/c. Dr. To <u>Respective overhead control A/c</u>
3.	<u>Use of Supplementary Rate</u> (Normal VA)	WIP control A/c. Dr. Finished Goods Control A/c. Dr. Cost of Sales A/c. Dr. To <u>Respective Overhead Control A/c.</u>

Ratio of Eq. units

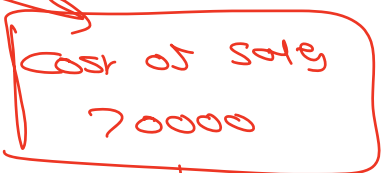
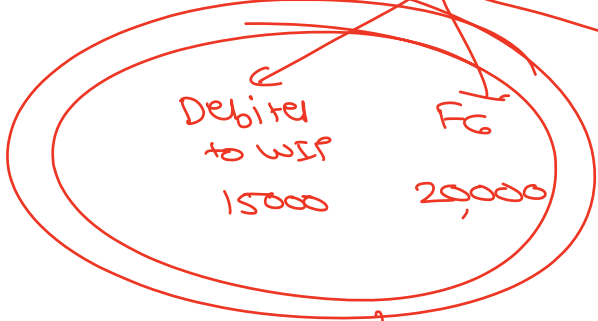
B. Entries for over Absorption.

Reverse Above entries.

OH incurred
5,00,000

OH Absorbed
3,95,000

₹ 1,05,000



This will come
in Reco

This will
not come
in Reco.

CONCEPT NO. 5: RECONCILIATION OF COST AND FINANCIAL ACCOUNTS

5.1 - Concept

When the cost and financial accounts are kept separately, it is imperative that those should be reconciled, otherwise the cost accounts would not be reliable.

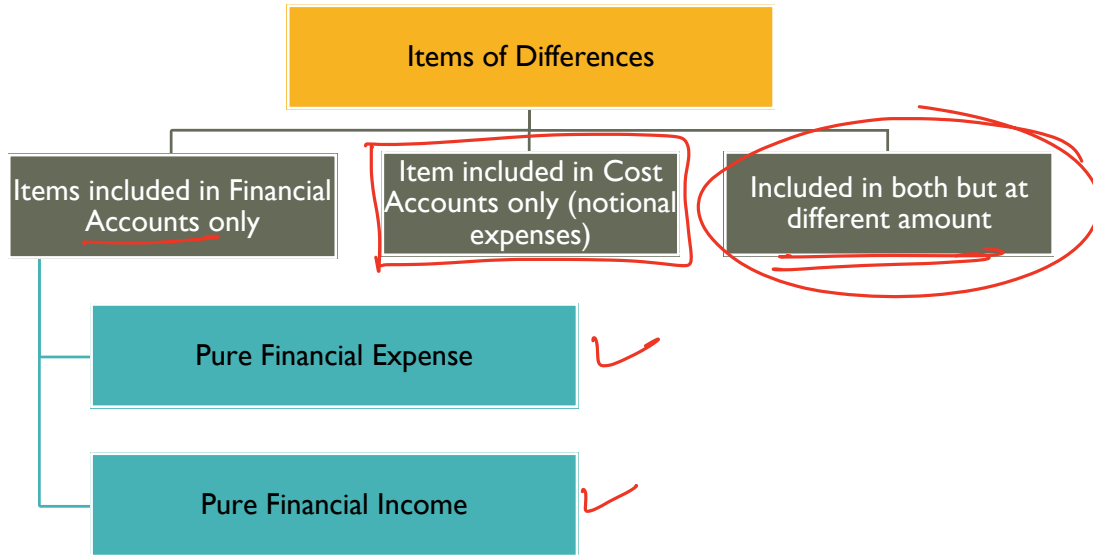
In this connection, it is necessary to remember that a reconciliation of the two sets of accounts only can be made if both the sets contain sufficient details as would enable the causes of differences to be located.

It is, therefore, important that in the financial accounts, the expenses should be analysed in the same way as in the cost accounts.

Because of maintenance of two sets of accounts and different approach in cost accounts, profit or loss revealed in financial accounts may not agree with the profit or loss as per cost accounts.

It is therefore necessary to reconcile profit as per cost and financial accounts.

5.2 – Analysis of Differences



I. Items included in Financial Accounts only:

(a) Purely Financial Expenses

- ~~(i)~~ Interest on loans or bank mortgages.
- ~~(ii)~~ Expenses and discounts on issue of shares, debentures etc.
- ~~(iii)~~ Other capital losses i.e., loss by fire not covered by insurance etc.
- ~~(iv)~~ Losses on the sales of fixed assets and investments
- ~~(v)~~ Goodwill written off
- ~~(vi)~~ Preliminary expenses written off
- ~~(vii)~~ Income tax, donations, subscriptions
- ~~(viii)~~ Expenses of the company's share transfer office, if any.

(b) Purely Financial Income

- ~~(i)~~ Interest received on bank deposits, loans and investments
- ~~(ii)~~ Dividends received
- ~~(iii)~~ Profits on the sale of fixed assets and investments
- (iv) Transfer fee received.
- (v) Rent receivables

2. Item included in Cost Accounts only (notional expenses):

- (i) Charges in lieu of rent where premises are owned
- (ii) Interest on capital at notional figure though not incurred
- (iii) Salary for the proprietor at notional figure though not incurred
- (iv) Notional Depreciation on the assets fully depreciated for which book value is nil.

3. Items whose treatment is different in the two sets of accounts:

The objective of cost accounting is to provide information to management for decision making and control purposes while financial accounting conforms to external reporting requirements. Hence there are chances that certain items are treated differently in the two sets of accounts. Examples are given below:

- **Inventory valuation Methods**

Different methods of valuation of closing stock adopted in Cost Accounts and Financial Accounts will also cause a difference in the results shown by the two sets of books. In Financial Accounts the method generally followed is cost or market price, whichever is less whereas in Cost Accounts different methods of pricing of material issues such as LIFO, FIFO, average cost etc. are used. Also amounts of costs considered can also be different in different books.

Impact on Profits	Cost Accounts	Financial Accounts
Over valuation of Opening Stock in Cost Accounts	Decrease	Increase
Under valuation of Opening Stock in Cost Accounts	Increase	Decrease
Over valuation of Closing Stock in Cost Accounts	Increase	Decrease
Under valuation of Closing Stock in Cost Accounts	Decrease	Increase

- **Depreciation Methods**

Use of different methods of depreciation is also responsible for the variation of profit of Depreciation shown by two sets of books. In Financial Accounts, depreciation may be charged according to written down value method whereas in Cost Accounts it may be charged on the basis of the Machine hour method.

Impact on Profit	Cost Accounts	Financial Accounts
Over charged in Cost Accounts	Decrease	Increase
Under charged in Cost Accounts	Increase	Decrease

- **Overhead Treatment**

In Financial Accounts the actual overheads incurred will be accounted. But in Cost of Overhead Accounts for ascertainment of cost of production and profitability of cost unit, predetermined overhead absorption rates like machine hour rate, direct labour hour rate, percentage of direct material etc. are used for absorption of overheads. The absorption of overheads in Cost Accounts may be under or over recovered than the actual overheads incurred.

Impact on Profit	Cost Accounts	Financial Accounts
Over absorption of overheads in Cost Accounts	Decrease	Increase
Under absorption of overheads in Cost Accounts	Increase	Decrease

5.3 - Common Sense issues on preparation of Reconciliation Statement

1. Analogy of BRS

<u>BRS</u>	<u>Costing</u>
a) Cash Book, Pass Book	a) Costing P&L, Financial P&L
b) Balance, Overdraft	b) <u>Profit</u> or <u>Loss</u>
c) <u>Deposit</u> , <u>withdrawals</u>	c) <u>Income</u> , <u>Expense</u>

2. What should be starting Point?

- | | |
|-------------------|---------------------|
| a) Costing profit | c) Financial Loss |
| b) Costing Loss | d) Financial Profit |

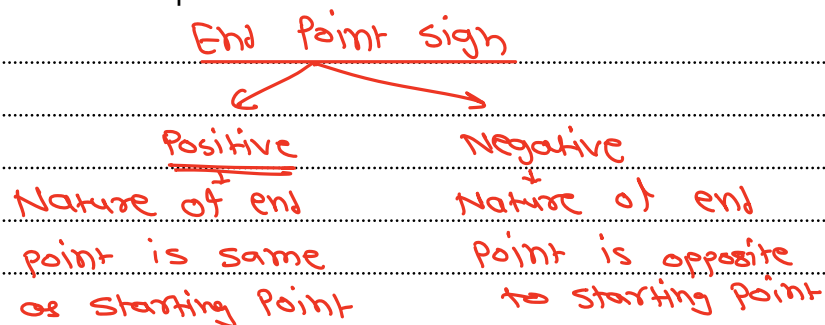
3. What should be sign of Starting Point?

Assumed to be positive even if starting point is loss.

4. How to decide + or - Sign for differences?

- We assume same profit / Loss as per both books.
- We consider impact of transaction on profit / Loss as per both books
- We go from starting point to end point to decide sign of difference.

5. How to decide nature of end point?



5.4 - Memorandum Reconciliation Account

↓
It is not a Account but just a different form of presenting Reconciliation statement.

↓

Starting point	- - -		
	+	Items having	
Items having		- as sign	- - -
+ as sign	- - -		
	+		

End Point can be either Debit Balance or Credit Balance.

Debit Balance	Credit Balance
↓	↓
Nature of end point is same as starting point	Nature of end point is opposite to starting point.

Notes:

1. Entries for sale Returns

(a) Sale A/c. Dr.	}	At Sale Value
To Customers A/c.		
(b) FG Stock A/c. Dr.	}	At Cost
To Cost of Sales.		
2. If overhead control Account has opening balance, then it means that entity is carrying forward amount of UA/OA.
Balance may be there in Overhead A/c or Overhead Suspense A/c Both are same.
3. If Overhead Control A/c does not have balance then it means, UA/OA is transferred to costing P&L.
4. Prepaid / Outstanding overhead and Under/over Absorption are Hindustan & Pakistan.
5. Absorption rate and wage rate are Hindustan & Pakistan.
6. Points to be noted while making Cost Sheet –
 - (a) In Costing we consider overheads absorbed. Hence there would be UA/OA. If UA/OA is transferred to Costing P&L, we calculate adjusted cost of sales and in this case UA/OA won't appear in Reconciliation Statement. However, if UA/OA is carried forward to next year then amount of UA/OA will appear in Reconciliation Statement.
 - (b) Material consumption cost per unit can be different in costing due to differences in inventory valuation methods.
 - (c) Selling Distribution OH are incurred w.r.t. Qty. sold.
 - (d) FG inventory is required to be Valued as per Costing records using either FIFO or Weighted Average Method.
7. Physical Qty. of Goods produced, sold, in Stock is always same as per costing records and financial records.
8. If one Book shows profit and other book shows loss then signs don't change.

CLASS + HOME EXERCISE

PRACTICE PROBLEMS

☞ TYPE 1 - NON-INTEGRAL ACCOUNTING ☞

Pl. Date: NB Pg. No. Stars: ★★★ Exam: (Inter)

From the following data write up the various accounts as you envisage in the cost ledger and prepare a trial balance as on 31st March 1984.

(a) **Balance as on 1st April 1983:**

	₹ (in thousands)	
Material Control	1,240	→ RM inventory
Work-in-Progress	625	→ WIP - 71 -
Finished Goods	1,240	→ FG - 11 -
Production Overhead	84	
Administrative Overhead	120 (cr.)	
Selling & Distribution Overhead	65	
General Ledger control	3,134 (cr.)	

(b) **Transactions for the year ended 31st March 1984:**

Material:		
+	Purchases	4,801
Issued to:		
+	Jobs	4,774
+	Maintenance works	412
+	Administration offices	34
	Selling Department	72
<hr/>		
	Direct Wages	1,493
	Indirect Wages	650
	Carriage Inward	84
Production Overheads:		
	Incurred	2,423
	Absorbed	3,591
Administration overheads:		

Handwritten notes: POH, AO, S&D OH, POH, IE, OA = 1168

Incurring	740
Allocated to Production	AOH P 529
Allocated to sales	AOH G 148
Sales overheads:	
<u>Incurring</u>	642
<u>Absorbed</u>	820
<u>Finished goods produced</u>	9,584
<u>Finished goods sold</u>	9,773
Sales realisation	12,430

P2. Date: NB Pg. No. Stars: Exam: (Inter) (Nov. 1998) (8 Marks)

The following balances were extracted from a company's ledger as on 31st December 1997.

	₹	₹
Raw materials control A/c	48,836	
Work-in-progress control A/c	14,745	
Finished stock control A/c	21,980	
General ledger control A/c		85,561
	85,561	85,561

Since OH are missing from op. Trial Balance it means they are transferred to costing P&L or supplementary rate is used.

Further transaction took place during the following quarter as follows:

	₹
<u>Factory overhead – allocated to WIP</u>	11,786
<u>Goods Finished – at cost</u>	36,834
Raw materials purchased	22,422
<u>Direct wages - allocated to WIP</u>	18,370
Cost of goods sold	42,000
Raw materials – issued to production	17,000
Raw materials – credited by suppliers (Pur. Returns), 000	
Inventory audit – raw material losses	1,300
WIP rejected (<u>with no scrap value</u>)	1,800
Customer's <u>returns (at cost)</u> of finished goods	3,000

WIP to FOH
FG to WIP
Stores to GLA
Wages to GLA + WIP to wages
Cost of sales to FG
WIP to stores
GLA to stores
Costing P&L to stores
Costing P&L to WIP
FG to Cost of Sale

Prepare all the Ledger Accounts in Cost Ledger,

P3. Date: NB Pg. No. Stars: ★★★

A Company operates separate cost accounting and financial accounting systems. The following is the list of opening balances as on 1.04.2013 in the Cost Ledger.

	Debit (₹)	Credit (₹)
Stores Ledger Control Account	53,375	--
WIP Control Account	1,04,595	--
Finished Goods Control Account	30,780	--
General Ledger Adjustment Account	--	1,88,750

Transactions for the quarter ended 30.06.2013 are as under:

	(₹)	(COGS = 204800)
Materials purchased	26,700	
Materials issued to production	40,000	
Materials issued to factory for repairs	900	
Factory wages paid (including indirect wages ₹ 23,000) <i>Direct</i>	77,500	54,500
Production overheads incurred	95,200	
Production overheads under-absorbed and written-off	3,200	

Sales 2,56,000

The Company's gross profit is 25% on Cost of Sales. At the end of the quarter, WIP stocks increased by ₹ 7,500. *1/4 of cost 1/5 of sales*

Prepare the relevant Control Accounts, Costing Profit & Loss Account and General Ledger Adjustment Account to record the above transactions for the quarter ended 30.06.2013.

P4. Date: NB Pg. No. Stars:

As of 31st March, 2014, the following balances existed in a firm's cost ledger, which is maintained separately on a double entry basis:

	Debit (₹)	Credit (₹)
Stores Ledger Control A/c	3,00,000	-
Work-in-progress Control A/c	1,50,000	-
Finished Goods Control A/c	2,50,000	-
Manufacturing Overhead Control A/c <i>→ C/f</i>	-	15,000
Cost Ledger Control A/c	-	6,85,000
	7,00,000	7,00,000

During the next quarter, the following items arose:

	(₹)	
Finished Product (at cost) <i>FG TO WIP</i>	2,25,000	
Manufacturing overhead incurred <i>FOH TO GLA</i>	85,000	
Raw material purchased <i>Stores TO GLA</i>	1,25,000	
Factory wages <i>Wages TO GLA</i>	40,000	<i>WIP TO Wages</i>
Indirect labour <i>Wages TO GLA</i>	20,000	<i>FOH TO Wages</i>
Cost of sales <i>Cost of Sales TO FG</i>	1,75,000	

*Trial Bal
9,42,000*

Materials issued to production	<i>WIP TO Storey</i>	1,35,000
Sales returned (at cost)	<i>FG TO Cost of sales</i>	9,000
Materials returned to suppliers	<i>GLA TO Storey</i>	13,000
Manufacturing overhead charged to production	<i>WIP TO FOH</i>	85,000

You are required to prepare the Cost Ledger Control A/c, Stores Ledger Control A/c, Work-in-progress Control A/c, Finished Stock Ledger Control A/c, Manufacturing Overhead Control A/c, Wages Control A/c, Cost of Sales A/c and the Trial Balance at the end of the quarter.

P5. Date: NB Pg. No. Stars:

Following information have been extracted from the cost records of XYZ Pvt. Ltd.

Stores:		(₹)
Opening balance		54,000 ✓
Purchases	<i>Stores TO GLA</i>	2,88,000 ✓
Transfer from WIP	<i>(Return from Shop Floor)</i>	1,44,000 ✓
Issue to WIP	<i>WIP TO Storey</i>	2,88,000 -
Issue for repairs	<i>FOH TO Storey</i>	36,000 -
Deficiency found in stock	<i>Abnormal Loss</i>	10,800 - <i>Costing TO Storey P/L</i>
Work-in-progress:		
Opening balance		1,08,000 -
Direct wages applied		1,08,000 ✓
Overheads charged	<i>WIP TO FOH</i>	4,32,000 -
Closing balance		72,000 -
Finished Production:		
Entire production is sold at a profit of 15% on cost of WIP		1,26,000 ✓
Wages paid		4,50,000 -

Factory Cost 1,08,000
Indirect Wages 18,000

Draw the Stores Ledger Control Account, Work-in-Progress Control Account, Overheads Control Account and Costing Profit and Loss Account.

P6. Date: NB Pg. No. Stars:

Aamir Enterprises operates an non integral system of accounting. You are required to pass the journal Entries for the following transactions that took place for the year ended 31st March, (Narration's are not required)

	₹	
Raw materials purchased (50% on credit)	6,00,000	<i>SLA TO GLA</i>
Materials issued to production	4,00,000	<i>WIP TO SLA</i>
Wages Paid (50% direct)	2,00,000	<i>Wages TO GLA 2,00,000</i>
Wages charged to production	1,00,000	<i>WIP 1,00,000</i>
Factory overheads incurred	80,000	<i>FOH 1,00,000 TO WAGES</i>

FOH TO GLA

	₹
Factory overheads charged to production	1,00,000
Selling & Distribution overheads incurred	40,000
Finished Goods produced at cost	5,00,000
Sales (50% credit)	7,50,000
Closing Stock	Nil
Receipts from Debtors	2,00,000
Payments to Creditors	2,00,000

WIP TO FOH
S&D OH TO GLA
FG TO WIP
GLA TO Sales

No entry

P7. Date: NB Pg. No. Stars:

The cost ledger of Akshay Ltd., showed the following balances as at 1st April, 2016.

	₹	₹
Stores Ledger Account	1,05,000	
Work in progress Account	78,400	
Finished Goods Account	55,800	
FOH Account		1,000
Administration on OH A/c	600	
Cost Ledger Control Account		2,38,800
Total	2,39,800	2,39,800

CIF

Further balances resulting from the operations for the year were -

	₹
Stores purchases	3,60,000
Stores issued to production order	3,93,000
Stores issued to works and repair order	15,000
Wages	6,15,000
Productive labour	5,90,000
Unproductive labour	25,000
Carriage Inwards	6,000
Works OH cost allocated to production order	1,79,000
Works Expenses	1,40,000
Administration expenses	18,000
Administration OH cost allocation to production order	18,400
Goods finished during the year	11,72,000
Finished goods sold cost	12,00,000
Sales expenses	13,400
Sales during the year	15,00,000

* one may Debit FOH also

AOH

Cost of sales TO S&D

Note

Prepare the necessary accounts in the cost ledger and a schedule of balances for the year ended 31st March, 2017.

P8. Date: NB Pg. No. Stars:

As on 31st March, 2003, the following balances existed in a firm's Cost Ledger:

	Dr. (₹)	Cr. (₹)
Stores Ledger Control A/c	3,01,435	
Work-in-Process Control A/c	1,22,365	
Finished Stock Ledger Control A/c	2,51,945	
Manufacturing Overhead Control A/c → c/d		10,525
Cost Ledger Control A/c	6,75,745	6,65,220
		6,75,745

During the next three months the following items arose:

	(₹)
Finished produced (at cost) FG TO WIP	2,10,835
Manufacturing overhead incurred FOH TO GLA	91,510
Raw materials purchased Stores TO GLA	1,23,000
Factory Wages Wages TO GLA → WIP TO Wages	50,530
Indirect Labour Wages TO GLA → FOH TO Wages	21,665
Cost of Sales Cost of Sales TO FG	1,85,890
Material issued to production WIP TO Stores	1,27,315
Sales returned at Cost FG TO Cost of Sales	5,380
Material returned to suppliers GLA TO Stores	2,900
Manufacturing overhead charged to production WIP TO FOH	77,200

You are required to pass the Journal Entries; write up the accounts and schedule the balances, stating what each balance represents.

P9. Date: NB Pg. No. Stars:

From the following details show the necessary accounts in the Cost Ledger

	Materials (₹)	Work-in-Process (₹)	Finished Stock (₹)
Opening balance	8,000	5,000	10,000
Closing balance	11,000	9,000	12,000

Transactions during the period:

	(₹)	
Materials purchased	25,000	Stores TO GLA
Wages paid (including ₹ 2,000 indirect)	10,000	Direct 8,000 wages TO GLA
Overheads incurred	8,000	FOH TO GLA
Overheads absorbed	9,000	WIP TO FOH
Sales	50,000	GLA TO Sales
	+ 25,000	
	→ 22,000	
	- 11,000	

PIQ. Date: NB Pg. No. Stars:

HP Acme Manufacturing Co. Ltd. opens the costing records, with the balances as on 1st July, 2002 as follows:

	(₹)	(₹)
Material Control A/c	1,24,000	
Work-in-Process Control A/c	62,500	
Finished Goods Control A/c	1,24,000	
Production Overhead Control A/c	8,400	
Administrative Overhead Control A/c		12,000
Selling & Distribution Overhead Control A/c	6,250	
Cost Ledger Control A/c	<u>3,25,150</u>	<u>3,13,150</u>
	3,25,150	3,25,150

} OH are C/f

The following are the transactions for the quarter ended 30th September 2002:

	(₹)
Materials purchased <i>Stores TO GLA</i>	4,80,100
Materials issued to jobs <i>WIP TO Stores</i>	4,77,400
Materials to works maintenance <i>FOH TO Stores</i>	41,200
Materials to administration office <i>AOH TO Stores</i>	3,400
Materials to selling department <i>SED TO Store</i>	7,200
Wages direct <i>Wages TO Wages</i>	1,49,300
Wages indirect <i>TO GLA</i> <i>FOH TO Wages</i>	65,000
Transportation for indirect materials <i>Stores TO GLA</i>	8,400
Production overheads <i>FOH TO GLA</i>	2,42,250
Absorbed production overheads <i>WIP TO FOH</i>	3,59,100
Administration overheads <i>AOH TO GLA</i>	74,000
Administration allocation to production <i>FG TO AOH</i>	52,900 <i>(Note)</i>
Administration allocation to sales <i>Cost of sales TO AOH</i>	14,800
Sales overheads <i>SED TO GLA</i>	64,200
Sales overheads absorbed <i>Cost of sales TO SED</i>	82,000
Finished goods produced <i>FG TO WIP</i>	9,58,400
Finished goods sold <i>Cost of sales TO FG</i>	9,77,300
Sales realization <i>GLA TO sales</i>	14,43,000

Make up the various accounts as you envisage in the Cost Ledger and prepare a Trial Balance as at 30th September, 20X2.

TYPE 2 - INTEGRAL ACCOUNTING

PII. Date: NB Pg. No. Stars: Exam: (PE II) (RTP) (May 2005)

A manufacturing business has a single production department. It absorbs production overheads into costs on a direct labour hour basis.

The production overhead budget for the year ending 31st March 2004 was ₹ 8,00,000, and budgeted direct labour hours were 1,00,000. *8/ Hour*

During the year to 31st March 2004, the following costs were incurred:

	₹
Direct materials	4,20,000
Indirect materials	40,000
Direct labour	7,50,000
Indirect labour	3,15,000
Indirect expenses	5,05,000

Opening stock of work-in-progress was ₹ 90,000 and closing work-in-progress was ₹ 70,000. The number of labour hours worked was 1,10,000 hours. *Act. Hrs.*

You are required to:

- (a) prepare the production overhead account
- (b) prepare the work-in-progress account
- (c) prepare the under-over-absorbed overhead account.

PI2. Date: NB Pg. No. Stars:

BPR Limited keeps books on integrated accounting system. The following balances appear in the books as on April 1, 2013.

	Dr. (₹)	Cr. (₹)
Stores Control A/c	40,950 ✓	-
Work-in-progress A/c	38,675 ✓	-
Finished Goods A/c	52,325 ✓	-
Bank A/c ✓	-	22,750 ✓
Trade Payables A/c ✓	-	18,200 ✓
Non-Current Assets A/c ✓	1,47,875 ✓	-
Trade Receivables A/c ✓	27,300 ✓	-
Share Capital A/c ✓	-	1,82,000 ✓
Provision for Depreciation A/c ✓	-	11,375 ✓
Provision for Doubtful Debts A/c ✓	-	3,725 ✓
Factory Overheads Outstanding A/c	-	6,250 ✓
Pre-Paid Administration Overheads A/c	9,975 ✓	-
Profit & Loss A/c*	-	72,800 ✓
(*Reserve & Surplus)	3,17,100	3,17,100

The transactions for the year ended March 31, 2014, were as given below:

	(₹)	(₹)
Direct Wages	1,97,925	-
Indirect Wages	<u>11,375</u>	2,09,300
Purchase of materials (on credit)		2,27,500
Materials issued to production		2,50,250
Material issued for repairs		4,550
Goods finished <u>during the year</u> (at cost)		4,89,125
Credit Sales		6,82,500
Cost of Goods <u>sold</u>		5,00,500
Production overheads <u>absorbed</u>		1,09,200
Production overheads paid during the year		91,000
Production overheads <u>outstanding at the end of year</u>		7,775
Administration overheads <u>paid during the year</u>		27,300
Selling overheads <u>incurred</u>		31,850
Payment to <u>Trade Payables</u>		2,29,775
Payment <u>received from Trade Receivables</u>		6,59,750
Depreciation of Machinery		14,789
Administration overheads <u>outstanding at the end of year</u>		2,225
Provision for doubtful debts <u>at the end of the year</u> → 265		<u>4,590</u>

Required:

Write up accounts in the integrated ledger of BPR Limited and prepare a Trial balance.

PIB. Date: NB Pg. No. Stars: ★★★

The following incomplete accounts are furnished to you for the month ended 31st October:

<u>Store Control Account</u>			
1.10.	To Balance	54,000	✓
<u>Work in Progress Control Account</u>			
1.10.	To Balance	6,000	✓
<u>Finished Goods Control Account</u>			
1.10.	To Balance	75,000	✓
<u>Factory Overheads Control Account</u>			
	Total debits for October	45,000	✓
<u>Factory Overheads Applied Account</u>			
<u>Cost of Goods Sold Account</u>			
<u>Creditors for Purchases Account</u>			
	1.10.	By Balance	30,000 ✓

OH incurred

Additional Information:

- Absorbed*
↑
- i. The factory overheads are applied by using a budgeted rate based on Direct Labour Hours. The budget for overheads for the year is ₹ 6,75,000 and the budget of direct labour hours is 4,50,000. *Abs. Rate = 1.50 / Hr. OH*
 - ii. The balance in the account of creditors for purchases on 31.10. is ₹ 15,000 and the payments made to creditors in October amount to ₹ 1,50,000.
 - iii. The finished goods inventory as on 31st October is ₹ 66,000.
 - iv. The cost of goods sold during the month was ₹ 1,95,000.
 - v. On 31st October, there was only one unfinished job in the factory. The cost records show the ₹ 3,000 (1,200 direct labour hours) of Direct Labour Cost and ₹ 6,000 of Direct Materials Cost had been charged. *2.50/Hr Wages*
 - vi. A total of 28,200 direct labour hours were worked in October. All factory workers earn same rate of pay.
 - vii. All actual factory overheads incurred in October have been posted.

You are required to find:

- a. Materials purchased during October.
- b. Cost of goods completed in October.
- c. Overheads applied to production in October.
- d. Balance of work in progress on 31st October.
- e. Direct materials consumed during October.
- f. Over-absorbed or under-absorbed overheads for October.

PI4. Date: NB Pg. No. Stars:

Bangalore Petrochemicals Co. keeps books on integrated accounting system. The following balances appear in the books as on 1st January, 2002.

	DR. (₹)	CR. (₹)
Stores Ledger control A/c	18,000	
Work-in-Process Control A/c	17,000	
Finished Goods Control A/c	13,000	
Bank A/c	10,000	
Creditors A/c		8,000
Fixed assets A/c	55,000	
Debtors A/c	12,000	
Share capital A/c		80,000
Provision for depreciation A/c		5,000
Profit and loss A/c		32,000
	<u>1,25,000</u>	<u>1,25,000</u>

Transaction for the year ended 31st Dec., 2002 were as given below:

	(₹)	(₹)
Wages-direct	87,000	
Wages-indirect	<u>5,000</u>	92,000
Purchase of materials (on credit)		1,00,000
Materials issued to production		1,10,000
Materials for repairs		2,000
Goods finished during the year (at cost)		2,15,000
Sales (credit)		3,00,000
Cost of goods sold		2,20,000
Production overhead absorbed		48,000
Production overhead incurred		40,000
Administration overhead incurred (production)		12,000
Selling overhead incurred		14,000
Payments of creditors		1,01,000
Payments of debtors		2,90,000
Depreciation on machinery		1,300
Prepaid rent (included in factory overheads)		300
Write up accounts in the integrated ledger.		

PI5. Date:

NB Pg. No.

Stars: ★★★

H/W

In the absence of the Chief Accountant, you have been asked to prepare a month's cost accounts for a company which operates a batch costing system fully integrated with the financial accounts. The following relevant information is provided to you:

	(₹)	(₹)
Balances at the beginning of the month:		
Stores Ledger Control Account		25,000
Work-in-Process Control Account		20,000
Finished Goods Control Account		35,000
Prepaid Production Overheads brought forward from previous month		3,000
Transactions during the month:		
Materials Purchased		75,000
Materials Issued:		
To production	30,000	
To factory maintenance	<u>4,000</u>	34,000
Materials transferred between batches		5,000
Total wages paid:		
To direct workers	25,000	
To indirect workers	<u>5,000</u>	30,000

Direct wages charged to batches	20,000
Recorded non-productive time of direct workers	5,000
Selling and Distribution Overheads Incurred	6,000
Other Production Overheads Incurred	12,000
Sales	1,00,000
Cost of Finished Goods Sold	80,000
Cost of Goods completed and transferred into finished goods during the month	65,000
Physical value of work-in-Process at the end of the month	40,000

The production overhead absorption rate is 150% of direct wages charged to work-in-Process.

Required:

Prepare the following accounts for the month:

- (a) Stores Ledger Control Account.
- (b) Work-in-Process Control Account.
- (c) Finished Goods Control Account.
- (d) Production Overhead Control Account.
- (e) Costing Profit and Loss Account.

PI6. Date: NB Pg. No. Stars:

ABC Manufacturing Company has the following balances in its integrated ledger as on 1st January, 1993:

	₹
Share Capital	2,00,000
Reserves	50,000
Sundry debtors	40,000
Plant and machinery	2,50,000
Sundry creditors	60,000
Bank. overdraft	80,000
Raw materials	1,00,000

Transactions during the year ended 31st December, 1993 were as follows:

Raw material purchased on credit	1,60,000
Raw material issued to production	2,00,000
Raw materials on hand on 31.12.93	52,000
Direct wages - incurred	1,90,000
- charged production	1,86,000
Manufacturing expenses - incurred	1,75,000
- charged to production	1,86,000
Selling and distribution expenses	20,000
Finished Stock - Production (at cost)	3,82,000
- Sales (at selling price)	5,72,000

Payment to creditors	1,70,000
Receipts from debtors	6,00,000

You are required to:

- Write up and close off the ledger accounts.
- Prepare a trial balance of the closing balances, and
- Prepare profit and loss account and a balance sheet.

PI7. Date:	NB Pg. No.	Stars:
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From the following information of a newly commenced manufacturing unit of Royal Industries Ltd., for the first quarter ending March 31, pass journal entries and prepare important ledger accounts, assuming that the cost and financial accounts are integrated:

	₹
Purchases of raw materials on credit	3,00,000
Wages paid	2,00,000
Indirect wages included in the wages paid	20,000
Direct materials issued to production	2,70,000
Factory expenses incurred	1,30,000
Factory expenses charged to production	1,55,000
Office and administrative expenses incurred	75,000
Office and administrative expenses charged to production	70,000
Selling and distribution overheads incurred	60,000
Selling and distribution overheads charged to sales	60,000
Credit sales during the period	8,00,000
Receipts and debtors	7,00,000
Paid to creditors	2,50,000
Finished product at cost	6,50,000
Closing stock of finished product	50,000
Interest paid	30,000

Assume that over- and under-absorption of overheads are straight-way carried to the profit and loss account. Also, determine the profit earned during the period.

☞ TYPE 3 - RECONCILIATION OF COST AND FINANCIAL STATEMENTS ☞

☞ TYPE 3A - DIFFERENCES GIVEN. MAKE RECONCILIATION ONLY ☞

PI8. Date:	NB Pg. No.	Stars:
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A manufacturing company has disclosed a net loss of ₹ 2,13,000 as per their cost accounting records for the year ended March 31, 2014. However, their financial accounting records disclosed a net loss of ₹ 2,58,000 for the same period. A scrutiny of data of both the sets of books of accounts revealed the following information:

		213000	(₹)
(i)	Factory overheads under-absorbed	+	5,000
(ii)	Administration overheads <u>over-absorbed</u>	-	3,000
(iii)	Depreciation charged in <u>financial accounts</u>	-	70,000
(iv)	Depreciation charged in <u>cost accounts</u>	- 10k	80,000
(v)	Interest on investments <u>not included</u> in cost accounts	-	20,000
(vi)	<u>Income-tax provided</u> in financial accounts	+	65,000
(vii)	<u>Transfer fees</u> (credit in financial accounts)	←	2,000
(viii)	<u>Preliminary expenses</u> written off	+	3,000
(ix)	Over-valuation of <u>closing stock</u> of finished goods in cost accounts	+	7,000

Prepare a Memorandum Reconciliation Account.

P19. Date: NB Pg. No. Stars:

R Limited showed a net loss of ₹ 35,400 as per their cost accounts for the year ended 31st March, 2014. However, the financial accounts disclosed a net profit of ₹ 67,800 for the same period. The following information were revealed as a result of scrutiny of the figures of cost accounts and financial accounts:

			(₹)
(i)	Administrative overhead <u>under recovered</u>	+	25,500
(ii)	Factory overhead <u>over recovered</u>	-	1,35,000
(iii)	Depreciation <u>under charged</u> in Cost Accounts	+	26,000
(iv)	Dividend received	-	20,000
(v)	Loss due to obsolescence charged in Financial Accounts	+	16,800
(vi)	Income tax provided	+	43,600
(vii)	Bank interest credited in Financial Accounts	-	13,600
(viii)	Value of opening stock:		
	In <u>Cost Accounts</u>		1,65,000
	In <u>Financial Accounts</u>	- 20k	1,45,000
(ix)	Value of closing stock:		
	In Cost Accounts	- 6.5k	1,25,500
	In Financial Accounts		1,32,000
(x)	<u>Goodwill written-off</u> in Financial Accounts	+	25,000
(xi)	<u>Notional rent of own premises</u> charged in Cost Accounts	-	60,000
(xii)	Provision for <u>doubtful debts</u> in Financial Accounts	+	15,000

Prepare a reconciliation statement by taking costing net loss as base.

☞ TYPE 3B - MAKE P&L, COSTING P&L, RECONCILIATION ☞

P20.Date: NB Pg. No. Stars:

The financial books of a company reveal the following data for the year ended 31st March, 2014:

(₹)

Opening Stock:

Finished goods 875 units	74,375	→ EXP.
Work-in-process	32,000	→ EXP.

01.04.2013 to 31.3.2014

Raw materials consumed	7,80,000	→ EXP.
Direct Labour	4,50,000	→ EXP.
Factory overheads <i>incurred</i>	3,00,000	
Goodwill written off	1,00,000	
Administration overheads	2,95,000	
<u>Dividend paid</u> <i>item of P&L App.</i>	<u>85,000</u>	X
Bad Debts	12,000	
Selling and Distribution Overheads	61,000	
Interest <u>received</u>	45,000	IN
Rent <u>received</u>	18,000	INC
Sales <u>14,500 units</u>	20,80,000	IN
Closing Stock: <u>Finished goods 375 units</u>	41,250	} CR.
<u>Work-in-process</u>	38,667	

The cost records provide as under:

- Factory overheads are absorbed at 60% of direct wages.
- Administration overheads are recovered at 20% of factory cost.
- Selling and distribution overheads are charged at ₹ 4 per unit sold.
- Opening Stock of finished goods is valued at ₹ 104 per unit.
- The company values work-in-process at factory cost for both Financial and Cost Profit Reporting.

Required:

- Prepare statements for the year ended 31st March, 2014 show
 - the profit as per financial records
 - the profit as per costing records.
- Present a statement reconciling the profit as per costing records with the profit as per Financial Records.

P21. Date: NB Pg. No. Stars: ★★★

The following figures have been extracted from the cost records of a manufacturing unit:

		(₹)
Stores:	Opening balance	32,000
	Purchases of material	1,58,000
	Transfer from work-in-progress Return from shop floor	80,000
	Issues to <u>work-in-progress</u>	1,60,000
	Issues to <u>repair and maintenance</u>	20,000
	Deficiencies found in stock taking	6,000
Work-in-progress:	Opening balance	60,000
	Direct wages applied	65,000
	Overheads applied	2,40,000
	Closing balance of W.I.P.	45,000

Finished products: Entire output is sold at a profit of 10% on actual cost from work-in-progress.
Wages incurred ₹ 70,000, overhead incurred ₹ 2,50,000.

Items not included in cost records: Income from investment ₹ 30,000, Loss on sale of capital assets ₹ 20,000.

Draw up Store Control account, Work-in-progress Control account, Costing Profit and Loss account, Profit and Loss account and Reconciliation statement.

P22. Date: NB Pg. No. Stars:

Following are the figures extracted from the Cost Ledger of a manufacturing unit.

		(₹)
Stores:		
Opening balance		15,000
Purchases		80,000
Transfer from WIP		40,000
Issue to WIP		80,000
Issue to repairs and maintenance		10,000
Sold as a special case at cost		5,000
Shortage in the year		3,000
Work-in-Process:		
Opening inventory		30,000
Direct labour cost charged		30,000
Overhead cost charged		1,20,000
Closing Balance		20,000
Finished Products:		
Entire output is sold at 10% profit on actual cost from work-in-process.		
Others:		
Wages for the period		35,000
Overhead Expenses		1,25,000

Ascertain the profit or loss as per financial account and cost accounts and reconcile them.

☞ TYPE 3C - MAKE COSTING P&L, RECONCILIATION ☞

P23.Date:

NB Pg. No.

Stars: ★★★

M/s Sellwell Ltd. has furnished to you the following information from the financial books for the year ended 31st December, 1993:

Profit & Loss Account

For the year ended 31st December, 1993

	₹		₹
Opening stock of finished goods:		Sales <u>10,250 units</u>	<u>3,58,750</u>
<u>500 units @ ₹ 17.50 each</u>	8,750	Closing stock of finished goods:	
Materials consumed	<u>1,30,000</u>	<u>250 units @ ₹ 25 each</u>	6,250
Wages	<u>75,000</u>		
Gross Profit c/d	<u>1,51,250</u>		
	<u>3,65,000</u>		<u>3,65,000</u>
Factory overheads <u>incurred</u>	47,375	Gross Profit c/d	<u>1,51,250</u>
Administration overheads <u>incurred</u>	53,000	Interest	<u>125</u>
Selling expenses <u>incurred</u>	27,500	Rent received	<u>5,000</u>
Bad Debts	2,000		
Preliminary expenses	2,500		
Net Profit	24,000		
	<u>1,56,375</u>		<u>1,56,375</u>

The cost sheet shows: (i) the cost of materials as ₹ 14 per unit; (ii) the labour cost as ₹ 7.50 per unit; (iii) the factory overheads are absorbed at 60% of labour cost; (iv) the administration overheads are absorbed at 20% of factory cost; (v) selling expenses are charged at ₹ 3 per unit; (vi) the opening stock of finished goods is valued at ₹ 22.50 per unit.

You are required to prepare:

- The cost sheet showing the number of units produced and the cost of production, by elements of costs, per unit and in total. Also show Profit or loss, as per Cost Accounts.
- The statement showing the reconciliation of profit or loss as shown by the cost accounts with the profit as shown by the financial accounts.

$$\begin{array}{r}
 \text{OP Stock} \quad 500 \\
 + \text{Production} \quad 10,000^* \\
 - \text{Cl. Stock} \quad 250 \\
 \hline
 \therefore \text{Sales} \quad \underline{10,250}
 \end{array}$$

P24.Date: NB Pg. No. Stars:

Given below is the Trading and Profit and Loss Account of a Company for the year ended 31st March, 1993:

	₹		₹
To Materials	27,40,000	By Sales	60,00,000
To Wages	15,10,000	(60,000 units)	
To Factory Expenses	8,30,000	By Stock (2,000 units)	1,60,000
To Admn. Expenses	3,82,400	By Work-in- Progress	₹
To Selling Expenses	4,50,000	Materials	64,000
To Preliminary expenses written off	60,000	Wages	36,000
To Net Profit	3,25,600	Factory Expenses	<u>20,000</u> 1,20,000
		By Dividend received	18,000
	62,98,000		62,98,000

The Company manufactures standard units. In the Cost Accounts:

- (i) Factory expenses have been allocated to production at 20% of Prime Cost;
- (ii) Administrative expenses at ₹ 6 per unit produced; and
- (iii) Selling expenses at ₹ 8 per unit sold.

Prepare the Costing Profit and Loss Account of the company and reconcile the same with the profit disclosed by the Financial Accounts.

P25.Date: NB Pg. No. Stars: Exam: (Inter) (June 2002) (16 Marks)

The summarized Profit and Loss Account of a company for the year ended 31.3.2002 are given below:

Particulars	₹	Particulars	₹
Material consumed	44,00,000	Sales (2,00,000 units)	1,00,00,000
Wages	24,00,000	Finished goods stock	
Factory overheads	14,00,000	C.B. (12,000 units)	5,00,000
Admin overheads	5,20,000	Work in progress: C.B.	₹
Selling and distribution overheads	4,80,000	Materials	1,20,000
Bad debts written off	40,000	Labour	80,000
Preliminary expenses written off	60,000	Factory overheads	40,000 2,40,000
Net profit	16,00,000	Agricultural income	32,000
		Miscellaneous receipts	1,28,000
	1,09,00,000		1,09,00,000

The following additional information is also furnished:

- In cost accounts, factory overheads have been absorbed at 22% of prime cost.
- In cost accounts, Admn. Overheads have been absorbed at a flat rate of ₹ 3 per unit.
- In cost accounts, selling and distribution overheads have been absorbed at ₹ 2.50 per unit.
- Closing W.I.P. valued by the cost dept. has been incorporated in financial accounts.
- Valuation of finished goods (C.B.) has been independently made by the financial accounts branch.

You are required to prepare the cost profit and loss account and reconcile the profit as per cost profit and loss account with the profit as per financial account.

P26.Date: NB Pg. No. Stars: Exam: (Inter) (June 2010) (7 Marks)

The Profit & Loss A/c of XYZ Ltd. for the year ended 31st March 2010 was as follows:

Dr. Profit & Loss A/c. for the year ended 31st March 2010 Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Materials	4,80,000	By Sales	9,60,000
To Wages	3,60,000	By Work in Progress	
To Direct Expenses	2,40,000	Materials	30,000
To Gross Profit	1,20,000	Wages	18,000
		Direct Expenses	12,000
		By Closing Stock	1,80,000
Total	12,00,000	Total	12,00,000
To Administration Expenses	60,000	By Gross Profit	1,20,000
To Net Profit	66,000	By Dividends Received	6,000
Total	1,26,000	Total	1,26,000

As per the cost records, the direct expenses have been estimated at a cost of ₹ 30 per kg. and administration expenses at ₹ 15 per kg. During the year Production was 6,000 kgs. and Sales were ₹ 9,60,000.

Prepare a statement of costing Profit & Loss A/c. and reconcile the profit with financial profit.

24, 25, 26, 28, 29

P27.Date: NB Pg. No. Stars:

The following is the Trading and Profit & Loss Account of Omega Limited:

Dr.		Cr.	
Particulars	(₹)	Particulars (₹)	
To Materials consumed	23,01,000	By Sales (30,000 units)	48,75,000
To Direct wages	12,05,750	By Finished goods Stock (1,000 units)	1,30,000
To Production Overheads	6,92,250	By Work-in-progress:	
To Administration Overheads	3,10,375	Materials	55,250
To Selling and Distribution Overheads	3,68,875	Wages	26,000
To Preliminary Expenses written off	22,750	Production Overheads	16,250
To Goodwill written off	45,500		97,500
To Fines	3,250	By Dividends received	3,90,000
To Interest on Mortgage	13,000	By Interest on bank deposits	65,000
To Loss on Sale of machine	16,250		
To Taxation	1,95,000		
To Net Profit for the year	3,83,500		
	55,57,500		55,57,500

Production units 30000 units

Costing Profit = 2,14,500

Omega Limited manufactures a standard unit.

The Cost Accounting records of Omega Ltd. show the following:

- (i) Production overheads have been charged to work-in-progress at 20% on Prime cost.
- (ii) Administration Overheads have been recovered at ₹ 9.75 per finished Unit.
- (iii) Selling & distribution Overheads have been recovered at ₹ 13 per Unit sold.
- (iv) The Under- or Over-absorption of Overheads has not been transferred to costing P/L A/c.

Required:

- (i) Prepare a proforma Costing Profit & Loss account, indicating net profit.
- (ii) Prepare Control accounts for Production overheads, Administration Overheads and Selling & Distribution Overheads.
- (iii) Prepare a statement reconciling the profit disclosed by the Cost records with that shown in Financial accounts.

P28.Date: NB Pg. No. Stars:

ABC Ltd. has furnished the following information from the financial books for the year ended 31st March, 2014:

Profit & Loss Account

	(₹)		(₹)
To Opening stock (500 units at ₹ 140 each)	70,000	By Sales (10,250 units)	28,70,000
To Material consumed	10,40,000	By Closing stock	
To Wages	6,00,000	(250 units at ₹ 200 each)	50,000
To Gross profit c/d	12,10,000		
	29,20,000		29,20,000

To Factory overheads	3,79,000	By	Gross profit b/d	12,10,000
To Administration overheads	4,24,000	By	Interest	1,000
To Selling expenses	2,20,000	By	Rent received	40,000
To Bad debts	16,000			
To Preliminary expenses	20,000			
To Net profit	<u>1,92,000</u>			
	12,51,000			12,51,000

The cost sheet shows the cost of materials at ₹ 104 per unit and the labour cost at ₹ 60 per unit. The factory overheads are absorbed at 60% of labour cost and administration overheads at 20% of factory cost. Selling expenses are charged at ₹ 24 per unit. The opening stock of finished goods is valued at ₹ 180 per unit.

You are required to prepare:

- (i) A statement showing profit as per Cost accounts for the year ended 31st March, 2014; and
- (ii) A statement showing the reconciliation of profit as disclosed in Cost accounts with the profit shown in Financial accounts.

P29.Date: NB Pg. No. Stars:

Amit Company Limited furnished the summary of Trading and Profit and Loss Account for the year ended 31st March –

	₹		₹
To Raw Materials	1,39,600	By Sales (12,000 Units)	4,80,000
To Direct Wages	76,200	By Finished Stock (200 units)	8,000
To Production overheads	42,600	By Work in progress:	
To Administration overheads	39,100	Materials	₹ 28,200
To Selling & Distribution overheads	42,700	Wages	₹ 11,796
To Goodwill written off	2,501	Production –	
To Preliminary exps. Written off	2,200	Overheads	₹ <u>7,999</u>
To Dividend (Net)	3,000	By Interest on securities (Gross)	6,000
To Income Tax	4,100		
To Net Profit	1,89,994		
Total	5,41,995	Total	5,41,995

The company manufactures a Standard Unit. Scrutiny of cost records for the same period show that –

- i. Production overheads have been allocated to the production at 20% on Prime cost.
- ii. Administration overheads have been charged at ₹ 3 per unit on units produced.
- iii. Selling and Distribution expenses have been charged at ₹ 4 per unit on units sold.

You are required to prepare a statement of cost to work out profit as per Cost Accounts and to reconcile the same with that shown in the financial accounts.

☞ TYPE 3D - RECONCILIATION IS GIVEN ☞

P30.Date: NB Pg. No. Stars: ★★★

The profit and loss account as shown in the financial books of a company for the year ended 30-9 together with a statement of reconciliation between the profit as per financial and cost accounts is given below:

P&L

	₹	₹		₹	₹
Opening stock			Sales		15,00,000
Raw Material	90,000		Closing stock		
Work-in-progress	50,000		Raw Material	98,000	
Finished Goods	70,000	2,10,000	Work-in-progress	53,000	
Raw Materials Purchase		5,00,000	Finished goods	72,000	2,23,000
Direct wages		2,00,000	Miscellaneous		
Factory overheads		2,00,000	Receipts		45,000
Administration expenses		1,70,000			
Selling & Distribution expenses		2,20,000			
Preliminary expenses written off		75,000			
Debenture Interest		30,000			
Net Profit		1,63,000			
Total		17,68,000	Total		17,68,000

Statement of reconciliation of profit as per financial and cost accounts:

Profit as per financial accounts	₹	1,63,000	₹
a. Difference in valuation of stock:			
<u>Add:</u> Raw Materials – closing stock	₹	1,200	
Work-in-progress – opening stock		1,300	
Finished goods – opening stock		2,000	
– closing stock		1,000	
Total (A)		5,500	
Less: Raw Materials – opening stock		1,650	
Work-in-progress – closing stock		750	
Total (B)		2,400	
A – B			3,100
b. Other items			
Add: Preliminary expenses written off		75,000	
Debenture interest		30,000	
		1,05,000	
Less: Miscellaneous receipts		45,000	60,000
Profit on per Cost Accounts			2,26,100

You are required to prepare the following accounts as they would appear in the costing ledger

- Raw materials control A/c.
- Work-in-progress control A/c.
- Finished goods control A/c.
- Cost of Sales A/c.
- Costing Profit and Loss A/c.

RECENT EXAM QUESTIONS

ICAI - EXAM

Q1. Date: NB Pg. No. Stars: Exam: Inter [May 18, Q.1(d)] [5 Marks]

GK Ltd. showed net loss of ₹ 2,43,300 as per their financial accounts for the year ended 31st March, 2018. However, cost accounts disclosed net loss of ₹ 2,48,300 for the same period. On scrutinizing both the set of books of accounts, the following information were revealed:

		(₹)
(i)	Works overheads over recovered	30,400
(ii)	Selling overheads under recovered	20,300
(iii)	Administrative overheads under recovered	27,700
(iv)	Depreciation over charged in cost accounts	35,100
(v)	Bad debts w/off in financial accounts	15,000
(vi)	Preliminary Exp. w/off in financial accounts	5,000
(vii)	Interest credited during the year in financial accounts	7,500

Prepare a reconciliation statement reconciling losses shown by financial and cost accounts by taking costing net loss as base.

Q2. Date: NB Pg. No. Stars: Exam: Inter [Nov. 18, Q.4(a)] [10 Marks]

The following balances were extracted from a Company's ledger as on 30th June, 2018:

Particulars	Debit (₹)	Credit (₹)
Raw material control A/c	2,82,450	
Work-in-progress control A/c	2,38,300	
Finished stock control A/c	3,92,500	
General ledger adjustment A/c		9,13,250
Total	9,13,250	9,13,250

The following transactions took place during the quarter ended 30th September, 2018:

	(₹)
(i) Factory overheads - allocated to work-in-progress	1,36,350
(ii) Goods finished - at cost	13,76,200
(iii) Raw materials purchased	12,43,810
(iv) Direct wages - allocated to work-in-progress	2,56,800
(v) Cost of goods sold	14,56,500
(vi) Raw materials - issued to production	13,60,430
(vii) Raw materials - credited by suppliers	27,200
(viii) Raw materials losses - inventory audit	6,000
(ix) Work-in-progress rejected (with no scrap value)	12,300
(x) Customer's returns (at cost) of finished goods	45,900

You are required to prepare:

- | | |
|----------------------------------|------------------------------------|
| (i) Raw material control A/c | (ii) Work-in-progress control A/c |
| (iii) Finished stock control A/c | (iv) General ledger adjustment A/c |

Q3. Date: NB Pg. No. Stars: Exam: Inter [May 19, Q.1(d)] [5 Marks]

M/s. Abid Private Limited disclosed a net profit of ₹ 48,408 as per cost books for the year ending 31st March 2019. However, financial accounts disclosed net loss of ₹ 15,000 for the same period. On scrutinizing both the set of books of accounts, the following information was revealed:

Works Over-heads under-recovered in Cost Books	48,600
Office Overheads over-recovered in Cost Books	11,500
Dividend received on Shares	17,475
Interest on Fixed Deposits	21,650
Provision for doubtful debts	17,800
Obsolescence loss not charged in Cost Accounts	17,200
Stores adjustments (debited in Financial Accounts)	35,433
Depreciation charged in financial accounts	30,000
Depreciation recovered in Cost Books	35,000

Prepare a Memorandum Reconciliation Account.

Q4. Date: NB Pg. No. Stars: Exam: Inter [May 19, Q.6(c)] [5 Marks]

Explain integrated accounting system and state its advantages.

Q5. Date: NB Pg. No. Stars: Exam: Inter [Nov. 20, Q.6(c)] [5 Marks]

Explain what are the pre-requisites of integrated accounting.

Q6. Date: NB Pg. No. Stars: Exam: Inter [Jul. 21, Q.3(a)] [10 Marks]

The Profit and Loss account of ABC Ltd. for the year ended 31st March, 2021 is given below:

**Profit and Loss account
(for the year ended 31st March, 2021)**

To Direct Material	6,50,000	By Sales (15000 units)	15,00,000
To Direct Wages	3,50,000	By Dividend received	9,000
To Factory overheads	2,60,000		
To Administrative overheads	1,05,000		
To Selling overheads	85,000		
To Loss on sale of investments	2,000		
To Net Profit	57,000		
	15,09,000		15,09,000

- Factory overheads are 50% fixed and 50% variable.
- Administrative overheads are 100% fixed.
- Selling overheads are completely variable.
- Normal production capacity of ABC Ltd. is 20,000 units.
- Indirect Expenses are absorbed in the cost accounts on the basis of normal production capacity.
- Notional rent of own premises charged in Cost Accounts is amounting to ₹ 12,000.

You are required to:

- (i) Prepare a Cost Sheet and ascertain the Profit as per Cost Records for the year ended 31st March, 2021.
- (ii) Reconcile the Profit as per Financial Records with Profit as per Cost Records.

Q7. Date: NB Pg. No. Stars: Exam: Inter [Dec. 21, Q.4(b)] [5 Marks]

R Ltd. showed a Net Profit of ₹ 3,60,740 as per their cost accounts for the year ended 31st March, 2021.

The following information was revealed as a result of scrutiny of the figures from the both sets of accounts:

Sr. No.	Particulars	(₹)
i.	Over recovery of selling overheads in cost accounts	10,250
ii.	Over valuation of closing stock in cost accounts	7,300
iii.	Rent received credited in financial accounts	5,450
iv.	Bad debts provided in financial accounts	3,250
v.	Income tax provided in financial accounts	15,900
vi.	Loss on sale of capital asset debited in financial accounts	5,800
vii.	Under recovery of administration overheads in cost accounts	3,600

Required:

Prepare a reconciliation statement showing the profit as per financial records.

Q8. Date: NB Pg. No. Stars: Exam: Inter [May 22, Q.4(c)] [5 Marks]

Journalize the following transactions assuming the cost and financial accounts are integrated:

Particulars	Amount (₹)
Direct Materials issued to production	₹ 5,88,000
Allocation of Wages (Indirect)	₹ 7,50,000
Factory Overheads (Over absorbed)	₹ 2,25,000
Administrative Overheads (Under absorbed)	₹ 1,55,000
Deficiency found in stock of Raw material (Normal)	₹ 2,00,000

Q9. Date: NB Pg. No. Stars: Exam: Inter [May 22, Q.6(a)] [5 Marks]

Briefly explain the essential features of a good Cost Accounting System.



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Remarks:

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Student Sign. : _____**Parent Sign.:** _____