

**EXPERT**

**CA INTERMEDIATE - COST & MANAGEMENT ACCOUNTING**

**COST  
ACCOUNTING  
SYSTEM**

**CA VINOD REDDY**

**#VR**



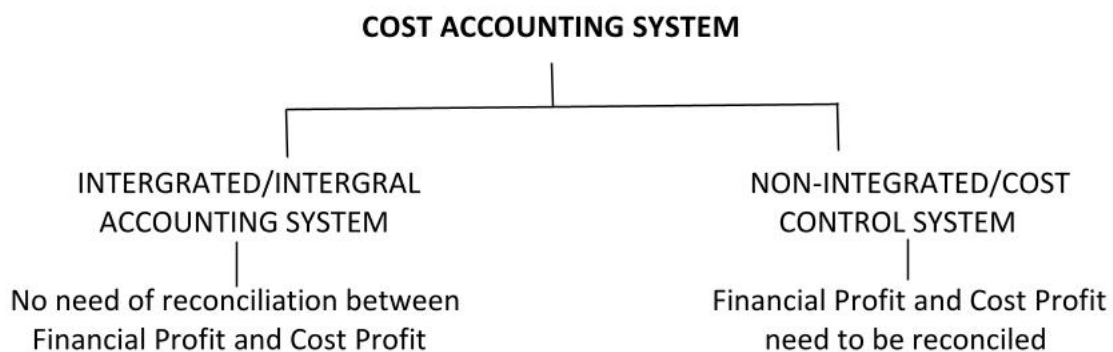
# PAPER 3 - COST AND MANAGEMENT ACCOUNTING

## COST ACCOUNTING SYSTEM

### I. INTRODUCTION

To operate business operations efficiently and successfully, it is necessary to make use of an appropriate accounting system. Such a 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 Control 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.



### II. NON-INTEGRATED ACCOUNTING SYSTEM

It is a system of accounting under which separate ledgers are maintained for cost and financial accounts by Accountants. This system is also referred to as cost ledger accounting system. Under such a system the cost accounts restrict itself to recording only those transactions which relate to the product or service being provided. Hence items of expenses which have a bearing with sales or, production or for that matter any other items which are under the factory management are the ones dealt with in such accounts. This leads to the exclusion of certain expenses like interest, bad debts and revenue/income from 'other than the sale of product or service'.

A special feature of the non-integrated system of accounts is its ability to deal with notional expenses like rent or interest on capital tied up in the stock. The accounting of notional rent facilitates comparisons amongst factories (some owned and some rented).

Non-Integrated Accounting Systems contain fewer accounts when compared with financial accounting because of the exclusion of purchases, expenses and also Balance Sheet items like fixed assets, debtors and creditors. Items of accounts which are excluded are represented by an account known as Cost ledger control account.

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## PRINCIPAL ACCOUNTS

The main accounts which are usually prepared when a separate Cost Ledger is maintained are as follows:

- a. Stores Ledger Control Account
- b. Wages Control Account
- c. Manufacturing/Production/Works/ Factory Overhead Control Account
- d. Work-in-Process Control Account
- e. Administrative Overhead Control Account
- f. Finished Goods Control Accounts
- g. Selling and Distribution Overhead Control Account
- h. Cost of Sales Account
- i. Costing Profit & Loss Account
- j. Cost Ledger Control Account

## III. INTEGRATED ACCOUNTING SYSTEM

Integrated Accounts is the name given to a system of accounting, whereby cost and financial accounts are kept in the same set of books. Obviously, then there will be no separate sets of books for Costing and Financial records. Integrated accounts provide or meet out fully the information requirement for Costing as well as for Financial Accounts. For Costing it provides information useful for ascertaining the cost of each product, job, process, operation of any other identifiable activity and for carrying necessary analysis. Integrated accounts provide relevant information which is necessary for preparing profit and loss account and the balance sheets as per the requirement of law and also helps in exercising effective control over the liabilities and assets of its business.

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 only one figure of profit.
- b. Less efforts - Due to use of one set of books, there is a significant saving in efforts made.
- c. Less time consuming - No delay is caused in obtaining information as it is provided from books of original entry.
- d. Economical process - It is economical also as it is based on the concept of "Centralisation of Accounting function".

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## ACCOUNTING ENTRIES:

Sr. No.	Transaction	Non Integrated Accounting	Integral Accounting
1.	Purchase of material	Store ledger control A/c... Dr. To General Ledger Adjustment 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 Adjustment 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 Adjustment A/c	Factory Overhead Control A/c Dr. To Creditors / Cash A/c.
4.	Return of materials to suppliers	General Ledger Adjustment 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 construction of asset	Capital work-in-progress 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 material for service order of customer	Service Order A/c... Dr. To Store Ledger Control A/c.	Service Order A/c... Dr. To Store Ledger Control A/c.
9.	Issue of Indirect materials to production shops	Factory overhead Control A/c... Dr. To Store Ledger Control A/c.	Factory overhead Control A/c Dr. To Store Ledger Control A/c.
10.	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.
11.	Return of Indirect Materials to stores	Store Ledger Control A/c... Dr. To Factory overhead Control A/c.	Store Ledger Control A/c... Dr. To Factory Overhead Control A/c.
12.	Materials transfers	No entry required except internal recording in the respective job ledger. Entry however, required for transfer involved in capital / service orders.	
13.	Normal loss of material	Factory overhead Control A/c... Dr. To Store Ledger Control A/c.	Factory overhead Control A/c... Dr. To Store Ledger Control A/c.
14.	Abnormal loss of material	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.
15.	Payment of wages	Wage control A/c... Dr. To General Ledger Adjustment A/c.	Wage Control A/c... Dr. To Cash/Bank A/c.
16.	Payment of expenses, related to production activity	Factory overhead control A/c... Dr. To General Ledger Adjustment A/c.	Factory overhead control A/c... Dr. To Creditors / Cash A/c.
17.	Depreciation of Plant and Machinery	Factory overhead control A/c... Dr. To General Ledger Adjustment A/c.	Factory overhead control A/c... Dr. To Plant & Machinery A/c.

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Sr. No.	Transaction	Non Integrated Accounting	Integral Accounting
18.	Absorption of factory overheads	Work-in-progress A/c... Dr. To Factory overhead Control A/c.	Work-in-progress A/c... Dr. To Factory overhead Control A/c.
19.	Charging overheads to Service Order	Service Order A/c. To Factory overhead Control A/c	Service Order A/c. To Factory overhead Control A/c
20.	Charging overheads to Capital Asset	Capital WIP A/c. .... Dr. To Factory overhead Control A/c	Capital WIP A/c. .... Dr. To Factory overhead Control A/c
21.	Transfer of manufactured goods	Finished Goods Control A/c.. Dr. To Work-in-progress A/c.	Finished Goods Control A/c.. Dr. To Work-in-progress A/c.
22.	Administration expenses incurred	Administration overheads A/c... Dr. To General Ledger Adjustment A/c.	Administration overheads A/c Dr. To Creditors / Cash A/c.
23.	Absorption of administration overhead	Finished Goods Control A/c. ... Dr. To Administration overhead A/c.	Finished Goods Control A/c. ... Dr. To Administration overhead A/c.
24.	Cost of goods sold	Cost of sales A/c... Dr. To Finished Goods Control A/c.	Cost of sales A/c... Dr. To Finished Goods Control A/c.
25.	Selling & Distribution expenses incurred	S & D Overheads A/c... Dr. To General Ledger Adjustment A/c.	S & D Overheads A/c... Dr. To Creditors / Cash A/c.
26.	Absorption of selling and distribution overheads	Cost of sales A/c... Dr. To S & D Overheads A/c... Dr.	Cost of sales A/c... Dr. To S & D Overheads A/c... Dr.
27.	Sales	GLA A/c. Dr. To Sales A/c.	Cash/Debtors A/c. ... Dr. To Sales A/c.
28.	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.
29.	Transfer of Sales	Sales A/c... Dr. To Costing P & L A/c.	Sales A/c... Dr. To P & L A/c.
30.	Under absorption of Factory overheads	Costing Profit and Loss A/c... Dr. To Factory OH ... A/c OR Finished Goods A/c... Dr. Work-in-progress A/c. Dr. Cost of Sales A/c Dr. To Factory OH ... A/c	Profit and Loss A/c... Dr. To Factory OH ... A/c OR Finished Goods A/c... Dr. Work-in-progress A/c. Dr. Cost of Sales A/c Dr. To Factory OH ... A/c
31.	Over absorption of Factory overheads	Reverse Entry No. 30	Reverse Entry No. 30
32.	Transfer of Capital Asset on completion of work	General Ledger Adjustment A/c.. Dr. To Capital Work-in-progress A/c.	Capital Asset A/c... Dr. To Capital Work-in-progress A/c.
33.	Transfer of Profit	Costing Profit and Loss A/c... Dr. To General Ledger Adjustment A/c.	Profit and Loss A/c... Dr. To Proprietor's Capital A/c.

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#### IV. RECONCILIATION OF COST AND FINANCIAL ACCOUNTS

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.

##### Causes of differences in Financial and Cost Accounts:

##### A. Items included in Financial Accounts only-

- a. Interest on loans or bank mortgages.
- b. Expenses and discounts on issue of shares, debentures etc.
- c. Other capital losses i.e., loss by fire not covered by insurance etc.
- d. Losses on the sales of fixed assets and investments
- e. Goodwill written off
- f. Preliminary expenses written off
- g. Income tax, donations, subscriptions
- h. Expenses of the company's share transfer office, if any.
- i. Interest received on bank deposits, loans and investments
- j. Dividends received
- k. Profits on the sale of fixed assets and investments
- l. Transfer fee received.

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

- a. Charges in lieu of rent where premises are owned
- b. Interest on capital at notional figure though not incurred
- c. Salary for the proprietor at notional figure though not incurred
- d. Notional Depreciation on the assets fully depreciated for which book value is nil.

##### C. 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. For example, LIFO method is not allowed for inventory valuation in India as per the Accounting Standard 2 issued by the Council of the ICAI. However, this method may be adopted for cost accounts as it is more suitable for arriving at costs which shall be used as a base for deciding selling prices. Similarly cost accounting may use a different method of depreciation than what is allowed under financial accounting.

##### D. Varying basis of valuation:

It is another factor which sometimes is responsible for the difference. It is well known that in financial accounts stock are valued either at cost or market price, whichever is lower. But in Cost Accounts, stocks are only valued at cost.

##### PROCEDURE FOR RECONCILIATION:

There are 3 steps involved in the procedure for reconciliation.

- a. Ascertainment of profit as per financial accounts
- b. Ascertainment of profit as per cost accounts
- c. Reconciliation of both the profits (similar to the bank reconciliation statement)

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## Question 1:

On 31st March, 2021 the following balances were extracted from the books of Supreme Manufacturing Company:

Particulars	Debit ₹	Credit ₹
Store Ledger Control A/c	35,000	
Work-in-progress Control A/c	38,000	
Finished Goods Control A/c	25,000	
Cost Ledger Control A/c		98,000
<b>Total</b>	<b>98,000</b>	<b>98,000</b>

The following transactions took place in April, 2021

Particulars	₹
Raw materials:	
Purchased	95,000
Returned to suppliers	3,000
Issued to Production	98,000
Returned to Stores	3,000
Productive Wages	40,000
Indirect Labour	25,000
Factory overhead expenses incurred	50,000
Selling and Administration expenses	40,000
Cost of finished goods transferred to warehouse	2,13,000
Cost of goods sold	2,10,000
Sales	3,00,000

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

Show the following accounts -

- |  |   |
|--|---|
| a. Cost Ledger Control Account           | b. Store Ledger Control Account         |
| c. Work-in-progress Control Account      | d. Finished Goods Stock Control Account |
| e. Factory Overhead Control Account      | f. Costing Profit and Loss Account and  |
| g. Trial Balance as at 30th April, 2006. |   |

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Supreme manufacturing company  
Cost Records

Stores ledger control Account

Particulars	₹	Particulars	₹
To Balance b/d	35,000		
To Cost Ledger Control A/c [Stores purchased]	95,000	By Cost Ledger Control A/c	3,000
To WIP control A/c	3,000	By WIP control A/c	98,000
		By Balance c/d	* 32,000
Total	1,33,000	Total	1,33,000

Wages Account

Particulars	₹	Particulars	₹
To Cost Ledger Control A/c			
Productive wages	40,000	By WIP A/c	40,000
Indirect labour	25,000	By Factory overhead A/c [Productive wages]	25,000
		By Factory overhead A/c [Indirect labour]	
Total	65,000	Total	65,000

Factory overheads Account

Particulars	₹	Particulars	₹
To Wages control A/c	25,000		
To Cost Ledger control A/c	59,000	By WIP A/c	60,000
		By Balance c/d	* 15,000
Total	84,000	Total	84,000

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Total 75,000

Total 75,000

WSP Account

Particulars	₹	Particulars	₹
To Balance b/d	38,000		
To Stores ledger control A/c	98,000	By Stores ledger control A/c	3,000
To Wages control A/c	40,000	By finished goods A/c	213,000
To Factory overheads A/c	60,000		
			*
		By Balance c/d	28,000
Total	236,000	Total	236,000

Selling and Administration Overheads A/c

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

Finished Goods A/c

Particulars	₹	Particulars	₹
To Balance b/d	25,000		
To WIP A/c	213,000	By Cost of Sales A/c	219,000
			*
		By Balance c/d	28,000
		By Balance c/d	28,000
Total	238,000	Total	238,000

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Cost of Sales A/c

Particulars	₹	Particulars	₹
To Finished Goods A/c	210,000		
		By Costing Profit & Loss A/c	210,000
<b>Total</b>	<b>210,000</b>	<b>Total</b>	<b>210,000</b>

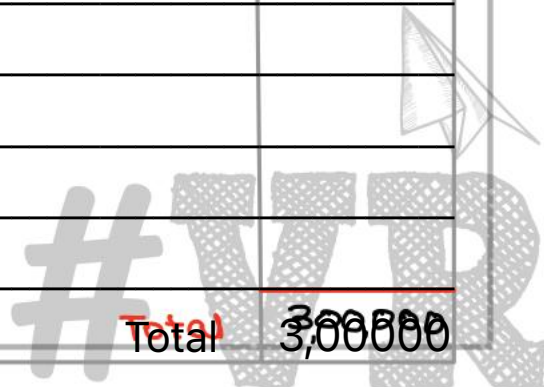
Sales Account

Particulars	₹	Particulars	₹
		By Cost Ledger Control A/c	300,000
To Costing Profit & Loss A/c	300,000	By Cost Ledger Control A/c	
<b>Total</b>	<b>300,000</b>	<b>Total</b>	<b>300,000</b>

Costing Profit and loss Account

Particulars	₹	Particulars	₹
To Selling & Administration Overheads	40,000	By Sales	3,00,000
To Cost of sales	210,000		
To Cost Ledger Control A/c	50,000		
[Transfer of Profit]			
<b>Total</b>	<b>300,000</b>	<b>Total</b>	<b>3,00,000</b>

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## Cost Ledger Control Account

Particulars	₹	Particulars	₹
		By Balance b/d	98,000
To Stores Ledger Control A/c	3,000	By Stores Ledger Control A/c	95,000
To Sales A/c	3,00,000	By Wages control A/c	65,000
		By Factory Overheads A/c	50,000
		By Selling and Administration Overheads A/c	40,000
		By Costing Profit and loss A/c	50,000
To Balance c/d	95,000		
<b>Total</b>	<b>3,98,000</b>	<b>Total</b>	<b>3,98,000</b>

### Trial Balance

As on 30.06.2021

Particulars	Debit ₹	Credit ₹
Stores Ledger Control A/c	32,000	
Factory Overheads control A/c	15,000	
WIP control A/c	20,000	
Finished Goods control A/c	28,000	
Cost Ledger Control A/c		95,000
	95,000	95,000

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## Question 2:

The cost ledger of Alpha Ltd., showed the following balances as at 1st April, 2020.

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

Further balances resulting from the operations for the year ended 31st March, 2021 were –

Particulars	₹
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 on cost allocated to production order	1,79,000
Works Expenses	1,40,000
Administration expenses	18,000
Administration on cost allocation to production	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

Prepare the necessary accounts in the cost ledger and a schedule of balances for the year ended 31st March, 2021.

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In the books of Alpha Ltd.

**COST RECORDS**

**Stores Ledger Control A/c**

Particulars	₹	Particulars	₹
To Balance b/d	105,000		
To Cost Ledger Control A/c	360,000	By WIP A/c	393,000
To Cost Ledger Control A/c [Carriage Inward]	6,000	By Factory Overheads A/c	15,000
		By Balance C/d	63,000
<b>Total</b>	<b>471,000</b>	<b>Total</b>	<b>471,000</b>

**Wages Account**

Particulars	₹	Particulars	₹
To Cost Ledger Control A/c	615,000	By WIP A/c	590,000
		By Factory Overheads A/c [unproductive labour]	25,000
<b>Total</b>	<b>615,000</b>	<b>Total</b>	<b>615,000</b>

**Factory Overheads Account**

Particulars	₹	Particulars	₹
		By Balance b/d	1,000
To Stores Ledger Control A/c	15,000	By WIP A/c	179,000
To Wages A/c	25,000		
To Cost Ledger control a/c	140,000		
<b>Total</b>	<b>180,000</b>	<b>Total</b>	<b>180,000</b>

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## WIP Account

Particulars	₹	Particulars	₹
To Balance b/d	78,400		
To Stores Ledger Control All	393,000	By finished Goods A/c	11,72,000
To Wages All	5,99,000		
To Factory Overheads All	1,79,000		
		By Balance old	68,400
<b>Total</b>	<b>12,40,400</b>	<b>Total</b>	<b>12,40,400</b>

## Administration Overheads A/c

Particulars	₹	Particulars	₹
To Balance b/d	600		
To Cost Ledger Control All	18,000	By Finished Goods All	18,400
		By Balance old	200
<b>Total</b>	<b>18,600</b>	<b>Total</b>	<b>18,600</b>

## Finished Goods A/c

Particulars	₹	Particulars	₹
To Balance b/d	55,800		
To Administration Overheads	18,400	By Cost of Sales A/c	12,00,000
To WIP All	11,72,000		
		By Balance old	46,200
<b>Total</b>	<b>12,46,200</b>	<b>Total</b>	<b>12,46,200</b>

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### ~~Selling Overheads Account~~

Particulars	₹	Particulars	₹
To Cost Ledger Control A/c	13,400		
		By Cost of Sales A/c	* 13,400
<b>Total</b>	<b>13,400</b>	<b>Total</b>	<b>13,400</b>

### ~~Cost of Sales A/c~~

Particulars	₹	Particulars	₹
To finished Goods A/c	12,00,000		
To selling overheads A/c	13,400	By Costing Profit and Loss A/c	* 213,400
<b>Total</b>	<b>12,13,400</b>	<b>Total</b>	<b>12,13,400</b>

### ~~Sales Account~~

Particulars	₹	Particulars	₹
		By Cost Ledger Control A/c	15,09,000
To Costing Profit and loss A/c	* 15,00,000		
<b>Total</b>	<b>15,00,000</b>	<b>Total</b>	<b>15,09,000</b>

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Particulars	₹	Particulars	₹
To cost of sales	1213,400	By sales	15,00,000
	*		
To Cost Ledger Control A/c [Transfer of Profit]	286,600		
<b>Total</b>	<b>15,00,000</b>	<b>Total</b>	<b>15,00,000</b>

Cost Ledger Control A/c

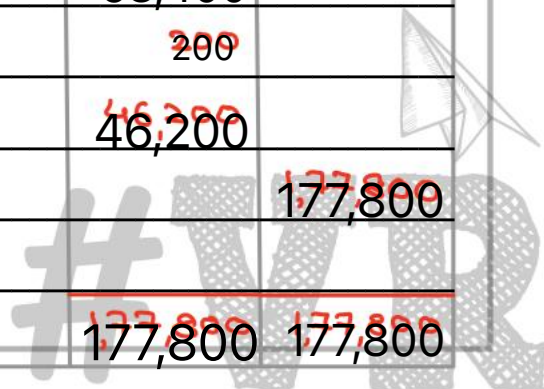
Particulars	₹	Particulars	₹
		By Balance b/d	238,800
To sales A/c	15,09,000	By Stores Ledger Control A/c	3,69,000
		By Wages A/c	615,000
		By stores Ledger control A/c	6,000
		By factory overheads A/c	1,40,000
		By Administration overheads	18,000
	*	By selling overheads all	13,400
To Balance Cld	177,800	By Costing Profit & loss A/c	286,600
<b>Total</b>	<b>16,77,900</b>	<b>Total</b>	<b>16,77,900</b>

Trial Balance

AS ON 31.03.2021

Particulars	Debit Petit	Credit Credit
Stores Ledger Control A/c	63,000	
WSP A/c	68,400	
Administration Overheads All	200	
Finished Goods All	46,200	
Cost Ledger Control A/c		177,800
<b>Total</b>	<b>177,800</b>	<b>177,800</b>

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## Question 3:

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

Particulars	Materials ₹	Work-in-progress ₹	Finished Stock ₹
Opening Balance	8,000	5,000	10,000
Closing Balance	11,000	9,000	12,000
<b>Transactions during the period:</b>			₹
Material purchased			25,000
Wages paid (including ₹ 2,000 indirect)			10,000
Overheads incurred			8,000
Overheads absorbed			9,000
Sales			50,000

## In Cost Records

## Stores Ledger Control A/c

Particulars	₹	Particulars	₹
To Balance b/d	8,000		*
To Cost Ledger Control A/c	25,000	By WIP A/c	22,000
		[materials issued]	
		By Balance c/d	11,000
<b>Total</b>	<b>33,000</b>	<b>Total</b>	<b>33,000</b>

## Wages Account

Particulars	₹	Particulars	₹
To Cost Ledger Control A/c	10,000	By WIP A/c	8,000
		[Direct wages]	
		By Overheads A/c	2,000
		[Indirect wages]	
<b>Total</b>	<b>10,000</b>	<b>Total</b>	<b>10,000</b>

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**Overheads Account**

Particulars	₹	Particulars	₹
To Wages A/c	2,000		
To Cost Ledger Control A/c	8,000	By WSP A/c	* 9,000
		By Costing Profit & Loss A/c	1,000
<b>Total</b>	<b>10,000</b>	<b>Total</b>	<b>10,000</b>

**Work-in-progress A/c**

Particulars	₹	Particulars	₹
To Balance b/d	5,000		
To Wages A/c	8,000	By Finished Goods A/c	* 35,000
To Overheads A/c	9,000		
To Stores Ledger Control A/c	23,000	By Balance old	9,000
<b>Total</b>	<b>44,000</b>	<b>Total</b>	<b>44,000</b>

**Finished Goods A/c**

Particulars	₹	Particulars	₹
To Balance b/d	10,000		
To WSP A/c	35,000	By Cost of Sales A/c	* 33,000
		By Balance old	12,000
<b>Total</b>	<b>45,000</b>	<b>Total</b>	<b>45,000</b>

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### Cost of sales Account

Particulars	₹	Particulars	₹
To finished Goods A/c	33,000		
		By Costing Profit & loss A/c	* 33,000
		By Costing	33,000
<b>Total</b>	<b>33,000</b>	<b>Total</b>	<b>33,000</b>

### Sales Account

Particulars	₹	Particulars	₹
		By Cost Ledger Control A/c	50,000
To Costing Profit & loss A/c	* 50,000		
<b>Total</b>	<b>50,000</b>	<b>Total</b>	<b>50,000</b>

### Costing Profit & loss Account

Particulars	₹	Particulars	₹
To Overheads	1,000	By sales	50,000
To Cost of sales	33,000		
To Cost Ledger Control A/c	* 16,000		
[Transfer of profit]			
<b>Profit</b>	<b>50,000</b>	<b>Total</b>	<b>50,000</b>

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## Cost Ledger Control Account

Particulars	₹	Particulars	₹
		By Balance b/d	23,000
To Sales A/c	50,000	By Stores Ledger Control A/c	25,000
		By Wages A/c	10,000
		By Overheads A/c	8,000
		By Costing Profit & Loss A/c	16,000
To Balance old	32,000		
<b>Total</b>	<b>82,000</b>	<b>Total</b>	<b>82,000</b>

Trial Balance

A/c

Particulars	₹	₹
Stores Ledger Control A/c	11,000	
WIP A/c	9,000	
Finished Goods A/c	12,000	
Cost Ledger Control A/c		32,000
<b>Total</b>	<b>32,000</b>	<b>32,000</b>

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## Question 4:

A fire destroyed some accounting records of a company. You have been able to collect the following from the spoiled papers and as a result of consultation with accounting staff in respect of January, 2021:

## (i) Incomplete Ledger Entries:

## Raw – Material A/c

Particulars	₹	Particulars	₹
Beginning Inventory	32,000		

## Work-in-Progress A/c

Particulars	₹	Particulars	₹
Beginning Inventory	9,200	Finished Stock	1,51,000

## Creditors A/c

Particulars	₹	Particulars	₹
Closing Balance	19,200	Opening Balance	16,400

## Manufacturing Overheads A/c

Particulars	₹	Particulars	₹
Amount Spent	29,600		

## Finished Goods A/c

Particulars	₹	Particulars	₹
Opening Inventory	24,000	Closing Inventory	30,000

## (ii) Additional Information:

- The cash book showed that ₹89,200 have been paid to creditors for raw material.
- Ending inventory of work in progress included material ₹5,000 on which 300 direct labour hours have been booked against wages and overheads.
- The job card showed that workers have worked for 7,000 hours. The wage rate is ₹10 per labour hour.
- Overhead recovery rate was ₹4 per direct hour.

You are required to complete the above accounts in the cost ledger of the company.

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In Cost Ledger of the Company

Raw material A/c

Particulars	₹	Particulars	₹
To Balance b/d	32,000		
To Cost Ledger Control A/c [Purchases]	92,000	By WSP A/c	53,000
		By Balance c/d	71,000
<b>Total</b>	<b>124,000</b>	<b>Total</b>	<b>124,000</b>

Work-in-progress Account

Particulars	₹	Particulars	₹
To Balance b/d	9,200		
To Wages A/c 704,088 hrs. × ₹112/107	701,000	By Finished Goods A/c	151,000
To Overheads A/c (7,000 hrs. × ₹4)	28,000	By Balance c/d	9,200
To Raw materials A/c	53,000	By Balance b/d	9,200
<b>Total</b>	<b>160,200</b>	<b>Total</b>	<b>160,200</b>

Creditors Account

Particulars	₹	Particulars	₹
		By Balance b/d	16,400
To Payment to Creditors	89,200	By Purchases A/c	92,000
To Balance c/d	19,200		
<b>Total</b>	<b>108,400</b>	<b>Total</b>	<b>108,400</b>

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~~Manufacturing Overheads Account~~  
manufacturing overheads Account

Particulars	₹	Particulars	₹
To Cost Ledger Control A/c	29,600		
		By WSP A/c	28,000
		By Costing Profit & loss A/c	* 1,600
<b>Total</b>	<b>29,600</b>	<b>Total</b>	<b>29,600</b>

~~Finished Goods Account~~  
Finished Goods Account

Particulars	₹	Particulars	₹
To Balance b/d	24,000		
To WIP A/c	151,000		
		By Cost of Sales A/c	745,000
		By Balance old	30,000
<b>Total</b>	<b>175,000</b>	<b>Total</b>	<b>175,000</b>

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## Question 5:

The following incomplete accounts are furnished to you for the month ended 31st October, 2021.

## Stores Control Account

Particulars	₹	Particulars	₹
To Opening Balance	54,000		

## Work in progress Control Account

Particulars	₹	Particulars	₹
To Opening Balance	6,000		

## Finished Goods Control Account

Particulars	₹	Particulars	₹
To Opening Balance	75,000		

## Factory Overheads Control Account

Particulars	₹	Particulars	₹
Total debits for October, 2021	45,000		

## Cost of Goods Sold Account

Particulars	₹	Particulars	₹

## Creditors for purchases Account

Particulars	₹	Particulars	₹
		By Opening Balance	30,000

## Additional information:

- (i) The factory overheads are applied by using a budgeted rate based on Direct Labour Hours. The budgeted overheads for 2006 is ₹6,75,000 and the budget of direct labour hours is 4,50,000.
- (ii) The closing balance in the account of creditors for purchases is ₹15,000 and the payments made to creditors in October, amounts to ₹1,05,000.
- (iii) The finished goods inventory as on 31<sup>st</sup> October, 2021 is ₹66,000
- (iv) The cost of goods sold during the month was ₹1,95,000.
- (v) On 31<sup>st</sup> October, 2021 there was only one unfinished job in the factory. The cost records show that ₹3,000 (1,200 direct labour hours) of Direct Labour Cost and ₹6,000 of Direct Material Cost had been charged.
- (vi) A total of 28,200 direct labour hours were worked in October, 2021. All factory workers earn same rate of pay.
- (vii) All actual factory overheads incurred in October, 2021 have been posted.

You are required to complete the above accounts.

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In Cost Ledger of the Company

Stores Control A/c

Particulars	₹	Particulars	₹
To Balance b/d	54,000		
To Cost Ledger Control A/c [Purchases]	99,000	By WSP control A/c	78,000
			*
		By Balance c/d	66,000
<b>Total</b>	<b>144,000</b>	<b>Total</b>	<b>144,000</b>

WSP control A/c

Particulars	₹	Particulars	₹
To Balance b/d	6,000		
To Wages A/c (8,98 hrs × ₹22.5)	79,500	By Finished Goods A/c	186,000
To Factory Overheads A/c (22598879519g)	42,300		
	*	By Balance old	10,800
To Stores Control A/c	778,000	By Balance old (26,000 + 23,000 + 11,200hrs × ₹5)	
<b>Total</b>	<b>196,800</b>	<b>Total</b>	<b>196,800</b>

Finished Goods Control A/c

Particulars	₹	Particulars	₹
To Balance b/d	75,000		
To WSP A/c	186,000	By cost of Goods sold	195,000
		By Balance old	66,000
<b>Total</b>	<b>261,000</b>	<b>Total</b>	<b>261,000</b>

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### Factory Overheads Control Account

Particulars	₹	Particulars	₹
To Cost Ledger Control AC	45,000		
		By WIP control A/c	42,300
		By Costing Profit & loss a/c	2,700
<b>Total</b>	<b>45,000</b>	<b>Total</b>	<b>45,000</b>

### Cost of Goods sold Account

Particulars	₹	Particulars	₹
To finished Goods A/c	195,000		
		By Costing Profit & loss a/c	795,000
<b>Total</b>	<b>195,000</b>	<b>Total</b>	<b>195,000</b>

### Creditors for Purchases Account

Particulars	₹	Particulars	₹
		By Balance b/d	30,000
To Payment to creditors	105,000		
		By Purchases	90,000
To Balance old	15,000		
<b>Total</b>	<b>120,000</b>	<b>Total</b>	<b>1,20,000</b>

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Working Notes:

1. Ascertainment of Overheads Recovery Rate

$$\begin{aligned} \text{Overheads Recovery Rate} &= \frac{\text{Budgeted Overheads}}{\text{Budgeted Labour Hours}} \\ &= \frac{\text{₹ 6,75,000}}{450,000 \text{ hrs.}} \\ &= \text{₹ 1.5 per hour} \end{aligned}$$

2. Ascertainment of Wage Rate

On the basis of data given for closing WIP,

$$\begin{aligned} \text{Wage Rate} &= \frac{\text{Direct Labour Cost}}{\text{Direct Labour Hours}} \\ &= \frac{\text{₹ 3,000}}{1,200 \text{ hrs.}} \\ &= \text{₹ 2.5 per hour} \end{aligned}$$

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## Question 6:

A company operates on historic job cost accounting system, which is not integrated with the financial accounts. At the beginning of a month, the opening balances in cost ledger were:

Particulars	₹ (lakhs)
Stores Ledger Control Account	80
Work-in-progress Control Account	20
Finished Goods Control Account	430
Building Construction Account	10
Cost Ledger Control Account	540
During the month, the following transaction took place :	
<b>MATERIAL :</b>	
Purchased	40
Issued to production	50
Issued to general maintenance	6
Issued to building construction	4
<b>WAGES :</b>	
Gross wages paid	150
Indirect wages	40
For building construction	10
<b>WORKS OVERHEADS :</b>	
Actual amount incurred (excluding items shown above)	160
Absorbed in building construction	20
Under absorbed	8
Royalty paid on production	5
Selling, distribution and administration overheads	25
Sales	450

At the end of the month, the stock of raw material and work-in-progress was ₹ 55 lakhs and ₹ 25 lakhs respectively. The loss arising in the raw material accounts is treated as factory overheads. The building under construction was completed during the month. Company's gross profit margin is 20% on sales.

Prepare relevant accounts to record the above transactions in Cost Ledger of the company.

~~In Cost Ledger of the Company~~  
In cost Ledger of the company

~~Stores Ledger Control A/c~~  
Stores Ledger Control A/c

[ 2 in lakhs ]

Particulars	₹	Particulars	₹
To Balance b/d	80	By WSP Control A/c	50
To Cost Ledger Control A/c	40	By Works Overheads A/c	6
		By Building Construction A/c	4
		By Works Overheads A/c	* 5
		By Finished Goods A/c	55
		By Balance c/d	
<b>Total</b>	<b>120</b>	<b>Total</b>	<b>120</b>

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WIP Control Account

Particulars	₹	Particulars	₹
To Balance bid	20		
To Stores Ledger Control A/c	50	By Finished Goods A/c	333
To Wages A/c	100		
To Cost Ledger Control A/c	5		
To Works Overheads A/c	183	By Balance old	25
	358	Total to	358

Finished Goods Control A/c

Particulars	₹	Particulars	₹
To Balance bid	430		
To WIP control A/c	333	By Cost of sales A/c	360
		By Balance old	403
Total	763	Total	763

Building Construction A/c

Particulars	₹	Particulars	₹
To Balance bid	10		
To Stores Ledger Control A/c	4		
To Wages A/c	10		
To Works Overheads A/c	20	By Cost Ledger Control A/c	44
Total	44	Total	44

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~~Wages Account~~  
Wages Account

Particulars	₹	Particulars	₹
To Cost Ledger Control A/c	150	By WIP A/c	100
		[Direct wages]	
		By Works Overheads A/c	40
		[Indirect wages]	
		By Building Construction A/c	10
		By Building Construction A/c	10
<b>Total</b>	<b>150</b>	<b>Total</b>	<b>150</b>

~~Works Overheads Account~~  
Works Overheads Account

Particulars	₹	Particulars	₹
To Stores Ledger Control A/c	6	By Building Construction A/c	20
To Wages A/c	40	By WIP Control A/c	183
To Cost Ledger Control A/c	100	[absorbed]	
To Stores Ledger Control A/c	5	By Costing Profit & Loss A/c	8
		(under absorbed)	
<b>Total</b>	<b>211</b>	<b>Total</b>	<b>211</b>

~~Selling, Distribution and Administration Overheads A/c~~  
Selling, Distribution and Administration Overheads A/c

Particulars	₹	Particulars	₹
To Cost Ledger Control A/c	25	By Cost of Sales A/c	25
<b>Total</b>	<b>25</b>	<b>Total</b>	<b>25</b>

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Cost of Sales Account

Particulars	₹	Particulars	₹
To finished Goods A/c [2450 - 2010]	360		
		By Costing Profit & loss A/c	* 385
To Selling Distribution and Administration Overheads	25		
<b>Total</b>	<b>385</b>	<b>Total</b>	<b>385</b>

Sales Account

Particulars	₹	Particulars	₹
		By Cost Ledger Control A/c	450
To Costing Profit & loss A/c	* 450		
<b>Total</b>	<b>450</b>	<b>Total</b>	<b>450</b>

Costing Profit and loss Account

Particulars	₹	Particulars	₹
To cost of sales	385	By sales	450
To works overheads	8		
To Cost Ledger Control A/c [Transfer of profit]	* 57		
<b>Total</b>	<b>450</b>	<b>Total</b>	<b>450</b>

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## Cost Ledger Control Account

Particulars	₹	Particulars	₹
		By Balance b/d	540
To sales A/c	450	By Stores Ledger Control A/c	40
To Building Construction A/c	44	By Wages A/c	150
		By works overheads A/c	100
		By WSP Control A/c	5
		By Selling Distribution & Administration overheads	25
	*	By Costing Profit & loss a/c	57
To Balance old	483		
<b>Total</b>	<b>977</b>	<b>Total</b>	<b>977</b>

### Question 7:

From the following information you are requested to pass journal entries under the system of integral accounts.

Particulars	₹
Material purchased on credit	1,48,000
Wages paid	1,68,000
Wages productive	1,48,000
Wages unproductive	20,000
Material issued to production	1,28,000
Works expenses incurred	65,000
Works expenses charged to production	86,000
Office and administration expenses paid	44,000
Office and administration expenses charged to production	43,500
Selling overheads paid	45,000
Selling overheads charged to sales	45,000
Sales Credit	4,90,000

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### Wages Account

Particulars	₹	Particulars	₹
To Cash/Bank A/c	30,000	By WIP A/c	20,000
		By Profit and loss A/c	5,000
		[Non-productive Labour]	
		By Production Overheads	5,000
<b>Total</b>	<b>30,000</b>	<b>Total</b>	<b>30,000</b>

### Production Overheads Account

Particulars	₹	Particulars	₹
To Prepaid Expenses A/c	3,000		
To Stores Ledger Control A/c	4,000	By WIP A/c	30,000
To Wages A/c	5,000	[10% of ₹220,000]	
To Cash/Bank A/c	12,000		
To Profit and loss A/c	6,000		
[Over absorption]			
<b>Total</b>	<b>30,000</b>	<b>Total</b>	<b>30,000</b>

### Work-in-progress A/c

Particulars	₹	Particulars	₹
To Balance b/d	20,000		
To Stores Ledger Control A/c	30,000	By Finished Goods A/c	65,000
To Wages A/c	20,000		
To Production Overheads A/c	30,000		
To Abnormal Gain A/c	5,000	By Balance c/d	49,000
Gappa	105,000	<b>Total</b>	<b>105,000</b>

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## Finished Goods Account

Particulars	₹	Particulars	₹
To Balance b/d	35,000		
To WSP A/c	65,000	By Cost of Sales A/c	80,000
			*
		By Balance c/d	20,000
<b>Total</b>	<b>100,000</b>	<b>Total</b>	<b>100,000</b>

## Selling and Distribution Overheads A/c

Particulars	₹	Particulars	₹
To Cash/Bank A/c	6,000		
		By Cost of Sales A/c	6,000
			*
<b>Total</b>	<b>6,000</b>	<b>Total</b>	<b>6,000</b>

## Cost of Sales A/c

Particulars	₹	Particulars	₹
To Finished Goods A/c	80,000		
To Selling & Distribution Overheads A/c	6,000	By Profit and Loss A/c	86,000
			*
<b>Total</b>	<b>86,000</b>	<b>Total</b>	<b>86,000</b>

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## Sales Account

Particulars	₹	Particulars	₹
		By Cash & Bank A/c	1,00,000
To Profit & loss A/c	* 1,00,000		
Total	1,00,000	Total	1,00,000

## Profit and loss Account

Particulars	₹	Particulars	₹
To Wages	5,000	By Production Overheads	6,000
To Cost of Sales	86,000	By Abnormal Gain	5,000
	*	By Sales	1,00,000
To Net Profit	720,000		
Total	1,11,000	Total	1,11,000

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## Question 9:

Bangalore Petrochemicals Co. keeps books on integrated accounting system. The following balances appear in the books as on 1st January, 2021.

Particulars	Dr. ₹	Cr. ₹
Stores control A/c	18,000	
Work in progress A/c	17,000	
Finished goods 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
Depreciation provision A/c		5,000
Profit and loss A/c		32,000
Total	1,25,000	1,25,000

Transactions for the year ended 31st December, ~~2020~~<sup>2021</sup> were as given below:

Particulars	₹
Wages direct	87,000
Wages indirect	5,000
Purchase of materials (on credit)	1,00,000
Material issued to production	1,10,000
Material 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 overheads incurred	12,000
Selling overhead incurred	14,000
Payment of creditors	1,01,000
Payment of debtors	2,90,000
Depreciation of machinery	1,300
Prepaid rent (included in factory overheads)	300

Write up accounts in the integrated ledger and prepare a trial balance.

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In the books of Bangalore Petrochemicals Co.  
Stores Control A/c

Particulars	₹	Particulars	₹	
To Balance b/d	18,000			
To Creditors All	100,000	By WSP All	110,000	
		By Production Overheads All	3,000	
			*	
		By Balance c/d	6,000	
Total	118,000	BY B 9 6	Total	118,000

WSP Account

Particulars	₹	Particulars	₹	
To Balance b/d	17,000			
To Wages All	87,000	By finished goods A/c	215,000	
To Stores Control All	110,000			
To Production overheads All	48,000		*	
		By Balance c/d	47,000	
Total	262,000	BY BUM c/d	Total	262,000

Finished Goods Account

Particulars	₹	Particulars	₹	
To Balance b/d	13,000			
To WIP A/c	215,000	By cost of sales A/c	220,000	
To Administration overheads	12,000			
			*	
		By Balance c/d	20,000	
Total	240,000	BY B 9 6	Total	240,000

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## Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	10,000	By Wages All	92,000
To Debtors A/c	299,000	By Production overheads	40,000
		By Administration overheads	12,000
		By Selling Overheads All	14,000
		By Creditors All	101,000
		By Balance c/d	41,000
Total	300,000	Total	3,09,000

## Creditors Account

Particulars	₹	Particulars	₹
To Bank All	101,000	By Balance b/d	8,000
		By Stores control All	1,09,000
To Balance C/d	7,000		
Total	1,09,000	Total	1,08,000

## Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d	12,000		
To sales A/c	3,09,000	By Bank All	2,99,000
		By Balance old	22,000
Total	3,12,000	Total	3,12,000

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Depreciation Provision Account

Particulars	₹	Particulars	₹
		By Balance b/d	5,000
		By Production Overheads A/c	1,300
To Balance C/d	6,300		
<b>Total</b>	<b>6,300</b>	<b>Total</b>	<b>6,300</b>

Wages Account

Particulars	₹	Particulars	₹
To Bank All	92,000	By WSP AC	87,000
		[Direct wages]	
		By Production Overheads	5,000
		[Indirect wages]	
<b>Total</b>	<b>92,000</b>	<b>Total</b>	<b>92,000</b>

Production Overheads Account

Particulars	₹	Particulars	₹
To Wages All	5,000		
To Stores Control All	3,000	By WSP AC	48,000
To Bank All	40,000		
To Depreciation Provisional	1,300		
<b>Total</b>	<b>48,300</b>	By Prepaid Rent A/c	300
		<b>After</b>	<b>48,300</b>

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### Cost of Sales Account

Particulars	₹	Particulars	₹
To finished Goods All	220,000		*
To selling overheads All	14,000	By Profit & loss A/c	2,34,000
Total	234,000	Total	234,000

### Sales Account

Particulars	₹	Particulars	₹
	*	By Debtors All	300,000
To Profit & loss A/c	51,00,000		
Total	3,00,000	Total	3,00,000

### Profit and loss Account

Particulars	₹	Particulars	₹
To cost of sales	234,000	By Balance b/d	33,000
		By Sales	300,000
	*		
To Balance C/d	98,000		
total	3,32,000	Total	3,32,000

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## Trial Balance

As on 31.12.2021

Particulars	Debit	Credit
	₹	₹
Fixed Assets All	55,000	
Share Capital A/c		80,000
Prepaid Rent All	300	
Stores Control All	6,000	
WIP AS	47,000	
Finished Goods All	20,000	
Bank A/c	41,000	
Creditors A/c		7,000
Debtors All	22,000	
Depreciation Provision All		6,300
Profit and loss All		98,000
<b>Total</b>	<b>191,300</b>	<b>191,300</b>

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## Question 10:

The following figures have been extracted from the Financial Accounts of a Manufacturing Firm for the first year of its operation:

Particulars	₹
Direct Material Consumption	50,00,000
Direct Wages	30,00,000
Factory overheads	16,00,000
Administrative overheads	7,00,000
Selling overheads	9,60,000
Bad debts	80,000
Preliminary expenses (written off)	40,000
Legal Charges	10,000
Dividend Received	1,00,000
Interest on deposit received	20,000
Sales – 1,20,000 units	1,20,00,000
Closing Stock:	
Finished Goods 4,000 units	3,20,000
Work in progress	2,40,000

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

Prepare the Profit and Loss Accounts both as per financial records and as per cost records. Reconcile the profits as per the two records.

### Profit and Loss Account

Particulars	₹	Particulars	₹
To Direct material	59,00,000	By sales	1,29,00,000
To Direct wages	39,00,000	By Dividend Received	1,09,000
To factory overheads	10,00,10,000	By Interest on Deposit	20,000
To Administrative Exp.	7,00,000		
To Selling overheads	9,60,000	By Closing Stock	
To Bad Debts	89,000	Finished Goods	3,20,000
To Preliminary Expenses	40,000	Wsp	2,40,000
To Legal charges	10,000		
To Net Profit	2,90,000		
<b>Total</b>	<b>1,26,80,000</b>	<b>Total</b>	<b>1,26,80,000</b>

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## COST SHEET

[ Production : 124,000 units ; sales : 120,000 units ]

Particulars	₹	₹
Direct material		56,00,000
Direct wages		30,00,000
Prime cost		86,00,000
Factory overheads @ 20% on Prime cost		17,20,000
Gross Factory Cost		1,03,20,000
Less: Closing WIP		(2,40,000)
Net Factory Cost		1,00,80,000
Add: Administration overheads [124,000 units × ₹ 6]		7,44,000
Cost of production of 124,000 units		1,08,24,000
Less: Closing stock of finished goods [ $\frac{21,08,400}{1,24,000 \text{ units}} \times 4,000 \text{ units}$ ]		(3,49,161)
∴ Cost of goods sold		1,04,74,839
Selling and Distribution overheads [1,20,000 units × ₹ 8]		9,60,000
∴ Cost of sales		1,14,34,839
Sales		1,20,00,000
∴ Profit as per cost records		5,65,161

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Reconciliation Statement :

Particulars	Add (₹)	Less (₹)	Amount (₹)
Profit as per Cost records			5,65,161
1. Excess material consumption	600,000		
2. Over-absorption of factory overheads	120,000		
3. Over-absorption of administrative ohs	44,000		
4. Over-valuation of closing stock of		29,161	
5. Items not considered in cost records		80,000	
b. Preliminary Expenses		40,000	
c. Legal charges		10,000	
d. Dividend received	100,000		
e. Interest on deposit	20,000		
Sub-total	884,000	1,59,161	
∴ Net adjustment to be done			724,839
∴ Profit as per financial records			12,90,000

**Question 11:**

Modern Company Limited furnished the summary of Trading and Profit and Loss Account for the year ended 31st March, 2021.

Particulars	₹	Particulars	₹
To Raw Material	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 OHs	42,600	By Work in progress :	
To Administration OH	39,100	Materials	28,200
To Selling & Dist.	42,700	Wages	11,796
To Goodwill w/off	2,501	Production OH	7,999
To Preliminary exp.	2,200		
To Dividend ( Net )	3,000		
To Income Tax	4,100	By Interest on securities	6,000
To Net Profit	1,89,994		
<b>Total</b>	<b>5,41,995</b>	<b>Total</b>	<b>5,41,995</b>

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

- Production overheads have been allocated to the production at 20% on Prime Cost.
- Administration overheads have been charged at ₹3 per unit on units produced.
- 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.

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## Cost Sheet

[ Production : 12,200 units ; sales : 12,000 units ]

Particulars	₹	₹
Direct material		139,600
Direct wages		76,200
∴ Prime Cost		2,15,800
Production Overheads @ 20% on Prime cost		43,160
∴ Gross Factory Cost		258,960
Less: Closing WIP		(47,995)
i. Net Factory Cost		210,965
Administration overheads [12,200 Units × ₹ 3]		36,600
∴ Cost of production of 12,200 units		247,565
Less: Closing Stock of finished goods [ ₹ 247,565 / 12,200 units × 200 units ]		(4,058)
Cost of goods sold		243,507
Selling and Distribution overheads [12,000 units × ₹ 4]		48,000
∴ Cost of sales		291,507
Sales		480,000
∴ Profit as per cost records		188,493

Reconciliation statement:

Particulars	Add (₹)	less (₹)	Amount
Profit as per cost records			188,493
Adjustments:			
1. Over-absorbed Production overheads	560		
2. Under-absorbed Administrative overheads		2,500	

Particulars	Add (₹)	less (₹)	Amount
3. Over-absorbed Selling & Distribution Obs	5,300		
4. Under-valuation of closing stock of finished goods	3,942		
5. Financial items not considered in cost			
Edges			
9. Write off of Goodwill		2,501	
9. Profit on sales		2,200	
C. Dividend		3,000	
d. Income Tax		4,100	
e. Interest on securities			
	0,000		
Sub-total	15,802	14,301	
i. Net adjustment to be done			1,501
i. Profit as per financial records			189,994

**Question 12:**

S.V. Ltd., has furnished you the following information from the financial books for the year ended 31st March, 2021.

**Profit and Loss Account  
for the year ended 31st March, 2021**

Particulars	₹	Particulars	₹
Opening Stock -		Sales - 10,250 units	7,17,500
500 units at ₹ 35 each	17,500	Closing Stock - 250 units	12,500
Materials consumed	2,60,000		
Wages	1,50,000		
Gross Profit	3,02,500		
Total	7,30,000	Total	7,30,000
Factory overheads	94,750	Gross Profit	3,02,500
Admn. overhead	1,06,000	Interest received	250
Selling expenses	55,000	Rent received	10,000
Bad Debts	4,000		
Preliminary expenses	5,000		
Net Profit	48,000		
Total	3,12,750	Total	3,12,750

The cost sheet shows the cost of materials as ₹26 per unit and the labour cost as ₹15 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 ₹6 per unit. The opening stock of finished goods is valued at ₹45 per unit.

You are required to prepare -

- A statement showing profit as per cost accounts for the year ended 31st March, 2021.
- Statement showing the reconciliation of profit disclosed in cost accounts with the profits shown in the financial accounts.

## Cost Sheet

[ Production : 10,000 units ; Sales : 10,250 units ]

Particulars	₹	₹
Direct Material [10,000 units @ ₹ 26]		260,000
Direct Labour [10,000 units @ ₹ 15]		150,000
∴ Prime Cost		410,000
Factory overheads @ 60% of Direct Labour		90,000
∴ Factory Cost		500,000
Administration Overheads @ 20% of factory cost		1,00,000
∴ Cost of production of 10,000 units		600,000
Add: Opening Stock of finished goods [50 units @ ₹ 45]		22,500
		622,500
	Sub-total	
Less: Closing Stock of finished goods [26.00/1000 / 10,000 units × 250 units]		(15,000)
∴ Cost of goods sold		6,07,500
Selling Expenses @ ₹ 6 on 10,250 units		61,500
∴ Cost of Sales		6,69,000
Sales		7,17,500
∴ Profit as per cost records		48,500

## Reconciliation Statement

Particulars	Add (+)	Less (-)	Amount (₹)
Profit as per financial records			48,000
Adjustments:			
1. Under-valuation of Opening Stock		5,000	
2. Over-absorbed factory overheads	4,750		
3. Over-absorbed administration overheads	6,000		

Particulars	Add (₹)	Less (₹)	Amount (₹)
<del>4. Under-absorbed selling expenses</del>		6,500	
<del>5. Under-valuation of closing stock</del>	2,500		
<del>6. Financial items not considered in Cost records</del>			
<del>a. Bad Debts</del>	4,000		
<del>b. Preliminary Expenses</del>	5,000		
<del>c. Interest received</del>		250	
<del>d. Rent received</del>		10,000	
<del>Sub-total</del>	22,250	21,750	
<del>∴ Net adjustment to be done</del>			500
<del>∴ Profit as per Cost records</del>			<u>48,500</u> <u>1</u>

**Question 13:**

The following information is available from the financial books of a company having a normal production capacity of 60,000 units for the year ended 31st March, 2021:

- Sales - ₹10,00,000 (50,000 units)
- There was no opening and closing stock of finished units.
- Direct material and direct wages cost were ₹5,00,000 and ₹2,50,000 respectively.
- Actual factory expenses were ₹1,50,000 of which 60% are fixed.
- Actual administrative expenses were ₹45,000 which are completely fixed.
- Actual selling and distribution expenses were ₹30,000 of which 40% are fixed.
- Interest and dividends received ₹15,000.

**You are required to :**

- Find out profit as per financial books for the year ended 31<sup>st</sup> March, 2021;
- Prepare the cost sheet and ascertain the profit as per cost accounts for the year ended 31<sup>st</sup> March, 2021 assuming that the fixed overheads are absorbed on the basis of normal production capacity; and
- Prepare a statement reconciling profits shown by financial and cost books.

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In Financial Records

Profit and Loss Account

For the year ended 31.03.2021

Particulars	₹	Particulars	₹
To Direct material	500,000	By sales	1900,000
To Direct wages	250,000	By Interest & Dividend	15,000
To Factory Expenses	150,000		
To Administration Exp.	45,000		
To Selling & Distri Exp.	30,000		
To Net Profit	38,800		
<b>Total</b>	<b>10,15,000</b>	<b>Total</b>	<b>19,15,000</b>

Calculation of fixed overheads recovery rates

$$\text{Fixed Overheads Recovery Rate} = \frac{\text{fixed overheads}}{\text{Normal Production}}$$

$$\begin{aligned} \text{Fixed Factory Overheads Recovery Rate} \\ = \frac{60\% \text{ of } ₹ 2,150,000}{60,000 \text{ units}} = ₹ 1.5 / \text{Unit} \end{aligned}$$

$$\begin{aligned} \text{Fixed Administration Overheads Recovery Rate} \\ = \frac{₹ 45,000}{60,000 \text{ units}} = ₹ 0.75 / \text{Unit} \end{aligned}$$

$$\begin{aligned} \text{Fixed Selling and Distribution Overheads Recovery Rate} \\ = \frac{40\% \text{ of } ₹ 30,000}{60,000 \text{ units}} = ₹ 0.20 / \text{Unit} \end{aligned}$$

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## Cost Sheet

[ Production &amp; Sales : 50,000 units ]

Particulars	₹	₹
Direct material		500,000
Direct Labour		250,000
∴ Prime Cost		750,000
Factory overheads		
a. Variable	60,000	
b. Fixed (50,000 units × ₹ 1.5)	9,888	135,000
∴ Factory cost		8,85,000
Factory cost		
Add: Administrative overheads (50,000 units × ₹ 0.75)		37,500
∴ Cost of production of 50,000 units		9,22,500
Add: Selling and Distribution overheads		
a. Variable	18,000	
b. Fixed [50,000 units × ₹ 0.20]	10,000	28,000
∴ Cost of sales		950,500
Sales		10,00,000
∴ Profit as per cost records		49,500

## Reconciliation Statement

Particulars	Add (₹)	Less (₹)	Amount (₹)
Profit as per cost records			49,500
Adjustments:			
1. Under-absorbed overheads			
a. Factory overheads		15,000	
b. Administration overheads		7,500	
c. Selling & Distribution overheads		3,000	
2. Interest & Dividend not taken in cost records	15,000		
sub-total	15,000	24,500	
i. Net adjustment to be done			(9,500)
∴ Profit as per financial records			40,000

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## Question 14:

M/s H. K. Piano Company showed a net loss of ₹4,16,000 as per their financial accounts for the year ended 31st March, 2021. The cost accounts, however, disclosed a net loss of ₹3,28,000 for the same period. The following information was revealed as a result of scrutiny of the figures of both the sets of books. Prepare a Memorandum Reconciliation Account.

Particulars	₹
Factory overheads under recovered	6,000
Administration overheads over recovered	4,000
Depreciation charged in financial accounts	1,20,000
Depreciation recovered in costs	1,30,000
Interest on investment not included in costs	20,000
Income tax provided	1,20,000
Transfer fees (credit in financial books)	2,000
Stores adjustment (credit in financial books)	2,000

### Memorandum Reconciliation Account

Particulars	₹	Particulars	₹
To Net Loss as per financial records	4,16,000	By Under recovery of Factory overheads	6,000
To Over recovery of Administration overheads	4,000	By Depreciation as per financial records	1,29,000
To Depreciation as per cost records	1,39,000	By Income Tax	1,20,000
To Interest on investments	29,000		
To Transfer fees	2,000		*
To Stores Adjustments	3,000	By loss as per cost records	3,28,000
<b>Total</b>	<b>5,74,000</b>	<b>Total</b>	<b>5,74,000</b>

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## Cost Accounting Records

Non-integrated System

I

Financial records and cost records are maintained

separately.

Reconciliation of profits as per financial records and as per cost records.

III

Integrated System

II

Financial records and Cost records are maintained in

combined manner.

No reconciliation is needed.

## Non-integrated Cost Records

Under this system, separate cost records are maintained and following accounts are usually opened as cost records under non-integrated system.

1. Stores Ledger Control A/c
2. Wages Control A/c
3. Factory Overheads Control A/c
4. WIP Control A/c
5. Administration Overheads Control A/c
6. Finished Goods Control A/c
7. Selling and Distribution Overheads Control A/c
8. Cost of Sales A/c
9. Sales A/c
10. Costing Profit and Loss A/c
11. Cost / General Ledger Control A/c