

## CHAPTER 25

# Reconciliation of Cost and Financial Accounts

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### Meaning

In business concern where Non-integrated Accounting System is followed, cost and financial accounts are maintained separately, the difference between the end result of these two are required to be reconciled. Reconciliation of cost and financial accounts mean tallying the profit or loss revealed by both set of accounts. The chief aim is to find out the reasons for the difference between the results shown by Cost Accounts and Financial Accounts.

### Reasons for the Difference

The various reasons which create difference between cost and financial profit or loss shown by the two set of books may be listed under the following heads :

- (1) Items shown only in Financial Accounts
- (2) Items shown only in Cost Accounts
- (3) Absorption of Overheads
- (4) Methods of Stock Valuation
- (5) Abnormal Loss and Gains

**(1) Items shown only in Financial Accounts :** Some items of income and expenses which are included only in financial accounts but are not shown in cost accounts and vice versa. The following items are shown in financial accounts but not in cost accounts :

#### **(A) Income:**

- (1) Profit on sale of fixed assets
- (2) Interest received on investment
- (3) Dividend received on investment
- (4) Rent, brokerage and commission received

- (5) Premium on issue of shares
- (6) Transfer fees received.

**(B) Expenditure:**

- (1) Loss on sale of fixed assets, e.g., Plant, Machinery, Building etc.
- (2) Interest paid
- (3) Discount paid
- (4) Dividend paid
- (5) Losses due to scrapping of plant and machinery
- (6) Penalties and fines
- (7) Expenses of shares' transfer fees
- (8) Preliminary expenses written off
- (9) Damages payable at law.

**(2) Items shown only in Cost Accounts :** There are some items which are recorded only in Cost Accounts but are not included in financial accounts, notional interest on capital, notional rent of premises owned, salary to proprietor etc. are not recorded in financial account because the amount is not actually spent or paid. These expenses reduced the profit in cost account while in financial account it may be the reverse effect.

**(3) Absorption of Overheads :** In financial accounts actual amount of expenses paid are recorded while in cost accounts overheads are charged at predetermined rates. If overhead charged are not equal to the amount of overhead incurred the under or over absorption of overhead leads to difference in profits of two accounts.

**(4) Methods of Stock Valuation :** The term stock refers to opening or closing stock of raw materials, work in progress and finished goods. In financial accounts stocks are valued at cost price or market price whichever is lower. In Cost Account; stock of raw materials can be valued on the basis of FIFO, LIFO and Simple Average Method etc., and work in progress may be valued at Prime Cost or Work Cost. Finished stocks are generally valued on the basis of cost of production. Thus, the adoption of different method of valuation of stock leads to difference in profits of two sets of accounts.

**(5) Abnormal Losses and Gains :** Different items of abnormal wastages, losses or gains which are included in financial accounts but are not recorded in cost accounts. Thus, the figures of abnormal losses and gains may affect the results in financial accounts alone.

**Importance of Reconciliation**

Reconciliation of cost and financial account is necessary for the following reasons :

- (1) To ensure arithmetical accuracy of both set of accounts for effective cost ascertainment and cost control.
- (2) To identify the reasons for different results in two sets of accounts.
- (3) To evaluate the reasons for variations for effective internal control.
- (4) To enable the smooth co-operation and co-ordination between the activities of cost and financial accounting departments.
- (5) To ensure the standardization of policies relating to stock valuation, depreciation and absorption of overheads.

## Methods of Reconciliation

For reconciling the profit or loss as disclosed by the financial accounting with that shown by the cost accounting, a Reconciliation Statement or Memorandum of Reconciliation Account is prepared.

The following steps have to be taken for preparation of Reconciliation Statement :

- (1) Ascertain the extent of difference between the profit or loss disclosed by two set of book of accounts.
- (2) Take the base profit or loss as per any set of books (either cost or financial) of accounts as the starting point.
- (3) Prepare a statement by making suitable adjustment of items either added or subtracted included in one set of accounts but not in the other set.
- (4) In other words, balances as per cost account has been taken as the starting point, then balance as per financial account is to be adjusted according to the transaction recorded in the financial accounts and vice versa.

The following table will help to prepare the reconciliation of cost and financial accounts :

### Treatment of Causes for Differences

| S. No. | Reasons For Differences  | Suitable Adjustments                                  |   |
|--------|--|---|---|
|        |  | Base is Costing Profit or Financial Loss (+) or ( - ) | Base is Financial Profit or Costing Loss (+) or ( - ) |
| 1.     | Over absorption of overhead in Cost Account  | Add (+)   | Less (-)  |
| 2.     | Over valuation of closing stock in Financial Account   | Add (+)   | Less (-)  |
| 3.     | Over valuation of opening stock in Cost Account  | Add (+)   | Less (-)  |
| 4.     | Excess provision for depreciation of building plant & machinery etc., charged in Cost Account  | Add (+)   | Less (-)  |
| 5.     | Items of expenses charged in Cost Account but not in Financial Accounts (Example Notional interest on Capital, Notional rent on Premises)  | Add (+)   | Less (-)  |
| 6.     | Items of income recorded in Financial Account but not in Cost Account  |   |   |
| 7.     | Under absorption of overhead in Financial Account  | Less (-)  | Add (+)   |
| 8.     | Over valuation of opening stock in Financial Account   | Less (-)  | Add (+)   |
| 9.     | Over valuation of closing stock in Cost Account  | Less (-)  | Add (+)   |
| 10.    | Item of income tax, dividend paid, preliminary expenses written off, goodwill written off, under writing commission and debenture discount written off and any appropriation of profit included in Financial Account only. | Less (-)  | Add (+)   |

### Types of Problems

You are required to prepare a reconciliation of cost and financial account from the following situations :

- (1) When profit or loss of financial and cost account are given
- (2) When profit or loss of financial account is given

- (3) When profit or loss of cost account is given
- (4) When profit and loss account and additional information are given.

**Illustration: 1**

The financial books of a company show a net profit of Rs.1,27,560 for the year ending 31st Dec. 2003. The Cost Account shows a net profit of Rs.1,33,520 for the same corresponding period. The following facts are brought to light:

|   | Rs.    |
|---|--------|
| Factory overhead under recovered in costing A/c       | 11,400 |
| Administration overhead over recovered in costing A/c | 8,500  |
| Depreciation charged in financial accounts            | 7,320  |
| Depreciation recovered in cost A/c                    | 7,900  |
| Interest received but not included in cost A/c        | 900    |
| Income Tax debited in financial A/c                   | 1,200  |
| Bank interest credited financial A/c                  | 460    |
| Stores adjustment credited in financial A/c           | 840    |
| Rent charged in financial A/c                         | 1,720  |
| Dividend paid recorded in financial A/c               | 2,400  |
| Loss of obsolescence charged in financial A/c         | 520    |

(MBA, Madras, 2001)

**Solution:****Reconciliation Statement**

| Particulars  | Rs.    | Rs.      |
|--|--------|----------|
| Profits as per Cost Accounts                                 |        | 1,33,520 |
| <b>Add :</b>   |        |          |
| Administration overhead over recovered in Cost Account       | 8,500  |          |
| Depreciation over recovered in Cost Account<br>(7900 – 7320) | 580    |          |
| Interest received but not included in Cost A/c               | 900    |          |
| Bank interest credited in Financial A/c                      | 460    |          |
| Stores adjustments credited in Financial A/c                 | 840    | 11,280   |
| <b>Less :</b>  |        | 1,44,800 |
| Factory overhead under recovered in Cost A/c                 | 11,400 |          |
| Income Tax received but not included in Cost A/c             | 1,200  |          |
| Rent charged in Financial A/c                                | 1,720  |          |
| Dividend paid charged in Financial A/c                       | 2,400  |          |
| Loss of obsolescence charged in Financial A/c                | 520    | 17,240   |
| Profit as per Financial Accounts                             |        | 1,27,560 |

**Illustration: 2**

AVS Ltd., made a Net Profit of Rs. 5,71,000 during the year 2003 as per the their financial system. Whereas their cost accounts disclosed a profit of Rs. 7,77,200. On reconciliation, the following differences were noticed :

- (1) Directors fees charged in financial account, but not in cost account Rs. 13,000.
- (2) Bank interest credited in financial account, but not in cost account Rs. 600.

- (3) Income Tax charged in financial account, but not in cost account Rs. 1,66,000.
- (4) Bad and doubtful debts written off Rs. 11,400 in financial accounts.
- (5) Overheads charged in costing books Rs. 1,70,000 but actual were Rs. 1,66,400.
- (6) Loss on sale of old machinery Rs.20,000 charged in financial accounts.

(MBA, Madurai, 2001)

**Solution:****Reconciliation Statement**

| <i>Particulars</i>  | <i>Amount Rs.</i> | <i>Amount Rs.</i> |
|---|-------------------|-------------------|
| Profits as per Financial Account  |                   | 5,71,000          |
| <i>Add :</i> Director fees charged in financial account but not in Cost account   | 13,000            |                   |
| Income Tax charged in financial account but not in Cost Account                   | 1,66,000          |                   |
| Bad and doubtful debts written off  | 11,400            |                   |
| Loss on sale of old machinery   | 20,000            | 2,10,400          |
|   |                   | 7,81,400          |
| <i>Less :</i> Bank interest credited in financial account but not in Cost Account | 600               |                   |
| Overheads over absorbed in Cost A/c (170000 – 166400)                             | 3,600             | 4,200             |
| Profit as per Cost Accounts   |                   | 7,77,200          |

**Illustration: 3**

Harish Ltd., has furnished you the following informations from the financial books for the year ended 30th June, 2003 :

**Profit and Loss Account (ended 30th June)**

| <i>Particulars</i>                               | <i>Amount Rs.</i> | <i>Particulars</i>               | <i>Amount Rs.</i> |
|--|-------------------|----------------------------------|-------------------|
| To Purchases                                     | 1,26,050          | By Sales (25000 units at Rs. 15) | 3,75,000          |
| Direct wages                                     | 52,500            | Rent Received                    | 1,300             |
| Factory Overheads                                | 60,650            | Profit on sale of investment     | 11,700            |
| Office & Administrative Overheads }<br>Overheads | 26,700            | Closing Stock                    | 20,400            |
| Depreciation                                     | 5,500             |                                  |                   |
| Selling Expenses                                 | 35,500            |                                  |                   |
| Net Profit                                       | 1,01,500          |                                  |                   |
|  | 4,08,400          |                                  | 4,08,400          |

The cost sheet shows the costing profit of Rs. 98,850 and closing stock of Rs. 21,400. The factory overheads are absorbed at 100% of direct wages and Office and Administrative overheads are charged at Re. 1 per unit. Selling expenses are charged at 10% of Gross of sales. Depreciation in cost account absorbed was Rs. 4,000. You are required to prepare :

- (1) A statement showing as per cost account for the year ended 30th June, 2003.
- (2) Statement showing the reconciliation of profit disclosed in cost accounts with the profit shown in the financial accounts.

(CA, Inter, 2001)

**Solution:****Profit as per Cost Accounts**

| <i>Particulars</i>   | <i>Amount</i> |
|--|---------------|
| Purchases  | 1,26,050      |
| <i>Add</i> : Direct Wages  | 52,500        |
| Prime Cost   | 1,78,550      |
| <i>Add</i> : Factory overhead at 100% on direct wages                                      | 52,500        |
|  | 2,31,050      |
| <i>Add</i> : Depreciation  | 4,000         |
| Factory cost or Works cost   | 2,35,050      |
| <i>Add</i> : Office & Administrative overhead at Re. 1<br>Per unit (25,000 units at Re. 1) | 25,000        |
| Cost of Production   | 2,60,050      |
| <i>Less</i> : Closing stock of finished goods  | 21,400        |
| Cost of goods sold   | 2,38,650      |
| <i>Add</i> : Selling expenses at 10% of Rs. 3,75,000                                       | 37,500        |
| Cost of Sales  | 2,76,150      |
| Costing Profit   | 98,850        |
| Sales  | 3,75,000      |

**Reconciliation Statement**

| <i>Particulars</i>  | <i>Amount Rs.</i> | <i>Amount Rs.</i> |
|---|-------------------|-------------------|
| Profits as Financial Account                                  |                   | 1,01,500          |
| <i>Add</i> : Over valuation of closing stock in Cost A/c      | 1,000             |                   |
| Under absorption of Factory overhead in Cost A/c              | 8,150             |                   |
| Under absorption of Office & Admi. Overhead in Cost A/c       | 1,700             |                   |
| Depreciation under absorbed in Cost A/c                       | 1,500             | 12,350            |
|   |                   | 1,13,850          |
| <i>Less</i> : Over absorption of selling expenses in Cost A/c | 2,000             |                   |
| Rent received charged in Financial A/c                        | 1,300             |                   |
| Profit on sale of investment charged in Financial A/c         | 11,700            | 15,000            |
| Profit as per Cost A/c  |                   | 98,850            |

**Illustration: 4**

The financial books of a company reveal the following data for the year ended 31st March, 2003 :

**Opening Stock :**

|                          | Rs.    |
|--------------------------|--------|
| Finished goods 875 units | 74,375 |
| Work in progress         | 32,000 |

**1. 4. 02 to 31. 3. 03 :**

|                          |          |
|--------------------------|----------|
| Raw materials consumed   | 7,80,000 |
| Direct Labour            | 4,50,000 |
| Factory Overheads        | 3,00,000 |
| Goodwill Written off     | 1,00,000 |
| Administrative Overheads | 2,95,000 |
| Dividend Paid            | 85,000   |

|                                    |           |
|------------------------------------|-----------|
| Bad Debts                          | 12,000    |
| Selling and Distribution Overheads | 61,000    |
| Interest Received                  | 45,000    |
| Rent Received                      | 18,000    |
| Sales 14,500 units                 | 20,80,000 |

**Closing Stock :**

|                          |        |
|--------------------------|--------|
| Finished Goods 375 units | 41,250 |
| Work in progress         | 38,667 |

**The work records provide as under**

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

**Required**

- (i) Prepare statement for the year ended 31st March, 2003 to show :
  - The profit as per financial records
  - The profit as per cost records.
- (ii) Present a statement reconciling the profit as per costing records with the profit as per Financial Records.

*(CA Inter, 2001)***Solution:****Calculation of Financial Profit****Financial Profit and Loss Account**

| <i>Particulars</i>                         | <i>Amount<br/>Rs.</i> | <i>Particulars</i>   | <i>Amount<br/>Rs.</i> |
|--|-----------------------|----------------------|-----------------------|
| To Opening Stock :                         |                       | By Sales             | 20,80,000             |
| Finished goods                             | 74,375                | By Closing Stock :   |                       |
| Work in progress                           | 32,000                | Finished Goods       | 41,250                |
| To Raw materials                           | 7,80,000              | Work in Progress     | 38,667                |
| To Direct Labour                           | 4,50,000              | By Rent Received     | 18,000                |
| To Factory Overheads                       | 3,00,000              | By Interest Received | 45,000                |
| To Goodwill Written off                    | 1,00,000              |                      |                       |
| To Admn. Overheads                         | 2,95,000              |                      |                       |
| To Selling and Distribution<br>Overheads ] | 61,000                |                      |                       |
| To Dividend Paid                           | 85,000                |                      |                       |
| To Bad Debt                                | 12,000                |                      |                       |
| To Profit                                  | 33,542                |                      |                       |
|  | 22,22,917             |                      | 22,22,917             |

**Statement of Cost of Production**

|  | Units      |
|--|------------|
| Sales  | 14,500     |
| <i>Add :</i> Closing Stock                               | 375        |
| Total  | 14,875     |
| <i>Less :</i> Opening Stock                              | 875        |
| Production   | 14,000     |
|  | <i>Rs.</i> |
| Raw Materials  | 7,80,000   |
| Direct Labour  | 4,50,000   |
| Factory overhead 60% Direct Wages                        | 2,70,000   |
| Factory Cost   | 15,00,000  |
| <i>Add :</i> Opening work in progress                    | 32,000     |
| Total  | 15,32,000  |
| <i>Less :</i> Closing work in progress                   | 38,667     |
| Factory Cost of goods produced                           | 14,93,333  |
| <i>Add :</i> Administrative Overhead 20% on Factory Cost | 2,98,667   |
| Production Cost  | 17,92,000  |

$$\begin{aligned}
 \text{Per Unit} &= \frac{\text{Total Cost of Production}}{\text{No. of Units Produced}} \\
 &= \frac{17,92,000}{14,000} = \text{Rs. 128.}
 \end{aligned}$$

**Statement of Costing Profit :**

|  | Rs.         |
|--|-------------|
| Opening Stock 875 units @ Rs.104   | = 91,000    |
| Production 14,000 units @ Rs.128   | = 17,92,000 |
| Total  | 18,83,000   |
| <i>Less :</i> Closing Stock 375 units @ Rs. 128                                | = 48,000    |
| Production Cost goods sold   | 18,35,000   |
| <i>Add :</i> Selling & Distribution overhead<br>14,500 units @ Rs.4 per unit ] | = 58,000    |
| Cost of Sales  | = 18,93,000 |
| Sales Revenue  | = 20,80,000 |
| Costing Profit   | = 1,87,000  |

**Reconciliation of Financial Accounts and Cost Accounts**

| <i>Particulars</i>                                  | <i>Amount Rs.</i> | <i>Amount Rs.</i> |
|---|-------------------|-------------------|
| Profits as per Cost Account                         |                   | 1,87,000          |
| <i>Add :</i> Administrative overheads over recovery | 3,667             |                   |
| Closing stock overhead                              | 16,625            |                   |
| Interest recovered                                  | 45,000            |                   |
| Rent  | 18,000            | 83,292            |
|   |                   | 2,70,292          |
| <i>Less :</i> Factory overhead under recovery       | 30,000            |                   |
| Selling & Distribution overhead under recovery      | 3,000             |                   |
| Closing stock over valued                           | 6,750             |                   |
| Goodwill written off                                | 1,00,000          |                   |
| Dividend  | 85,000            |                   |
| Bad Debts   | 12,000            | 2,36,750          |
| Profit as per Financial Accounts                    |                   | 33,542            |

**Working Notes****Reconciliation of Financial Accounts & Cost Accounts**

| <i>Particulars</i>                   | <i>Financial Accounts Rs.</i> | <i>Cost Accounts Rs.</i> | <i>Difference Rs.</i> | <i>Remarks Rs.</i> | <i>Add / Deduct</i> |
|--------------------------------------|-------------------------------|--------------------------|-----------------------|--------------------|---------------------|
| Factory Overheads                    | 30,00,000                     | 2,70,000                 | 30,000                | Under recovery     | Deduct              |
| Administrative Overheads ]           | 2,95,000                      | 2,98,667                 | 3,667                 | Over recovery      | Add                 |
| Selling and Distribution Overheads ] |                               |                          |                       |                    |                     |
| Opening Stock                        | 61,000                        | 58,000                   | 3,000                 | Under recovery     | Deduct              |
| Closing Stock                        | 74,375                        | 91,000                   | 16,625                | Over valuation     | Add                 |
|                                      | 41,250                        | 48,000                   | 6,750                 | Over valuation     | Deduct              |

**Illustration: 5**

A manufacturing company disclosed a Net Loss of Rs. 5,72,000 as per their Cost Accounts for the year ended March 31, 2003. The Financial Accounts however disclosed a Net Loss of Rs. 8,84,000 for the same period. The following information was revealed as a result of scrutiny of the figures of both the set of Books.

|   | <i>Rs.</i> |
|---|------------|
| (i) Factory Overheads Over-absorbed                       | 16,000     |
| (ii) Administration Overheads under absorbed              | 24,000     |
| (iii) Depreciation charged in Financial Accounts          | 2,20,000   |
| (iv) Depreciation charged in Cost Accounts                | 2,45,000   |
| (v) Interest on Investments not included in Cost Accounts | 64,000     |
| (vi) Income Tax Provided                                  | 1,54,000   |
| (vii) Interest on loan funds in Financial Accounts        | 2,63,000   |
| (viii) Transfer fees (Credits in financial books)         | 16,000     |
| (ix) Stores adjustment (Credit in financial books)        | 8,000      |

Prepare a Memorandum Reconciliation Method.

[CA Inter, 2002]

**Solution:**

**Memorandum Reconciliation Account**

| <i>Particulars</i>  | <i>Amounts Rs.</i> | <i>Particulars</i>   | <i>Amount Rs.</i> |
|---|--------------------|--|-------------------|
| To Net Loss as per costing books                          | 5,72,000           | By Factory Overheads<br>over absorbed in cost Accounts     | 16,000            |
| To Administration overheads                               | 24,000             | By Interest on Investment<br>not included in cost accounts | 64,000            |
| Under recovered in cost accounts                          |                    | By Depreciation over charged<br>in Cost Accounts           | 25,000            |
| To Income Tax not provided in<br>Cost Accounts            | 1,54,000           | By Transfer fees in financial books                        | 16,000            |
| To Interest on loan fund not<br>included in Cost Accounts | 2,63,000           | By Net loss as per financial books                         | 8,84,000          |
|   | 10,13,000          |  | 10,13,000         |

**Alternatively:**

**Memorandum Reconciliation Account**

| <i>Particulars</i>  | <i>Amount Rs.</i> | <i>Amount Rs.</i> |
|---|-------------------|-------------------|
| Net Loss as per Financial Books   |                   | 8,84,000          |
| <i>Add :</i> Factory overheads over absorbed in Cost Accounts           | 16,000            |                   |
| Interest on Investment not included in Cost Accounts                    | 64,000            |                   |
| Depreciation over charged in Cost Accounts                              | 25,000            |                   |
| Transfer fees in financial books  | 16,000            |                   |
| Stores Adjustment in financial books                                    | 8,000             | 1,29,000          |
|   |                   | 10,13,000         |
| <i>Less :</i> Administration overheads under recovered in Cost Accounts | 24,000            |                   |
| Income Tax not provided in Cost Accounts                                | 1,54,000          |                   |
| Interest on loan fund not included in Cost Accounts                     | 2,63,000          | 4,41,000          |
| Net Loss as per Cost Accounts   |                   | 5,72,000          |

**Illustration: 6**

A manufacturing company disclosed a Net Loss of Rs. 347000 as per their cost accounts for the year ended March 31, 2003. The financial accounts however disclosed a Net Loss of Rs. 5,10,000 for the same period. The following information was revealed as a result of scrutiny of the figures of both the set of accounts.

|  | <i>Rs.</i> |
|--|------------|
| (i) Factory Overheads Under absorbed                     | 40,000     |
| (ii) Administration Overheads over absorbed              | 60,000     |
| (iii) Depreciation charged in Financial Accounts         | 3,25,000   |
| (iv) Depreciation Charged in Cost Accounts               | 2,75,000   |
| (v) Interest on Investment not included in Cost Accounts | 96,000     |
| (vi) Income Tax Provided                                 | 54,000     |
| (vii) Interest on loan funds in Financial Accounts       | 2,45,000   |
| (viii) Transfer fees (Credit in financial books)         | 24,000     |
| (ix) Stores adjustments (Credit in financial books)      | 14,000     |
| (x) Dividend received                                    | 32,000     |

Prepare a Memorandum Reconciliation Account.

**Solution:****Memorandum Reconciliation Account**

| <i>Particulars</i>                                      | <i>Amounts Rs.</i> | <i>Particulars</i>  | <i>Amounts Rs.</i> |
|---|--------------------|---|--------------------|
| To Net Loss as per cost books                           | 3,47,000           | By Administration overheads<br>over absorbed in Cost Accounts | 60,000             |
| To Factory overheads under<br>absorbed in Cost Accounts | 40,000             | By Interest on Investments not<br>included in Cost Accounts   | 96,000             |
| To Depreciation under charged in<br>Cost Accounts       | 50,000             | By Transfer fees in Financial books                           | 24,000             |
| To Income Tax not provided in<br>Cost Accounts          | 54,000             | By Stores Adjustments (Credit in<br>financial books)          | 14,000             |
| To Interest on loan Funds in<br>Financial Accounts      | 2,45,000           | By Dividend received in Financial<br>books                    | 32,000             |
|   |                    | By Net loss as per financial<br>books                         | 5,10,000           |
|   | 7,36,000           |   | 7,36,000           |

**QUESTIONS**

1. What do you understand by Reconciliation of Cost and Financial Accounts?
2. Briefly explain the reasons for the difference between profit or loss as per cost accounts and financial accounts.
3. What are the important Reconciliation Statements?
4. Explain briefly the methods of preparation of reconciliation statement of cost and financial profit.
5. List out the different items of incomes and expenses which are included in financial account but ignored in cost account.

**PRACTICAL PROBLEMS**

(1) The profit as per the cost accounts is Rs. 1,50,000. The following details are ascertained on a comparison of the cost and financial accounts :

|  | <i>Cost Accounts<br/>Rs.</i> | <i>Financial Accounts<br/>Rs.</i> |
|--|------------------------------|-----------------------------------|
| (a) <b>Opening Stock :</b>   |                              |                                   |
| Materials  | 10,000                       | 15,000                            |
| Finished goods   | 18,000                       | 16,000                            |
| (b) <b>Closing Stock :</b>   |                              |                                   |
| Materials  | 12,000                       | 13,000                            |
| Finished goods   | 20,000                       | 17,000                            |
| (c) Interest charged but not paid Rs. 10,000   |                              |                                   |
| (d) Write off : Preliminary expenses Rs. 500 ; Goodwill Rs. 1,500  |                              |                                   |
| (e) Dividend on ICICI received Rs. 1,000   |                              |                                   |
| (f) Indirect expenses charged in the financial accounts Rs. 80,000 but Rs. 75,000 recovered in the Cost Account. You are required to prepare a Reconciliation Statement. |                              |                                   |

[Ans : Financial Profits Rs. 1,49,500]

- (2) From the following particulars, you are required to prepare a Reconciliation Statement :

|  | <i>Rs.</i> |
|--|------------|
| Net Loss as per cost accounts                          | 3,44,800   |
| Net loss as per financial accounts                     | 4,32,890   |
| Works overhead under recovered in cost accounts        | 6,240      |
| Depreciation over charged in Cost Account              | 2,600      |
| Interest on investment                                 | 17,500     |
| Administration overhead over recovered in Cost Account | 2,600      |
| Goodwill written off                                   | 92,000     |
| Stores adjustment (or) in financial A/c                | 950        |
| Depreciation of stock charged in financial A/c         | 13,500     |

- (3) The following transactions have been extracted from the books of M/s Nancy & Co Ltd. :

|  | Rs.      |
|--|----------|
| Sales (20,000 units)                   | 2,50,000 |
| Materials                              | 1,00,000 |
| Wages                                  | 50,000   |
| Factory Overheads                      | 45,000   |
| Office and Administration Overheads    | 26,000   |
| Selling and Distribution Overheads     | 18,000   |
| Finished goods (1230 units) 31.12.2003 | 15,000   |
| Work in progress                       | 3,000    |
| Wages                                  | 2,000    |
| Factory Overheads                      | 2,000    |
| Goodwill Written off                   | 20,000   |
| Interest on Capital                    | 2,000    |

In Costing Books Factory overhead is charged at 100% on Wages, Administration overhead at 10% of factory cost and selling and distribution at the rate of Re.1 per unit sold. Prepare a statement reconciling the profit as per cost and financial accounts.

[Ans : Profit as per cost A/c Rs. 30,000; profit as per financial A/c Rs. 11,000]

- (4) From the following figures prepare a reconciliation statement :

|  | Rs.      |
|--|----------|
| Net loss as per financial records                | 2,16,045 |
| Net loss as per costing records                  | 1,72,400 |
| Works overhead under recovered in costing        | 3,120    |
| Administration overhead recovered in excess      | 1,700    |
| Depreciation charged in financial records        | 11,200   |
| Depreciation recovered in costing                | 12,500   |
| Interest received but not included in costing    | 8,000    |
| Obsolescence loss charged in financial records   | 5,700    |
| Income tax provided in financial books           | 40,300   |
| Bank interest credited in financial books        | 750      |
| Stores adjustments (Credit in financial books)   | 475      |
| Depreciation of stock charged in financial books | 6,750    |

- (5) From the following particulars, you are required to prepare a statement of reconciliation:

|                                 | Rs.      |
|---------------------------------|----------|
| Statement of reconciliation     | 72,000   |
| Opening Stock of finished goods | 1,44,000 |
| Purchase of Materials           | 4,32,000 |
| Closing Stock of Materials      | 1,08,000 |
| Closing Stock of finished goods | 36,000   |
| Wages                           | 1,80,000 |
| Actual works expenses           | 1,13,575 |
| Actual office expenses          | 92,975   |
| Profit as per costing books     | 1,78,272 |
| Profit as per financial books   | 1,78,082 |

Works expenses are recovered at 20% on prime cost and office expenses at 80% on works on cost in cost books.

[M.Com., Madras, 2001]

- (6) The following figures are available from financial accounts for the year ended 31st March 2003:

|                                    | Rs.      |
|------------------------------------|----------|
| Direct Materials Consumption       | 2,50,000 |
| Direct Wages                       | 1,00,000 |
| Factory Overheads                  | 3,80,000 |
| Administration Overheads           | 2,50,000 |
| Selling and Distribution Overheads | 4,80,000 |
| Bad Debts                          | 20,000   |

|                                    |          |
|------------------------------------|----------|
| Preliminary expenses (Written off) | 10,000   |
| Legal Charges                      | 5,000    |
| Dividend Received                  | 50,000   |
| Interest on Deposit Received       | 10,000   |
| Sales (1,20,000 units)             | 7,00,000 |
| Closing Stock :                    |          |
| Finished Stock (40,000 units)      | 1,20,000 |
| Work in progress                   | 80,000   |

**The Cost Account reveal**

Direct Material Consumption Rs. 2,80,000  
 Factory Overhead recovered at 20% on Prime Cost  
 Administration Overhead at Rs. 3 per unit of production  
 Selling and Distribution Overheads at Rs. 4 per unit sold

**Prepare**

- (1) Statement of Cost and Profit
- (2) Financial Profit and Loss Account
- (3) Statement reconciling the profits disclosed by the Costing Profit and Loss Account and Financial Profit and Loss Account

[Ans : Net loss of Cost A/c Rs. 4,22,000; Net loss of Financial A/c Rs. 5,35,000]

- (7) The net profit of the James & Co. Ltd. appeared at Rs. 11,57,550 as per the financial records for the year ending 31<sup>st</sup> December 2003. The cost books however, showed a net profit of Rs. 17,24,000 for the same period. A scrutiny of the figures from both set of account revealed the following facts :

|  | Rs.      |
|--|----------|
| Work Overhead under-recovered in costs                                     | 31,200   |
| Administration overhead over recovered                                     | 17,000   |
| Depreciation charged in financial accounts                                 | 1,12,000 |
| Interest on investments not included in costs                              | 80,000   |
| Loss due to obsolescence charged in accounts                               | 57,000   |
| Income tax provided in financial accounts                                  | 4,03,000 |
| Bank interest and transfer fees in financial books                         | 2,500    |
| Stores adjustments (credit in financial books)                             | 4,750    |
| Loss due to depreciation in stock value<br>(charged in financial accounts) |          |

You are required to prepare a statement reconciling both the figures of net profits.

- (8) From the following figures prepare a reconciliation statement :

|  | Rs.       |
|--|-----------|
| Net profit as per financial records              | 12,87,550 |
| Net profit as per costing records                | 17,24,000 |
| Works overhead under recovered in costing        | 31,200    |
| Administrative overhead recovered in excess      | 17,000    |
| Depreciation charged in financial records        | 1,12,000  |
| Depreciation recovered in costing                | 1,25,000  |
| Interest received but not included in costing    | 80,000    |
| Obsolescences loss charged in financial records  | 57,000    |
| Income tax provided in financial books           | 4,03,000  |
| Bank interest credited in financial books        | 7,500     |
| Stores adjustments (credit in financial books)   | 4,750     |
| Depreciation of stock charged in financial books | 67,500    |

- (9) Compare the figure of profit as revealed by cost and the financial books and locate the difference if any.

|                                 | Rs.      |
|---------------------------------|----------|
| Opening stock of raw materials  | 25,000   |
| Opening stock of finished goods | 75,000   |
| Purchase of raw materials       | 1,75,000 |
| Wages                           | 75,000   |
| Factory lighting                | 1,500    |
| Factory rent                    | 12,000   |
| Power and fuel                  | 1,250    |

|                                    |        |
|------------------------------------|--------|
| Indirect wages                     | 15,000 |
| Plant and Machinery's depreciation | 25,000 |
| Oil, waste etc.                    | 1,000  |
| Work Manager's salary              | 1,500  |
| Office rent                        | 9,000  |
| Office lighting                    | 300    |
| Miscellaneous factory expenses     | 625    |
| Depreciation of office appliances  | 1,000  |
| Salaries of office staff           | 18,000 |
| Miscellaneous office expenses      | 640    |
| Closing stock of finished goods    | 25,000 |
| Closing stock of raw materials     | 37,500 |

Factory overhead is charged at 25% on prime cost and office and administrative expenses at 50% of factory overheads. The selling price was fixed by adding 20% on the total cost of manufacture and finished articles sold. Prepare also a statement showing cost of Manufacture.

[Ans: Cost of Manufacture Rs. 3,24,315; profit as per cost book Rs. 2,44,400; profit as per financial books Rs. 2,09,600]

- (10) The following figures have been extracted from the cost record of manufacturing unit:

|                                    |          |
|------------------------------------|----------|
|                                    | Rs.      |
| Stores: Opening balance            | 30,000   |
| Purchases                          | 1,60,000 |
| Transfer from work-in-progress     | 80,000   |
| Issues to work-in-progress         | 1,60,000 |
| Issues to repairs and Maintenance  | 20,000   |
| Deficiencies found in Stock taking | 6,000    |
| Work in Progress: opening balance  | 60,000   |
| Direct wages applied               | 60,000   |
| Overheads applied                  | 2,40,000 |
| Closing balance                    | 40,000   |

Finished products: Entire output is sold at a profit of 10% on actual cost from work in progress. Other wages incurred Rs. 70,000; Overhead incurred Rs. 2,50,000. Items not included in cost records; Income from investment Rs. 10,000, Loss on sale of capital assets Rs. 20,000.

Draw stores Control Account, work in progress Control Account, Costing Profit & Loss A/c; Profit and Loss A/c and Reconciliation Statement.

[Ans: Stores control A/c Rs. 84,000; work in progress Rs. 40,000; costing profit Rs. 4,000; financial profit Rs. 30,000]

- (11) The following figures are available from financial accounts for the year ending 31<sup>st</sup> March 2003:

|                                    |           |
|------------------------------------|-----------|
|                                    | Rs.       |
| Direct materials consumed          | 2,00,000  |
| Direct wages                       | 1,00,000  |
| Factory overheads                  | 75,000    |
| Administrative overheads           | 2,25,000  |
| Selling and distribution overheads | 2,40,000  |
| Bad Debts                          | 30,000    |
| Preliminary expenses written off   | 40,000    |
| Legal charges                      | 20,000    |
| Interest on Bank deposit received  | 20,000    |
| Sales (1,20,000 units)             | 18,00,000 |
| Closing stock (30,000 units)       | 1,60,000  |

The cost accounts reveal the following :

Direct materials consumed 2,20,000; Direct wages Rs. 80,000; Factory overheads at 20% on prime cost. Administration overheads at Rs. 2 per unit produced and selling overheads at Rs. 2 per unit sold.

- Prepare : (a) Statement showing cost and profit  
 (b) Financial profit and loss account  
 (c) Reconciliation statement

[Ans: Costing profit Rs. 10,32,000; Financial profit Rs. 11,00,000].