

Shri J. H. Bhalodia Women's College – Rajkot
B.Com. Sem. IV - Cost Accounting-II
Reconciliation of Cost and Financial Accounts

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The purpose of preparing Financial Accounts and Cost Accounts is different and both are written under different accounting principles and methods and therefore results of both the accounts shows different profit and loss.

Following are reasons due to which result of both the accounts differs:

- [1] Expenses which are only debited in financial accounts and entirely ignored in cost Accounts.
- [2] Income only shown in financial accounts.
- [3] Items only shown in Cost Accounts but are absent in Financial Accounts.
- [4] Overheads – Factory, Administrative and Selling etc. are shown in both Accounts but their amount in both accounts differs. (In financial accounts, overhead expenses are shown on actual basis, while in Cost Accounts it is shown on estimated basis)
- [5] Basis for valuation of stock differs in both accounts. (In Financial Accounts stock is valued at Factory Cost, while in Cost Accounts, same is valued at Cost of Production)

Format of Reconciliation Statement

Statement showing Reconciliation of Cost and Financial Accounts

Particulars	Amt.Rs.	Amt. Rs.
Profit/Loss as per Cost Sheet —————→		XXXX
ADD: (I) Financial Income which are ignored in Cost Account		
Interest received	XXX	
Dividend received	XXX	
Share transfer fee	XXX	
Rent received	XXX	
Profit of asset sold	XXX	
(II) Over valuation of Overhead Expenses in Cost Account		
Factory overheads	XXX	
Administrative overheads	XXX	
Selling & Distribution overheads	XXX	
(III) Over valuation of closing stock in Cost Account	XXX	XXXX
Grand Total		XXXX
LESS : (I) Financial expenditure which are ignored in Cost Acc.		
Income Tax	XXX	
Penalty	XXX	
Donation	XXX	
Goodwill written off	XXX	
Preliminary expenses written off	XXX	
Debenture discount written off	XXX	
Bad debt reserve	XXX	
Loss of Assets sold	XXX	
(II) Under valuation of overhead expenses in Cost Account		
Factory overheads	XXX	
Administrative overheads	XXX	
Selling & Distribution overheads	XXX	
(III) Under valuation of closing stock in Cost Account	XXX	XXXX
Profit/Loss as per Financial Account —————→		XXXX

Ex:1 Following details from financial records of a company for the year ended on 31-3-'07 are available

Particulars	Rs.
Direct material consumption	10,00,000
Direct labor	2,50,000
Factory overheads	9,50,000
Administrative Expenses	6,25,000
Selling Exp.	10,80,000
Prelim. Exp. Written off	25,000
Bad debts	50,000
Legal charges	7,500
Dividend Recd.	1,50,000
Sale (12,000 units)	27,50,000
Closing stock (4,000 units)	3,00,000

Details as per Cost Accounts:-

Material and Labour are shown at their actual cost. Factory Overheads are absorbed at 20% of prime cost, office expenses are calculated at Rs. 5 per unit while selling expenses are added at Rs. 8.50 per units sold. Prepare (1) Cost Sheet (2) profit & Loss A/c (3) Reconciliation statement. (S.U. T.Y.B.com April 1995)

Ex :2 The Trading and Profit and Loss A/c of *SHIVAM LTD.* For the year 2006 is as under :

➤ **Cost Accounts Provide Following information :**

- (1) Material and Labour are shown at their real value
- (2) Factory overhead are absorbed at 50% of direct labour
- (3) Office expenses are calculated at 20% of Factory Cost
- (4) Selling expenses are included at Rs. 3 per unit.

➤ **You are requested to Prepare :**

- (1) Profit & Loss A/c as per Cost Accounts.
- (2) Reconciliation Statement.

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To material	40,000	By sale(2,700 units)	1,00,000
To Direct labour	24,000	By Closing Stock	
To Factory Overheads	16,000	(10% of the units	
To office expenses	14,000	manufactured)	8,000
To selling expenses	9,000	Dividend Received	400
To Preliminary exp. written off	4,000	Interest Received	800
To Net profit	2,200		
	1,09,200		1,09,200

(S.U. S.Y.B.COM Mar/Apr. 2006)

EX : 3 A Manufacturers fire extinguishing appliances. During the year he produces 1550 such appliances and sold 1500 appliances. Cost Accounts show that factory overhead is Rs. 80 per unit whereas office expenses are Rs. 100 per units. Profit as per Cost Accounts is Rs. 60,000.

✚ From necessary other information provided below you are require to prepare:

- (1) Factory Overhead A/c
- (2) Office Expenses A/c
- (3) Cost Sheet
- (4) Reconciliation Statement

Trading and profit & Loss A/c

Dr.			Cr.
Particulars	Amt.Rs.	Particulars	Rs.
To material	2,91,500	By sale	7,50,000
To Direct labour	1,86,100	By Closing Stock of finished goods	18,150
To Factory Overheads	1,40,550	By Closing Stock of work in progress	
To Gross profit	2,05,300	- Material	28,000
		- Labour	15,600
		- Factory OH	<u>11,700</u>
	8,23,450		8,23,450
To Admin Exp.	136,500	By Gross Profit	2,05,300
	68,800		
	<u>2,05,300</u>		<u>2,05,300</u>

(S.U T.Y.B.COM. 1999)

EX 4 : From the following particulars of BHAVIN LTD. Prepare (1) Cost Sheet (2) Profit and Loss A/c and (3) Reconciliation Statement. Income and expenditure's particulars as per financial accounts for the year ended on 31-3-2007 are as under :

Particulars	Amt Rs
(1) Material Consumption	16,00,000
(2) Loss due to sale of Machinery	15,000
(3) Direct Labour	10,00,000
(4) Sinking Fund	5,000
(5) Factory Overhead	2,40,000
(6) Debenture Interest	5,000
(7) Office Expenses	1,60,000
(8) Donation	10,000
(9) Selling and distributing Expenses	2,00,000
(10) Preli. Exp. written off	5,000
(11) Income Tax	25,000
(12) Int. and dividend recd.	15,000
(13) Rent received	5,000

During the year 1,00,000 units were manufactured from which 90,000 units were sold at Rs. 45,00,000 and closing stock at the end of the year was valued at Rs. 4,00,000.

Cost accounts submit following details :

- (1) Selling and distributing expenses are Rs. 2 per unit sold.
- (2) Factory Overhead are absorbed at 30% of direct labour.
- (3) Office expense is calculated at Rs. 2.50 per unit.
- (4) Material and Labour are included at their actual cost.

(S.U.T.Y.B.COM March 2003)

Ex : 5 Profit and Loss A/c of DEVRAJ Ltd. For the year ended on 31-3-2007 is as under:

Dr.

Cr.

Particulars	Rs.	Particulars	Rs.
To office Overhead	56,500	By Gross Profit	94,050
To selling Exp.	36,400	By Int. on Deposit	9,500
To Loss on Sale of Machine	1,100	By Share Transfer fee	1,350
<i>To Depreciation :</i>		By Rent Received	1,100
Machinery	2,000		
Land and Bldg.	2,500		
To Goodwill – w/o	3,000		
To Prelim Exp. – w/o	500		
To Net Profit	4,000		
	1,06,000		1,06,000

Cost Accountant of the Company indicates that office overheads and selling exp. as shown in above account are 13% more and 9% less respectively in Comparison of their figures in Cost Account.

Depreciation on Machinery is under estimated by Rs. 200 while that of Land and Building overestimated by Rs. 450.

Prepare:-

- (1) Office Overheads A/c
- (2) Selling Overheads A/c
- (3) Reconciliation Statement and decided profit as per cost sheet

(S.U.T.Y.B.com. Nov. 1988)

EX:6 Profit and Loss A/C of CHETAN LTD. For the year ended on 31-12-2006 is as under :

Dr.

Cr.

Particulars	Rs.	Particulars	Rs.
To office Exp.	39,200	By Gross Profit	60,950
To selling Exp.	23,000	By Deposit int	2,500
To Loss on Sale of Machine	1,250	By dividend	3,450
<i>To Depreciation :</i>		By Net Loss	1,850
On Plant	1,800		
On Land and Bldg.	2,300		
To Deb. Discount	400		
To Prelim. Exp.	800		
	68,750		68,750

It has been found that office expenses as shown above are 12% more in comparison of the amount shown in Cost Accounts while selling expenses are 8% Less.

Depreciation in Plant is Overestimated by Rs. 350 while that on Building underestimated by Rs. 150.

Prepare :-

- (1) Office Exp. A/c
- (2) Selling Exp. A/c and
- (3) Reconciliation Statement so as to determine profit as per Cost Sheet.

(S.U. T.Y.B.com. April 1982)

Ex : 7 Profit & Loss A/c of PARAS LTD. For the year ended on 31-3-2006.

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Opening Stock of Finished Goods (200 units)	80,000	By sale(at Rs. 700 per unit)	11,90,000
To Material (@ Rs. 100 per unit)	2,00,000	By Closing Stock	1,80,000
To Labour	2,80,000	By Dividend	10,000
To Factory Overheads	2,70,000	By Net Loss	1,70,000
To Office exp.	3,20,000		
To Selling exp.	1,50,000		
To prlim. Exp. written off	50,000		
To Donation	1,20,000		
	15,50,000		15,50,000

Cost Accountant submits details per unit as under :

Factory Overheads	Rs. 130
Office Expenses	Rs. 145
Selling Expenses	Rs. 100
Opening Stock of Finished Goods	Rs. 350

Prepare Reconciliation statement and find out Profit as per Cost Accounts.

(S.U. T.Y.B.com Oct. /Nov. 2002)

EX 8 Unit Cost of GANESH Co. as under :

Material Rs. 20, labour Rs. 15, Factory Overheads 20% of prime Cost, Office Exp. Rs. 3 and Selling Exp. Rs.2 per unit.

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Opening Stock of Finished Goods (1000 units)	50,000	By sale	9,00,000
To material	4,00,000	By Closing Stock (3000 units of finished goods)	1,40,000
To Labour	3,00,000	By Dividend Recd.	8,000
To Factory Overheads	1,50,000	By Discount Received	2,000
To Office Exp.	65,000		
To Selling Exp.	35,000		
To Goodwill written off	5,000		
To pre exp. written off	3,000		
To Tax provision	2,000		
To Net Profit	40,000		
	10,50,000		10,50,000

**Prepare :- (1) Cost sheet and
(2) Reconciliation Statement**

(S.G.U. S.Y. B.Com May 1996)

EX 9 VATSAL LTD. manufacturers two types of television sets. (1) Star Gold and (2) Silver Star
Following details of both types of televisions are available :

Particulars	Star Gold (Rs.)	Silver Gold (Rs.)
Material per unit	3,000	2,000
Labour per unit	2,000	1,500
Selling Price per Unit	10,000	8,000
Manufacturing (in Units)	500	800
Colsing Stock (in Units)	100	80

In Cost Accounts :

- (1) Material and Labour are shown at their actual value.
- (2) Factory Overheads are absorbed at 75% and 80% of labour for Star Gold and Silver Star respectively
- (3) Admin. Expenses are calculated at 20% and 25% of Factory Cost for Star Gold and Silver Star respectively.
- (4) For both types selling expenses are included at 2¹/₂% of Sales.
- (5) Actual expenditures debited in Financial Accounts are as below :

Particulars	Star Gold	Silver Gold
(i) Factory Overheads	Rs. 7,00,000	Rs. 10,00,000
(ii) Adm. Exp.	Rs. 6,75,000	Rs. 9,25,000
(iii) Selling Exp.	Rs. 1,20,000	Rs. 1,30,000

Prepare:-

- (1) Cost Sheet showing cost and profit in total and per unit.
- (2) Profit and Loss A/c
- (3) Reconciliation Statement.

(S.Y.B.com March 2007 similar to this)

EX : 10 Following particulars are available from financial accounts of CHARMEE LTD. :

Opening Stock of Raw Material	29000
Purchase of Raw Material	187000
Closing stock of Raw material	32000

Direct Labour:

Paid	28,0000	
Outstanding	<u>18000</u>	298000
Factory Overheads		190000
Admin Exp.		122500

Closing Stock of work in progress :

Material	4,000	
Labour	5,500	
Factory charges	<u>3,300</u>	12800
Sale (7,600 units)		912000
Selling Exp.		100000
Distribution Exp		64000
Prelim. Exp. written off		5000
Penalty paid		1000
Deb. Discount written off		1500
Rent Income		3000
Dividend income		2500
Closing Stock of Finished Goods (1400 units)		117600

In Closing of Cost Statement :

- (1) Material and Labour are shown at their actual value.
- (2) Factory overheads at 60% of direct labour
- (3) Adm. Exp. at Rs. 12 per unit.
- (4) Selling Exp. at Rs. 10 per unit
- (5) Distributing Exp. at 8% of Sale,

From above details :

PREPARE :- [1] Trading, profit and Loss A/c [2] Cost Sheet and [3] Reconciliation Statement.

(S.U.T.Y.B.com April 2002)