

- (d) Administrative overheads for each type were 150% of direct wages.
 (e) Production during the year were: Type A 40,000 pairs of which 36,000 were sold. Type B 1,20,000 pairs of which 1,00,000 were sold.
 (f) Selling cost was ₹ 1.50 per pair.
 (g) Selling price was ₹ 44 for type A and ₹ 28 per pair for type B. **[T.Y. B.Com., Modified]**

[Ans.: Total Cost: A – ₹ 13,50,000 and B – ₹ 22,50,000; Profit: A – ₹ 2,34,000 and B – ₹ 5,50,000]

14. X and Y Shoe Polish Company Ltd., manufactures black and brown polish in one standard size of tin retailing at ₹ 1.08 and ₹ 1.20 respectively. The following data is supplied to you:

Direct Materials:	Polish	7,38,000
	Tins	2,88,000
Direct Wages		2,44,800
Production overheads		3,67,200
Administrative and selling overheads		1,22,400

Sales for the year were: Black – 14,00,00 tins and Brown – 6,00,000 tins. The opening and closing stock were:

	Black	Brown
Opening stock (Tins)	48,000	1,60,000
Closing stock (Tins)	1,08,000	60,000

The opening stock of the black and brown polish was valued at its production cost of paise ₹ 304 per tin and paise 0.864 per tin respectively. The cost of raw material for brown polish is 10% higher than that for black. There is no difference in the cost of tins. Direct wages for brown are 8% higher than those for black polish and production overheads are considered to vary with direct wages. Administrative and selling overheads are absorbed at a uniform rate per tin of polish sold. Prepare a statement to show the cost and profit per tin of polish. **[T.Y.B.Com., Modified]**

[Ans.: Total Cost: Black – ₹ 12,44,160; Brown – ₹ 5,54,400; Profit: Black – ₹ 3,11,040; Brown – ₹ 1,65,600]

15. A company manufactures a mixer which is sold for ₹ 1,200/-

- (a) Materials constituted at 45% of cost sales.
 (b) Labour constituted 40% of cost sales.
 (c) Overhead expenses constituted 15% of cost of sales.
 (d) An increase of 15% in material cost and 10% in labour cost is expected.
 (e) The the present sales price is 25% of the present gross profit.

If the only figure available are those given above, what must be the selling price to given the same percentage of gross profit as before? **[T.Y.B.Com., Modified]**

[Ans.: Actual Total Cost – ₹ 900; Profit – ₹ 300 and Estimated – ₹ 996.75; Profit – ₹ 195.00]

16. The cost structure of an article the selling price of which is ₹ 45,000 is as follows:

Direct Materials 50% Direct Labour 20% Overheads 30% of cost of sale.

An increase of 15% in the cost of material and of 25% in the cost of labour is anticipated present profit is a 25% decrease in the amount of present article.

You are required:

- (i) To prepare a statement of profit per article at present and
- (ii) The revised selling price to produce the same percentage of profit to sales as before.

[T.Y.B.Com., Modified]

[Ans.: Actual Total Cost – ₹ 33,750; Profit – ₹ 11,250 and Estimated – ₹ 37,968.75; Profit – ₹ 12,656.25]

17. A factory produces uniform type of articles and has a capacity of 8,000 units per week. The following information shows the different elements of cost for 3 consecutive weeks when the output has changed from week to week.

Units Produced	Direct Materials ₹	Direct Labour	Factory Overheads (Partly Variable & Partly Fixed)
800	3,200	1,200	5,600
1,000	4,400	1,500	6,400
1,600	8,600	2,400	8,800

The factory has received an order for 2,400 units upon the selling price of which it wants a profit of 25%. Find out what price per unit it should quote.

[T.Y.B.Com., Modified]

[Ans.: Total Cost: Week 1 – ₹ 39,600; 2 – ₹ 38,160 and 3 – ₹ 36,000 Profit: 1 – ₹ 9,900; 2 – ₹ 9,540; 3 – ₹ 9,000]

18. A factory can manufacture 10,000 units every month. The following data is furnished to you for the quarter ended 31st December, 2014:

Materials cost ₹ 5 per unit
 Labour cost ₹ 4 per unit
 Variable factory expenses ₹ 2 per unit

Particulars	October	November	December
Production (unit)	6,000	8,000	7,000
Factory overheads (₹)	8,000	9,000	8,500

A commission agent introduced a prospective customer who wants to place an order for 10,000 units every month. You are asked to quote your price after considering the following:

- (i) Administration overheads is 10% of works cost.
- (ii) Sales and distribution overheads is 12.5% of cost of production.
- (iii) The commission agent is to be paid ₹ 1 per unit.
- (iii) The factory wants a profit of 20% on sales price. [CS Modified]

19. A factory can produce 60,000 units p.a. at 100% capacity. The estimated cost of production is as follows:

Direct materials ₹ 3 per unit
 Direct wages ₹ 2 per unit
 Fixed cost p.a. ₹ 1,50,000
 Variable expenses per unit ₹ 5

Semi-variable expenses per annum:

- (a) Upto 50% of capacity ₹ 50,000
- (b) ₹ 10,000 for every increase of 25% in capacity or part thereof.

The factory produces only against orders. If the production programme of the factory is as indicated below, what should be the selling price if it wants to earn a profit of ₹ 1,00,000 for the year? The production programme is:

- (a) For the first 3 months at 50% capacity.
 (b) For the next 9 months at 80% capacity.

[T.Y.B.Com., Modified]

[Ans.: Total Cost – ₹ 7,97,000 and Profit – ₹ 1,00,000]

20. In respect of factory, the following figure have been obtained for the year 2014.

Cost of materials	₹ 6,00,000
Wages of labour	5,00,000
Factory overheads	3,00,000
Administration charges	3,36,000
Selling charges	2,24,000
Distribution charges	1,40,000
Profit	4,20,000

A work has been executed in 2015 and the following expenses have been incurred:

Materials	8,000
Wages	5,000

At what price should the product be sold? Factory overheads is based on direct labour and administration, selling and distribution overhead on factory cost. The same rate of profit on the selling price as in 2014 is required.

[Ans.: (i) Total Cost: 2014 – ₹ 21,00,000 and (ii) Net Profit: 2014 – ₹ 4,20,000]

21. The present sales turnover of a factory is 1000 articles at ₹ 550 each. By reason of a price reduction of 9%, the size of order is expected to increase by 50%. The present cost structure of the factory is as follows:

Materials	40%
Variable wages and expenses	30%
Fixed overheads	15%
Profit	15%

Present the present and estimated cost sheet. Is it advisable for the company to go for a price reduction?

[T.Y.B.Com., Modified]

[Ans.: Actual Sales – ₹ 5,50,000; Profit – ₹ 82,500 and Estimated – ₹ 7,50,750; Profit – ₹ 1,12,612.50]

22. The State Government granted license to Sweet Sugar Ltd. to manufacture and sell sugar with a stipulation that 40% of the output should be sold to the State Government at a controlled price of ₹ 3,000/- per tonne and the balance output can be sold in the open market at any price. Following are the details of Sweet Sugar Ltd. for the year ended 31st March, 2014. During the year, 3,600 tonnes of sugarcane was consumed @ 1000 per tonne. Direct labour @ 850 per tonne of output produced.

Particulars	₹
Direct Expenses	4,20,000
Telephone Charges	3,52,695

Office Computer Purchased	2,75,350
Factory Rent and Insurance	3,54,760
Machinery Purchased	4,25,560
Machinery Repairs	98,847
Commission on Sales	3,37,650
Factory Salaries	2,19,588
Carriage Outward	1,54,090
Packing Expenses	1,94,450
Bank Interest	1,65,895
Factory Electricity	2,61,880
Delivery Van Expenses	1,06,850
Coal Consumed	3,80,125
Depreciation on Machinery	2,49,600
Depreciation on Computer	2,04,180
Depreciation on Delivery Van	1,57,360
Office Salaries	1,89,325
Printing & Stationery	1,13,000

During the year, 2,400 tonnes of sugar was produced. The company's profit target for the year, for fixing the open market selling price on the basis of cost sheet, is 10% of its average paid-up capital of ₹ 1,42,56,000. Prepare cost sheet and find various components of total cost and per unit cost and suggest the selling price for open market. **[T.Y. B.Com., Modified]**

[Ans.: Total Cost – ₹ 50,54,400 and Profit – ₹ 14,25,600; Open Market Price – ₹ 2,500 per tonne]

23. Vaijanth Polymers manufactures and sells a typical brand of tiffin boxes under its own brand name the installed capacity of the plant is 1,20,000 units per year, distribution evenly over each month of calendar year. The Cost Accountants of the company has informed you about the cost structure of the product, which is as follows:

Raw Materials	₹ 20 per unit
Direct Labour	₹ 12 per unit
Direct Expenses	₹ 2 per unit
Variable Overheads	₹ 16 per unit
Fixed Overheads for the year	₹ 3,00,000

Semi-variable Overheads are as follows:

- (a) ₹ 7,500 per month upto 50% capacity and
- (b) Additional ₹ 2,500 per month for every additional 25% capacity utilisation or part thereof.

The plant was operating at 50% capacity during the first seven months of the calendar year 2014 and at 100% capacity in the remaining months of the year. The selling price for the period from 1st January, 2014 to 31st July, 2014 was fixed at ₹ 69/- per unit. The firm has been monitoring the profitability and revising the selling price to meet its annual profit target of ₹ 8 lakhs. You are required to suggest the selling price per unit for the cost and also profit for the period:

- (a) From 1st January, 2014 to 31st July, 2014
- (b) From 1st August, 2014 to 31st December, 2014.

[T.Y.B.Com., Modified]

24. A manufacturer produces 8,000 units per month, split up cost and sales value of which is given below:

Particulars	₹ (per Unit)
Direct Material	30
Direct Labour	20
Factory Expenses	
Fixed Overheads (₹ 2,00,000)	25
Variable Overheads	40
Selling & Distribution Expenses	115
Fixed (₹ 80,000)	10
Variable	15
	140
General Administration (Fixed ₹ 2,40,000)	30
Margin of Profit	5
Selling price	175

Due to increase in demand and consequent extension of delivery dates and dissatisfaction among customers, the management decided to provide for an output of 12,000 units per month in the next year. Prepare a comparative cost statement showing anticipated margin of profit for the present output (of 8,000 units) and the proposed output (of 12,000 units). Assume that in the coming year there will be an all-round increase of 5% in the different items of expenses except fixed expense. Selling price can be increased by 2% in the coming year. Due to the proposed increase in output (if the proposal is adopted), there will be an increase of 25% in the Fixed Factory overheads 20% in Fixed Selling and Distribution expenses and 10% in General administration.

[T.Y.B.Com., Modified]

[Ans.: Actual Sales – ₹ 14,00,000; Profit – ₹ 40,000 and Estimated – ₹ 21,42,000; Profit – ₹ 63,000]

25. The present sales turnover of a factory is 2000 articles at ₹ 500 each. By reason of a price reduction of 10%, the size of order is expected to increase by 50%. The present cost structure of the factory is as follows:


Materials	40%
Variable wages and expenses	30%
Fixed overheads	15%
Profit	15%
	100%

Present the present and estimated cost sheet. Is it advisable for the company to go for a price reduction?

[T.Y.B.Com., Modified]

[Ans.: Actual Sales – ₹ 10,00,000; Profit – ₹ 1,50,000 and Estimated – ₹ 13,50,000; Profit – ₹ 2,02,500]



 Chapter	RECONCILIATION OF COST AND FINANCIAL ACCOUNTS
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Cost account helps to ascertain the cost of products. Cost account also reveal the profit or loss in respect of the products. Such profit or loss as per cost accounts, is, however likely to be different from profit or loss shown by financial accounts of the concern for many reasons. They are:

1. Some items of income and expenses appearing only in financial accounts and not in cost accounts, e.g., Income from Dividend, Goodwill written off etc.
2. Some items of income and expenses appearing only in cost accounts, e.g., National Interest on Owner's Capital etc.
3. Different treatment given to some items in the two sets of Accounts, e.g., different methods of valuation of stock, different methods of charging depreciation, or the Overheads being taken on estimated basis in Cost Accounts etc.

All these factors lead to difference in the figures of profit as per Cost Accounts and profit as per Financial Accounts. It should be noted that some concerns maintain Integrated System of Accounts in which the Financial Accounts and Cost Accounts are integrated or kept in the same set of books. In such cases, the financial profits and costing profits will always tally and there will be no such need for reconciliation. However, in Non-integrated System of Accounting, since the financial records and costing records are distinct and separate, reconciliation of costing profits and financial profits becomes necessary. Reconciliation, in such cases, ensures accuracy of costing data furnished to the management on which many important decisions will be based. Reconciliation also acts as a cross check on both sets of accounts and makes them more reliable.

REASONS FOR DIFFERENCE IN COST A/C AND FINANCIAL A/C

The main reasons for difference in the profits (or losses) disclosed by the Cost Accounts and the Financial Accounts are as follows:

- 1. Items Appearing in Financial Accounts Only**
 - (a) Expenses/Losses/Appropriations Debited in Financial Accounts only.
 - (b) Income Credited in Financial Accounts only.
- 2. Items Appearing in Cost Accounts Only**
 - (a) Expenses Debited in Cost Accounts only.
 - (b) Income Credited in Cost Accounts only.

3. Different Treatment in Two Accounts

- (a) Valuation of Opening and Closing Stocks.
- (b) Methods of Charging Depreciation.
- (c) Methods of Recovery/Absorption of Prime Cost/Overheads in Cost Accounts.

These items giving rise to differences between the two accounts – Cost Accounts and Financial Accounts – are explained in detail below.

ITEMS APPEARING IN FINANCIAL ACCOUNTS ONLY

Financial Accounts cover all the items of Income and Expenses pertaining to the organisation as a whole. Cost Accounts, on the other hand, are limited in scope. Cost Accounts take into consideration only the items of income and costs pertaining to the cost unit, i.e., product, process, contract etc. Cost Accounts therefore ignore items of income or expenses not specifically related to the product, process or contract. Such items appear only in Financial Accounts and are ignored and excluded in Cost Accounts. These are enumerated and elaborated below.

Financial Expenses/Losses/Appropriations

These items are debited only in the Financial Accounts and not in the Cost Accounts since these are not connected with any cost unit, i.e., product etc. Following are the instances of such items.

1. Financial Expenses:

- Interest paid on Loans, Fixed Deposits, Debentures.
- Expenses on Issue of Shares, Debentures etc.
- Discount on Issue of Shares, Debentures etc.
- Underwriting Commission on Issue of Shares.

2. Financial Losses:

- Capital Losses such as Loss on sale of fixed assets, Loss on sale of investment, Loss of assets by fire or flood, Machinery scrapped etc.
- Penalties and Fines.
- Damages paid as ordered by Court.

3. Appropriations Out of Profits:

- Donations.
- Writing off Fictitious Assets, e.g., Goodwill, Preliminary Expenses, etc.
- Income Tax.
- Transfer to Sinking Funds.
- Dividend – both Preference and Equity.
- Transfer to Reserves.

Income Credited in Financial Accounts Only

These items are credited only in the Financial Accounts and not in the Cost Accounts, since these too are not directly related to the product etc. Following are the instances of such items:

- *Interest Received* on Loans/Fixed Deposits/Bank Deposits/Debentures etc.
- *Dividend Received* on Investments made in Shares.
- *Premium* on Issue of Share/Debentures credited to the Profit and Loss Account.
- *Rent Received*.
- *Transfer Fees Received* in respect of Share Transfers.
- *Capital Gains* such as Profit on sale of fixed assets, Profit on sale of Investments.
- *Penalties and Fines or Discounts Received* from customers etc.
- *Damages Received* as ordered by Court.

ITEMS APPEARING IN COST ACCOUNTS ONLY

Similarly, there are certain items of Income and Expenses which appear only in Cost Accounts and not in Financial Accounts. These are generally notional or fictional items and not actual ones. These items are included in Cost Accounts in cases where the Sale Price is fixed by the Government on the basis of Cost data submitted by the company (e.g. Fertilisers Industry), or in cases where the sale price is fixed on the basis of Cost plus contracts. These items are detailed below:

1. Expenses Debited in Cost Accounts Only

- *Notional Interest* on Owner's Capital
- *Notional Remuneration* to Owner for his Labour and Management.
- *Notional Rent* to Owner for use of his premises for business.

2. Income Credited in Cost Accounts Only

- *Notional Interest* charged to owner for drawings (debit balance in Capital Account).
- *Notional Rent* charged to owner for personal use of business premises.

DIFFERENT TREATMENT IN TWO ACCOUNTS

There are several items of income and expenses which are treated differently in the two sets of accounts, viz., the Cost Accounts and the Financial Accounts. The amounts of such items in two sets of accounts are different due to the different treatment. The difference in the amounts has to be ascertained and adjusted in order to reconcile the respective profits as per the two accounts. These items are explained in detail below:

Methods of Valuation of Stocks

Different types of stock such as Raw Materials, Finished Goods, Work-in-progress etc. may be valued by one method in the Cost Accounts and another in the Financial Accounts. Thus,

1. **Raw Materials** may be valued on FIFO basis in Cost Accounts and LIFO basis in Financial Accounts.
2. **Finished Goods** may be valued at Cost of Production including Office Overheads in Cost Accounts, while in Financial Accounts, they may be valued at production cost excluding Office expenses. Further, Finished goods may be valued in the Financial Accounts at market price if it is lower than cost. However, in Cost Accounts, Finished Goods may be valued only at cost, irrespective of the market price

3. **Work-in-progress** may be valued at actual prime cost plus an estimated percentage of overheads in Cost Accounts, while in Financial Accounts, work-in-progress may be valued only at prime cost. The work-in-progress in respect of a long-term contract may be valued by different methods in the Cost Accounts and the Financial Accounts.

Methods of Charging Depreciation

The method adopted for charging depreciation in the two accounts – Cost Accounts and Financial Accounts – may be different. Thus, while the Cost Accounts may follow the Straight Line Method, Financial Accounts may follow the Written Down Value Method. This obviously leads to either overcharging or undercharging of depreciation in the Financial Accounts.

Recovery of Prime Cost/Overheads

1. **Materials:** Sometimes in Cost Accounts, the cost of Materials, Labour or Overheads is taken at an estimated or predetermined value instead of the actual expenditure. Thus, Raw materials may be taken at a cost equal to **Actual Quantity Consumed × Fixed Rate**. The actual cost of raw materials debited in the Financial Accounts will be different from such cost of materials debited in the Cost Accounts. Some difference in the value of consumption of materials may also arise due to different treatment of Wastage and Loss of materials in the two sets of accounts.
2. **Wages:** Like materials, Wages too may be debited in the Cost Accounts at an estimated amount equal to **Actual Labour Hours × Fixed Wage Rate**. The actual amount of Wages debited in the Financial Accounts will be different from the Wages debited in the Cost Accounts. Further, the treatment of Idle Time and Overtime may be different in the two sets of accounts leading to difference between the Financial Profits and the Costing Profits.
3. **Overheads:** Overheads are frequently debited or charged to products, processes etc. on estimated basis in Cost Accounts. The amount of overheads thus recovered or absorbed in the Cost Accounts is bound to be different from the actual amount of overhead appearing in the Financial Accounts. The overheads are likely to be either over-recovered or under-recovered in the Cost Accounts leading to difference between the Financial Profit and Cost Profit.

PROCEDURE FOR RECONCILIATION

1. **Basic Rule:** The basis rule for preparing the Reconciliation Statement is **Do As The Other Has Done**. Thus, when we start with the Financial Profit, we have to do as the Cost Accounts have done. Thus, we have to start with the Financial Profits, and

- exclude the items which were ignored by Cost Accounts,
- consider the items accounted only in Cost Accounts,
- adopt the same amounts in respect of stock, depreciation, overheads etc. as adopted by Cost Accounts, and
- finally adjust the Financial Profits accordingly.

This process of Doing What the Other has Done will finally reconcile the Financial Profits with the Costing Profits.

2. **Items Causing Difference:** Let us study in detail how the various items described above are reconciled, **with Financial Profits as the starting point**.

A. Items Appearing only in Financial Accounts

(i) **Expenses etc. Debited Only in the Financial Accounts:** These items are ignored and excluded in the Cost Accounts. As per our rule **Do As The Other Has Done**, we also must ignore and exclude these items. When expenses, losses, and appropriations are excluded, the financial profit increases. Hence the expenses, losses and appropriations debited only in Financial Accounts are added to Financial Profits in the reconciliation statement.

(ii) **Income Credited Only in the Financial Accounts:** These items are ignored and excluded in the Cost Accounts. As per our rule **Do As The Other Has Done**, we must also ignore and exclude these items. When income is excluded, the financial profit decreases. Hence, the items of income credited only in Financial Accounts are deducted from Financial Profits in reconciliation statement.

(iii) **Reconciliation:** Thus,

Financial Profit as per Financial Accounts

Add: Expenses/Losses/Appropriations Debited in Financial Accounts Only

Less: Income Credited in Financial Accounts Only

= Costing Profit as per Cost Accounts

B. Items Appearing Only in Cost Account

(i) **Income Credited only in Cost Accounts:** These items are considered only in the Cost Accounts. As per our rule **Do As The Other Has Done**, we must also consider these items of Income. When these items of income are considered and included, the financial profit will go up. Hence, the items of income credited only in the Cost Accounts are added to the Financial Profits in the reconciliation statement.

(ii) **Expenses Debited Only in Cost Accounts:** These items have been considered only in the Cost Accounts. As per our rule **Do As The Other Has Done**, we must also consider these items of expenses. When these items of expenses are considered, the financial profit will go down. Hence, the items of expenses debited only in the Cost Accounts are deducted from the Financial Profit in the reconciliation statement.

(iii) **Reconciliation:** Thus,

Financial Profit as per Financial Accounts

Add: Income Credited Only in Cost Accounts

Less: Expenses Debited Only in Cost Accounts

= Costing Profit as per Cost Accounts

C. Different Treatment in Two Accounts**(i) Valuation of Closing and Opening Stock**

(a) **Closing Stock Undervalued in Financial Accounts:** This item indicates that the value of closing stock is higher in Cost Accounts as compared to that in the Financial Accounts. As per our rule **Do As The Other Has Done**, we have to adopt the higher value of closing stock as per the Cost Accounts. Increase in the value of closing stock means increase in Financial Profits. Hence, the amount of undervaluation of closing stock in Financial Accounts is added to Financial Profits in the reconciliation statement.

(b) **Opening Stock Overvalued in Financial Accounts:** This item indicates that the value of opening stock is lower in Cost Accounts as compared to the Financial Accounts. As per our

rule **Do As The Other Has Done**, we have to adopt the lower value of opening stock as per the Cost Accounts. Decrease in the value of opening stock means increase in Financial Profits. Hence, the amount of overvaluation of opening stock in Financial Accounts is added to Financial Profits in the reconciliation statement.

- (c) **Closing Stock Overvalued in Financial Accounts:** This item indicates that the value of closing stock is lower in Cost Accounts as compared to that in the Financial Accounts. As per our rule **Do As The Other Has Done**, we have to adopt the lower value of closing stock as per the Cost Accounts. Decrease in the value of the closing stock means decrease in Financial Profit. Hence, the amount overvaluation of closing stock in Financial Accounts is deducted from Financial Profits in the reconciliation statement.
- (d) **Opening Stock Undervalued in Financial Accounts:** This item indicates that the value of opening stock is higher in Cost Accounts as compared to that in the Financial Accounts. As per our rule **Do As The Other Has Done**, we have to adopt the higher value of opening stock as per the Cost Accounts. Increase in the value of opening stock means decrease in Financial Profits. Hence, the amount of undervaluation of opening stock in Financial Accounts is deducted from Financial Profits in the reconciliation statement.

- (e) **Reconciliation:** Thus,

Financial Profit as per Financial Accounts

Add: Closing Stock Undervalued in Financial Accounts

Opening Stock Overvalued in Financial Accounts

Less: Closing Stock Overvalued in Financial Accounts

Opening Stock Undervalued in Financial Accounts

= Costing Profit as per Cost Accounts

(ii) **Methods of Charging Depreciation**

- (a) **Depreciation Overcharged in Financial Accounts:** This item indicates that the amount of depreciation is lower in Cost Accounts as compared to that in the Financial Accounts. As per our rule **Do As The Other Has Done**, we have to adopt the lower amount of depreciation as per the Cost Accounts. Decrease in the amount of depreciation means addition to Financial Profits. Hence, the amount of depreciation overcharged in Financial Accounts is added to financial profit in the reconciliation statement.
- (b) **Depreciation Undercharged in Financial Accounts:** This item indicates that the amount of depreciation is higher in Cost Accounts as compared to that in the Financial Account. As per our rule **Do As The Other Has Done**, we have to adopt the higher amount of depreciation as per the Cost Accounts. Increase in the amount of depreciation means decrease in Financial Profits. Hence, the amount of depreciation undercharged in Financial Accounts is deducted from financial profits in the reconciliation statement.

- (c) **Reconciliation:** Thus,

Financial Profit as per Financial Accounts

Add: Depreciation Overcharged in Financial Accounts

Less: Depreciation Undercharged in Financial Accounts

= Costing Profit as per Cost Accounts

(iii) Recovery of Prime Cost/Overheads

(a) Cost/Overheads Under-recovered in Cost Accounts: This item indicates that the amount of prime cost/overheads is lower in Cost Accounts as compared to that in the Financial Accounts. As per our rule **Do As The Other Has Done**, we have to adopt the lower amount of overheads etc. as per the Cost Accounts. Decrease in the amount of Overheads etc. means increase in Financial Profits. Hence, the amount of overheads under-recovered in Cost Accounts is added to Financial Profits in the reconciliation statement.

(b) Cost/Overheads Over-recovered in Cost Accounts: This items indicates that the amount of overheads (or prime cost) is higher in Cost Accounts as compared to that in the Financial Accounts. As per our rule **Do As The Other Has Done**, we have to adopt the higher amount of overhead etc. as per the Cost Accounts. Increase in the amount of Overheads etc. means decrease in Financial Profits. Hence, the amount of overheads over-recovered in Cost Accounts is deducted from Financial Profits in the reconciliation statement.

(c) Reconciliation: Thus,

Financial Profit as per Financial Accounts

Add: Prime Cost/Overheads Under-recovered in Cost Accounts

Less: Prime Cost/Overheads Over-recovered in Cost Accounts

= Costing Profit as per Cost Accounts

RECONCILIATION (STARTING WITH FINANCIAL PROFITS)

1. Introduction: The Statement of Reconciliation between Financial Profits and Costing Profits is prepared in the format given below. It is similar to a Bank Reconciliation Statement. The Reconciliation Statement can be prepared in two ways – starting with Financial Profits or starting with Costing Profits. Let us first see how the Reconciliation Statement appears when prepared with Financial Profits as the starting point in the light of our earlier discussions (in para 6). The proforma statement is given below:

2. Proforma:

**Statement of Reconciliation
between Financial Profit and Costing Profit for the Year Ending xxxx**

Particulars	₹	₹
Financial Profit	xx	
Add:		
Expenses/Losses/Appropriations		
Debited only in Financial A/cs	xx	
Closing Stock Undervalued in Financial A/cs	xx	
Opening Stock Overvalued in Financial A/cs	xx	
Depreciation Overcharged in Financial A/cs	xx	
Overheads Under-recovered in Cost A/cs	xx	
Income Credited only in Cost A/cs	xx	xx
Less:		
Income Credited only in Financial A/cs	xx	
Closing Stock Overvalued in Financial A/cs	xx	

Opening Stock Undervalued in Financial A/cs	xx	
Depreciation Undercharged in Financial A/cs	xx	
Overheads Over-recovered in Cost A/cs	xx	
Expanses Debited only in Cost A/cs	xx	(xx)
Costing Profit		xx

RECONCILIATION (STARTING WITH COST PROFITS)

1. Introduction: The basis rule for preparing the Reconciliation Statement, i.e., **Do As The Other Has Done** is equally applicable in this case too. Thus, when we start with the Costing Profits, we have to do as the Financial Accounts have done. We have to start with the Cost Profits, and

- exclude the items which were ignored by Financial Accounts,
- consider the items accounted only in Financial Accounts,
- adopt the amounts of stocks, depreciation, overheads etc. adopted by Financial Accounts,
- and finally adjust the Costing Profits accordingly.

This process of 'Doing What the Other has Done' will finally reconcile the Costing Profits with the Financial Profits.

2. Proforma:

Statement of Reconciliation between Costing Profit and Financial Profit for the Year Ending xxxx

Particulars	₹	₹
Costing Profit	xx	
Add:		
Income Credited only in Financial A/cs	xx	
Closing Stock Overvalued in Financial A/cs	xx	
Opening Stock Undervalued in Financial A/cs	xx	
Depreciation Undercharged in Financial A/cs	xx	
Overheads Over-recovered in Cost A/cs	xx	
Expanses Debited only in Cost A/cs	xx	xx
Less:		
Expenses/Losses/Appropriations Debited only in Financial A/cs	xx	
Closing Stock Undervalued in Financial A/cs	xx	
Opening Stock Overvalued in Financial A/cs	xx	
Depreciation Overcharged in Financial A/cs	xx	
Overheads Under-recovered in Cost A/cs	xx	
Income Credited only in Cost A/cs	xx	(xx)
Financial Profit		xx

RECONCILIATION (STARTING WITH FINANCIAL LOSS)

- 1. Introduction:** In case Financial Accounts show a loss, the proforma Statement of reconciliation will appear as given below. It is clear that this is similar to the Statement prepared above when we take the Costing Profit as the starting point. The Rule of Reconciliation, viz., **Do As The Other Has Done**, remains equally valid in this case too. (In some cases, the Cost Accounts may disclosed profits even when the Financial Accounts shown a loss, due to different treatment of items in the two sets of accounts.
- 2. Proforma:**

**Statement of Reconciliation
between Financial Loss and Costing Loss/Profit for the Year Ending xxxx**

Particulars	₹	₹
Financial Loss	xx	
Add:		
Income Credited only in Financial A/cs	xx	
Closing Stock Overvalued in Financial A/cs	xx	
Opening Stock Undervalued in Financial A/cs	xx	
Depreciation Undercharged in Financial A/cs	xx	
Overheads Over-recovered in Cost A/cs	xx	
Expenses Debited only in Cost A/cs	xx	xx
Less:		
Expenses/Losses/Appropriations Debited only in Financial A/cs	xx	
Closing Stock Undervalued in Financial A/cs	xx	
Opening Stock Overvalued in Financial A/cs	xx	
Depreciation Overcharged in Financial A/cs	xx	
Overheads Under-recovered in Financial A/cs	xx	
Income Credited only in Cost A/cs	xx	(xx)
Costing Loss/Profit		xx

Solved Problems**From Financial and Cost Accounts****Illustration 1: (Both Accounts Show Profits)**

The Net Profit of a company for the year ended on 31st March, 2014 was ₹ 56,600 as shown by the Financial Books. The Cost Accounts disclosed a profit of ₹ 59,650 for the same period. On an examination of both the sets of accounts, the following facts were discovered:

- Goodwill written off in Financial Accounts ₹ 1,500.
- Transfer fees received during the year ₹ 200.
- Depreciation charged in financial accounts ₹ 750.
- Depreciation recovered in cost statements ₹ 1,000.
- Opening stock as on 1st April, 2013 as per financial records ₹ 13,000.

- (f) Opening stock as on 1st April, 2013 as per cost statement ₹ 12,000.
 (g) Closing stock as on 31st March, 2014 as per financial records ₹ 14,000.
 (h) Closing stock as on 31st March, 2014 as per cost statement ₹ 15,000.

Prepare a Reconciliation statement reconciling the profit as shown by financial and cost books taking (i) Financial Profit as the starting point and (ii) Costing profit as the starting point.

Solution:

**Statement of Reconciliation
 between Financial Profit and Costing Profit for the Year Ending 31.3.2014**

Particulars	₹	₹
Financial Profit		56,600
Add:		
1. Amounts Debited in Financial A/cs only – Goodwill written off	1,500	
2. Closing Stock Undervalued in Financial A/cs (₹ 15,000 – ₹ 14,000)	1,000	
3. Opening Stock Overvalued in Financial A/cs (₹ 13,000 – ₹ 12,000)	1,000	3,500
		60,100
Less:		
1. Income Credited only in Financial A/cs – Transfer Fees Received	200	
2. Depreciation Undercharged in Financial A/cs (₹ 1,000 – ₹ 750)	250	450
Costing Profit		59,650

**Statement of Reconciliation
 between Costing and Financial Profit for the Year Ending 31.3.2014**

Particulars	₹	₹
Costing Profit		59,650
Add:		
1. Income Credited in Financial A/cs only – Transfer Fees Received	200	
2. Depreciation Undercharged in Financial A/cs (₹ 1,000 – ₹ 750)	250	450
		60,100
Less:		
1. Amounts Debited in Financial A/cs only – Goodwill written off	1,500	
2. Closing Stock Undervalued in Financial A/cs (₹ 15,000 – ₹ 14,000)	1,000	
3. Opening Stock Overvalued in Financial A/cs (₹ 13,000 – ₹ 12,000)	1,000	3,500
Financial Profit		56,600

Illustration 2: (Both Accounts Show Losses)

From the following, prepare a statement of reconciliation and find out profit/loss as per financial records.

Particulars	₹
Net loss as per cost records	1,72,400
Works overhead under-recovered in costing	3,120
Administrative overheads over-recovered in costing	1,700
Depreciation in Financial A/c	11,200

Depreciation in Cost A/c	12,500
Interest received	8,750
Obsolescence loss in Financial A/c	5,700
Provision for Income Tax	40,300
Opening Stock	
Financial Records	52,600
Cost Records	54,000
Closing Stock	
Financial Records	52,000
Cost Records	49,600
Interest Charges in Cost Account only	6,000
Preliminary Expenses written off	950

[T.Y.B.Com., Modified]

Solution: Statement of Reconciliation between Costing Loss and Financial Loss

Particulars	₹	₹
Costing loss		1,72,400
Add:		
1. Expenses/Losses/Appropriations Debited in Financial A/c only		
– Obsolescence Loss	5,700	
– Provision for Income Tax	40,300	
– Preliminary Expenses	950	
2. Overheads Under-recovered in Cost A/cs – Works Overheads	3,120	50,070
		2,22,470
Less:		
1. Income Credited in Financial A/cs – Interest Received	8,750	
2. Closing Stock Overvalued in Financial A/cs	2,400	
3. Opening Stock Undervalued in Financial A/cs	1,400	
4. Depreciation Undercharged in Financial A/cs	1,300	
5. Overheads Over-recovered in Cost A/cs – Administrative Overheads	1,700	
6. Expenses Debited only in Cost A/cs – Interest Charged	6,000	21,550
Financial Loss		2,00,920

From Costing Profit Figures

Illustration 3: The following information is available from Cost and Financial Accounts in respect of Progressive Co. Ltd. for the year ended 31st December, 2014. You are required to prepare a statement reconciling the profit or loss from the same. The following items are shown in Financial Accounts but not in Cost Accounts.

Particulars	₹
Loss due to obsolescence of assets	3,700
Provision for income tax	38,000

Reduction in value of stock	6,000
Debenture interest	4,000
Loss by fire	1,050
Interest on investments	6,000
Bank interest and transfer fees	1,225
Rent received of staff quarters	2,000

The additional information is as follows:

- In Cost Accounts, works overheads are estimated at ₹ 26,000, while in Financial Accounts they are charged at ₹ 29,120.
- In Cost Accounts, administration overheads are estimated at ₹ 20,000, while in Financial Accounts they are debited at ₹ 18,300.
- In Cost Accounts, excess charge for depreciation is ₹ 1,300 compared to Financial Accounts.
- Profit as shown by Financial Accounts does not agree with the profit shown by Cost Accounts. Profit as per Cost Accounts is ₹ 1,72,400.

Solution:

Progressive Co. Ltd.

Statement of Reconciliation between Costing Profit and Financial Profit

Particulars	₹	₹
Costing Profit		1,72,400
Add:		
1. Income Credited in Financial A/cs only		
– Interest on Investments	6,000	
– Bank Interest and Transfer Fees	1,225	
– Rent Received	2,000	
2. Depreciation Undercharged in Financial A/cs (i.e., overcharged in Cost A/cs)	1,300	
3. Overcharged Over-recovered in Cost A/cs		
– Administration Overhead (₹ 20,000 – ₹ 18,300)	1,700	12,225
		1,84,625
Less:		
1. Expenses/Losses/Appropriations Debited in Financial A/cs Only		
– Loss due to obsolescence of assets	3,700	
– Provision for Income Tax	38,000	
– Reduction in Value of Stock	6,000	
– Debenture Interest	4,000	
– Loss by Fire	1,050	
2. Overheads Under-recovered in Cost A/cs		
– Work Overheads (₹ 29,120 – ₹ 26,000)	3,120	55,870
Financial Profit		1,28,755

From Financial Profit Figures

Illustration 4: From the following particulars, prepare Reconciliation Statement and ascertain Costing Profit/Loss. Net Profit as per Financial P & L A/c. ₹ 50,000, Opening Stock was overvalued by ₹ 2,000 in

Cost Accounts as compared to financial accounts. Administrative overheads charged in Financial Books ₹ 20,000 but recovered in Cost ₹ 40,000.

Income Tax Provision ₹ 1,200.

Notional Salary of Proprietor in Cost ₹ 20,000.

Interest Received ₹ 12,000.

Closing Stock as per financial books ₹ 16,200.

Whereas in Cost books it was ₹ 19,000.

[T.Y.B.Com., Modified]

Solution: **Statement of Reconciliation**

Particulars	₹	₹
Financial Profit		50,000
Add:		
1. Income Tax Provision (only in F.A.)		1,200
2. Difference in Closing Stock		2,800
		54,000
Less:		
1. Opening Stock Overvalued	2,000	
2. Administration Expenses Overabsorbed	20,000	
3. Notional Salary (only in C.A.)	20,000	
4. Notional Salary (only in F.A.)	12,000	54,000
Costing Profit		NIL

Illustration 5: From the following, prepare Reconciliation Statement of M/s XYZ & Company as on 30.6.2014:

- Net Profit as per Financial Accounts ₹ 40,340.
- Income Tax Provision made ₹ 30,000.
- Materials Purchases of 5,000 units were recorded in cost at standard cost ₹ 24 per unit whereas in Finance it was recorded at actual cost ₹ 22 per unit.
- Old Bad debts recovered ₹ 20,500.
- Loss on sale of furniture was ₹ 4,120.

[T.Y.B.Com., Modified]

Solution: **Statement of Reconciliation of Profit**

Particulars	₹	₹
Financial Profit		40,340
Add:		
1. Income Tax Provision not recorded in Cost Books	30,000	
2. Loss on sale of Furniture not included in Cost Sheet	4,120	34,120
		74,460
Less:		
1. Old Bad Debt recovered recorded in Financial Books only	20,500	
2. Material purchased overcharged in Cost Books	10,000	(30,500)
Costing Profit		43,960

Illustration 6: From the following information, you required to prepare a statement reconciling the results of Cost Books:

Particulars	₹
Net profit as per Financial Books	51,052
Works overheads under-recovered in Cost Book	1,001
Depreciation charged in Financial Books	13,000
Depreciation charged in Cost Books	14,326
Obsolescence loss charged in Financial Books Only	2,021
Income tax provided in Financial Books only	2,626
Interest received but not recorded in Cost Book	3,031
Bank interest debited in Financial Books only	292

Solution: Statement of Reconciliation between Financial Profit and Costing Profit

Particulars	₹	₹
Financial Profit		51,052
Add:		
1. Overheads under recovered in Cost A/cs – Works overhead	1,001	
2. Expenses/Losses/Appropriations Debited in Financial A/cs only		
– Obsolescence loss	2,021	
– Income tax	2,626	
– Bank Interest	292	
		5,940
		56,992
Less:		
1. Depreciation Undercharged in Financial A/cs (₹ 14,326 – ₹ 13,000)	1,326	
2. Income credited in Financial A/cs only – Interest income	3,031	
		4,357
Costing Profit		52,635

Illustration 7: The net profit of a company amounted to ₹ 60,412 for the ending 31st December, 2014 as per its financial records. The cost records revealed a different figure. A scrutiny of the two sets of accounts disclosed the following facts:

- Works overhead recovered in Cost Accounts during the period amounted to ₹ 28,450 while the actual amount of these expenses was ₹ 21,390 only.
- Actual office expenses for the period were ₹ 19,850, whereas the office overhead recovered in Cost Accounts amounted to ₹ 14,500.
- The annual rental value of premises owned by the company amounting to ₹ 10,800 was charged in Cost Accounts but not in Financial Accounts.
- Selling and distribution expenses for the period amounting to ₹ 16,490 were excluded from costing records.
- Excess depreciation charged in Cost Accounts ₹ 2,4000.
- Expenses not included in Cost Accounts and shown in Financial Accounts:

Interest on Loan	1,600
Bank Charges	160

Director's Fees	750
Penalty due to late completion of contract	2,500
(g) Gains during the year not included in Cost Accounts:	
Transfer fees	45
Profit on sale of investment	4,250
Interest on investment	9,450
(h) The following appropriation had been made before arriving at the profit figure of ₹ 60,412, shown above:	
Transfer to Dividend Equalisation Fund	10,500
Transfer to Income Tax Reserve	6,400
Transfer to Debenture Redemption Fund	9,000
(i) A sum of ₹ 10,000 given as donation to the Prime Minister's Relief Fund had been charged to Profit and Loss Account as business expenses.	

Prepare a Reconciliation Statement and find the amount of net profit/loss as per the costing records.

Solution: **Statement of Reconciliation**
between Financial Profit and Costing for the Year Ending 31.12.2014

Particulars	₹	₹
Financial Profit		60,412
Add:		
1. Expenses/Losses/Appropriations Debited in Financial A/cs only		
Expenses:		
– Selling and Distribution expenses	16,490	
– Interest on bank loan	1,600	
– Bank charged	160	
– Director's fees	750	
– Penalty on contract	2,500	
Appropriations:		
– Dividend equalisation fund	10,500	
– Income tax reserve	6,400	
– Debenture redemption fund	9,000	
– Donations to Prime Minister's Relief Fund	10,000	
2. Overheads Under-recovered in Cost A/cs		
Office Overheads (₹ 19,850 – ₹ 14,500)	5,350	62,750
		1,23,162
Less:		
1. Income Credited in Financial A/cs only		
– Transfer fees	45	
– Profit on sale of investments	4,250	
– Interest on investments	9,450	
2. Depreciation Undercharged in Financial A/cs	2,400	

(i.e., Overheads in Cost A/cs)		
3. Overheads Over-recovered in Cost A/cs	7,060	
– Works Overheads (₹ 28,450 – ₹ 21,390)		
4. Expenses Debited in Cost A/cs only		
– Rent for own premises	10,800	34,005
Costing Profit		89,157

From P & L A/c + Cost Profit Figure

Illustration 8: The net profit of a company for the year ended 31st March, 2014 was ₹ 56,600 as shown by the financial books. The Cost Accounts disclosed a profit of ₹ 59,650 for the same period. On an examination of both the sets of accounts, the following facts were discovered:

- Goodwill written off in Financial Accounts ₹ 1,500.
- Transfer fees received during the year ₹ 200.
- Depreciation charged in Financial Accounts ₹ 750.
- Depreciation recovered in cost statements ₹ 1,000.
- Opening stock as on 1st April, 2013 as per financial records ₹ 13,000.
- Opening stock as on 1st April, 2013 as per cost statements ₹ 12,000.
- Closing stock as on 31st March, 2014 as per financial records ₹ 14,000.
- Closing stock as on 31st March, 2014 as per cost statements ₹ 15,000.

Prepare reconciliation statement reconciling the profit as shown by financial and cost books.

Solution:

Reconciliation Statement

Particulars	Amount ₹	Amount ₹
N.P. as per Costing Records		59,650
Add: (1) Transfer fees received not recorded in costing books (C.B.)	200	
(2) Depreciation more in C.B.	250	450
		60,100
Less: (1) Goodwill written off in financial books not recorded in C.B.	1,500	
(2) Opening stock recorded less in C.B.	1,000	
(3) Closing stock recorded more in C.B.	1,000	3,500
N.P. as per Financial Records		56,600

Illustration 9: The profits disclosed by cost book is ₹ 1,000.

Particulars	₹
Claim for damages paid under a court decree	3,000
Depreciation charged in cost accounts	1,200
Depreciation charges in financial accounts	800
Loss due to depreciation in stock values in cost accounts	400
Dividend on investment received	4,000
Income tax paid	500
Bank interest received	500

Stores adjustment (credit in financial books)	200
Selling overheads under-recovered in cost accounts	2,000

Prepare a reconciliation statement.

Solution: **Reconciliation Statement**

Particulars	Amount (₹)	Amount (₹)
Net Profit as per Cost Books		1,000
Add: (1) Depreciation charged more in C.B.	400	
(2) Loss recorded only in C.B.	400	
(3) Dividend received but not recorded in C.B.	4,000	
(4) Bank interest received not recorded in C.B.	500	
(5) Credit Stores adjustment in F.B.	200	5,500
		6,500
Less: (1) Claim for damages not recorded in cost books	3,000	
(2) Income tax paid not recorded in C.B.	500	
(3) S/D overheads under recorded in C.B.	2,000	5,500
Net Profit as per Financial Books		1,000

Illustration 10: A company's Trading and Profit and Loss Account is as follows:

Particulars	₹	Particulars	₹
Purchase	37,815	Sales 75,000 Units	
Less: Closing Stock	6,120	@ ₹ 1.50 each	1,12,500
Wages (Direct)	15,750	Profit on Sale of machinery	3,900
Works Expenses	18,195		
Selling Expenses	10,650		
Administration Expenses	8,010		
Depreciation	1,650		
Net Profit	30,450		
	1,16,400		1,16,400

The Profit as per Cost Accounts was ₹ 29,655. Prepare Reconciliation Statement to reconcile Cost Profit with Financial Profit. Further information as per Cost Accounts:

- (a) Closing Stock was taken at ₹ 6,420.
- (b) The Works Expenses were taken at 100% of Direct Wages.
- (c) Selling and Administration Expenses were charged at 10% sales and at ₹ 0.10 per unit respectively.
- (d) Depreciation was taken at ₹ 1,200.

Solution: **Statement of Reconciliation between Financial Profit and Costing Profit**

Particulars	₹	₹
Financial Profit		30,450
Add:		
1. Closing Stock Undervalued in Financial A/cs (₹ 6,420 – ₹ 6,120)	300	
2. Depreciation Overcharged in Financial A/cs (₹ 1,650 – ₹ 1,200)	450	

3. Overheads Under-recovered in Cost A/cs		
– Work Expenses (₹ 18,195 – ₹ 15,750)	2,445	
– Administration Expenses (₹ 8,010 – ₹ 7,500)	510	3,705
		34,155
Less:		
1. Income Credited in Financial A/cs only – Profit on Sale of Machinery	3,900	
2. Overheads Over-recovered in Cost A/cs – Selling Expenses (₹ 11,250 – ₹ 10,650)	600	4,500
Costing Profit		29,655

Illustration 11: Following is the Profit and Loss Account of M/s Anubhav Manufacturing Company for the year ended 31st December, 2014.

Particulars	₹	Particulars	₹
To Opening Stock of		By Sales	9,20,000
Raw Materials 60,000		By Closing Stock:	
Work-in-progress 35,000		Raw Materials 60,000	
Finished Goods 80,000	1,75,000	Work-in-progress 41,000	
To Purchases	2,40,000	Finished Goods 30,000	1,31,000
To Factory Wages	60,000		
To Electricity Charges	66,000		
To Factory Overheads	90,000		
To Gross Profit c/d	4,20,000		
	10,51,000		10,51,000
To Administrative Expenses	25,000	By Gross Profit b/d	4,20,000
To Selling and Distribution Expenses	1,15,000	By Miscellaneous Income	20,000
To Bad Debts	30,000		
To Net Profit	2,70,000		
	4,40,000		4,40,000

Their Cost Account showed a profit of ₹ 2,81,750. On scrutiny of their Costing Profit and Loss Account, it was found that:

- (a) Their Opening Stock and Closing stock were valued as under:

Opening Stock of		Closing Stock of	
Raw Materials ₹ 80,000		Raw Materials ₹ 70,000	
Work-in-process ₹ 40,000		Work-in-progress ₹ 44,000	
Finished Goods ₹ 60,000		Finished Goods ₹ 20,000	

- (b) They charged administrative expenses at ₹ 18,000 and Selling and distribution expenses at ₹ 1,27,000.
- (c) They had charged depreciation @ 25% on Written Down Value Method on its plant which was purchased on 1st July, 2012 for ₹ 80,000. In Financial accounts, however, the depreciation was provided on Straight Line Method and the same was included in the Factory overheads of ₹ 90,000.

Prepare a statement reconciling the difference in the profits as disclosed by the two records.

[T.Y.B.Com., Modified]

Solution: **M/s Anubhav Manufacturing Company**
Statement of Reconciliation for the year ending 31.12.2014

Particulars	₹	₹
Costing Profit		2,81,750
Add:		
1. Miscellaneous income crediting only in F.A.	20,000	
2. Closing Stock on overvalued in F.A. – Finished goods (30,000 – 20,000)	10,000	
3. Opening Stock undervalued in F.A. – Raw Materials (80,000 – 60,000) – Work-in-progress (40,000 – 35,000)	20,000 5,000	
4. Selling and Distribution Expenses Over-recovered in C.A. (1,27,000 – 1,15,000)	12,000	67,000
		3,48,750
Less:		
1. Bad debts written off only in F.A.	30,000	
2. Opening stock overvalued in F.A. Finished goods (80,000 – 60,000)	20,000	
3. Closing stock undervalued in F.A. Raw materials (70,000 – 60,000) Work-in-progress (44,000 – 41,000)	10,000 3,000	
4. Depreciation overcharged in F.A. (20,000 – 9,844)	10,156	
5. Overheads under-recovered in C.A. – Administrative expenses (25,000 – 18,000)	7,000	80,156
		2,68,594
Add: Factory Overheads [71,406 – (90,000 – 20,000)] (W.N. 3)		1,406
Financial Profit		2,70,000

Notes:

- Depreciation as per P & L A/c: $80,000 \times 25\% = 20,000$
- Depreciation as per Cost Accounts:

1.7.2012	Machine purchased	80,000
31.12.2012	Depreciation @ 25% (for 6 months)	<u>10,000</u>
1.1.2013	W.D.V.	70,000
31.12.2013	Depreciation @ 25%	<u>17,500</u>
		52,500

Illustration 12: A company's Trading and Profit and Loss Account was as follows:

Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock of Raw Materials	1,00,000	By Sales	1,75,000
To Purchases	80,000		
	1,80,000		
Less: Closing Stock of Raw Materials	80,000		

	1,00,000		
To Direct Wages	20,000		
To Factory Expenses	15,000		
To Gross Profit c/d	40,000		
	1,75,000		1,75,000
To Administrative Expenses	10,000	By Gross Profit b/d	40,000
To Selling Expenses	15,000		
To Net Profit	15,000		
	40,000		40,000

Costing records show the following:

- (a) Stock Ledger closing balance ₹ 89,000
 (b) Direct Labour ₹ 23,000
 (c) Factory Overheads ₹ 13,000
 (d) Administrative overheads and selling expenses each are calculated at 8% of the Selling Price.

Prepare Costing Profit and Loss Account and the statement of reconciliation between the profit or loss as per the two accounts.

Solution:

Costing P & L A/c for year ended

Particulars	₹	Particulars	₹
To Raw Materials:		By Cost of production	1,41,000
Opening Stock	1,00,000		
Purchase	80,000		
	1,80,000		
Less: Closing stock	89,000		
To Material consumed	91,000		
To Direct Labour	23,000		
To Prime Cost	1,14,000		
To Factory Overheads	13,000		
To Factory Cost	1,27,000		
To Administration overheads	14,000		
	1,41,000		1,41,000
To Cost of production	1,41,000	By Sales	1,75,000
To Selling Overheads	14,000		
To Net Profit	20,000		
	1,75,000		1,75,000

Reconciliation Statement

Particulars	Amount ₹	Amount ₹
N.P. as per Costing Records		20,000
Add: (1) Direct Labour more in C.B.	3,000	

(2) Administration overheads more in C.B.	4,000	7,000
Less: (1) Closing stock in more in C.B.	9,000	27,000
(2) Factory overheads less in C.B.	2,000	
(3) Selling overheads less in C.B.	1,000	12,000
N.P. as per Financial Records		15,000

Illustration 13: The following is the Trading and Profit and Loss Account of a manufacturing company for the year ending 31st December, 2014:

Particulars	Amount	Particulars	Amount
To Opening Stock (100 units) at prime cost (F.G.)	400	By Sales (2,400 units)	9600
To Materials	3,000	By Closing Stock (200 units)	600
To Wages	2,000		
To Works Overheads	2,200		
To Selling & Distribution Overheads	800		
To Net Profit	1,800		
	10,200		10,200

Factory overheads are charged at 40% of prime cost, selling expenses are charged at ₹ 0.30 per unit sold.

Prepare Cost Sheet and Statement of Reconciliation with assumptions.

Solution:

Working Note:

Calculation of No. of Units Produced

Opening Stock + Production – Closing Stock = Sales

100 + ? – 200 = 2,400

Production = 2,500 units

Cost Sheet for Year 31.12.2014

Production = 2,500 units

Sales = 2,400

Particulars	Amount	CPU
Materials	3,000	1.20
Wages	2,000	0.80
Prime Cost	5,000	2.00
Add: Factory overheads (40% of Prime Cost)	2,000	0.80
Cost of Production	7,000	2.80
Add: Opening stock of finished goods	400	—
	7,400	
Less: Closing stock of finished goods (200 × 2.0)	400	—

Cost of Goods Sold		7,000	2.92
Add: Selling overheads		720	0.30
Total Cost		7,720	3.22
Profit (Balance figure)		1,880	0.78
Sales		9,600	400

Note: Opening stock of Finished Goods in cost sheet is valued as per Financial Books which is at prime cost. To maintain “Consistency in stock valuation”, Closing stock is also valued at prime cost of cost sheet.

Reconciliation Statement

Particulars	Amount ₹	Amount ₹
N.P. as per Costing Records		1,880
Add: (1) Closing stock less in C.B.		200
		2080
Less: (1) Factory overheads recorded less in C.B.	200	
(2) Selling and Distribution overheads recorded less in C.B.	80	280
N.P. as per Financial Records		1,800

Illustration 14: The following figures have been extracted from the Financial Accounts of a manufacturing firm for the year of its operation.

Particulars	₹ ('000)
Direct Material Consumption	5,000
Direct Wages	3,000
Factory Overheads	1,600
Administrative Overheads	700
Selling and Distribution Overheads	960
Bad Debts	80
Preliminary Expenses written off	40
Legal Charges	10
Dividend Received	100
Interest Received on Deposits	20
Sales (1,20,000 units)	12,000
Closing Stocks:	
Finished Goods (4,000 units)	320
Work-in-progress	240

The cost accounts for the same period reveal that the direct material consumption was ₹ 5,600. Factory overhead is recovered at 20% on prime cost. Administration overhead 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.

Solution:

Working Note:

Calculation of No. of Units Produced:

Opening Stock + Production – Closing Stock = Sales

Nil + ? – 4,000 = 1,20,000

Production = 1,24,000 units

Financial P & L A/c

Particulars	₹	Particulars	₹
To Direct Material	50,00,000	By Sales	1,20,00,000
To Direct Labour	30,00,000	By Closing Stock (F.G.)	3,20,000
To Factory Overheads	16,00,000	By Closing Stock (W.I.P.)	2,40,000
To Gross Profit c/d	29,60,000		
	1,25,60,000		1,25,60,000
To Administration Overheads	7,00,000	By Gross Profit b/d	29,60,000
To Selling Overheads	9,60,000	By Dividend Received	1,00,000
To Bad Debts	80,000	By Interest on F.D. Received	20,000
To Preliminary Expenses written off	40,000		
To Legal Charges	10,000		
To Net Profit c/d	12,90,000		
	30,80,000		30,80,000

Cost Sheet

**Production = 1,24,000
Sales = 1,20,000**

Particulars	Amount ₹	CPU
Direct Material	56,00,000	45.16
Direct Labour	30,00,000	24.19
Prime Cost	86,00,000	69.35
Add: Factory overheads (20% of PC)	17,20,000	13.87
	1,03,20,000	
Less: Closing stock of WIP	2,40,000	
Works cost	1,00,80,000	81.29
Add: Administration overheads	7,44,000	6.00
Cost of Production	1,08,24,000	87.29
Add: Opening stock of finished goods	—	
Less: Closing stock of finished goods	3,49,160	
Cost of goods sold	1,04,74,840	87.29
Add: Selling overheads	9,60,000	8.00
Cost of Sales	1,14,34,840	95.29
Profit (Balance figure)	5,65,160	4.71
Sales	1,20,00,000	100.00

Reconciliation Statement

Particulars	Amount ₹	Amount ₹
N.P. as per Costing Books		5,65,160
Add: (1) Direct material more in C.B.	6,00,000	
(2) Factory overheads more in C.B.	1,20,000	
(3) Administration overheads more in C.B.	44,000	
(4) Dividend received not recorded in C.B.	1,00,000	
(5) Interest received not recorded in C.B.	20,000	8,84,000
		14,49,160
Less: (1) Closing stock of finished goods more in C.B.	29,160	
(2) Bad Debts recorded only in F.B.	80,000	
(3) Preliminary Expenses written off not recorded in C.B.	40,000	
(4) Legal charges not recorded in C.B.	10,000	1,59,160
N.P. as per Financial Books		12,90,000

Working Note:

Valuation of closing stock in cost sheet:

Closing stock is valued at cost of production

Closing stock = 4,000 units × 87.29

= 3,49,160 (approx.)

Illustration 15: M/s Sellwell Ltd. has furnished you the following information from the financial books for the year ended 31st December, 2014:

Profit and Loss Account for the year ended 31st December, 2014

Particulars	₹	Particulars	₹
To Opening stock of finished goods: 500 units @ ₹ 17.50 each	8,750	By Sales (10,250 units)	3,58,750
To Material Consumed	1,30,000	By Closing stock of finished goods: 250 units @ ₹ 25 each	6,250
To Wages	75,000		
To Gross Profit c/d	1,51,250		
	3,65,000		3,65,000
To Factory Overheads	47,375	By Gross Profit b/d	1,51,250
To Administration Overheads	53,000	By Interest	125
To Selling Expenses	27,500	By Rent Received	5,000
To Bad Debts	2,000		
To Preliminary expenses	2,500		
To Net Profit	24,000		
	1,56,375		1,56,375

The cost sheet shows:

- (a) The cost of material at ₹ 13 per unit.

- (b) The labour cost as ₹ 7.50 per unit.
- (c) The factory overheads are absorbed at 60% of labour cost.
- (d) The administration overheads are absorbed at 20% of factory cost.
- (e) Selling expenses are charged at ₹ 3 per unit.
- (f) The opening stock of finished goods is valued at ₹ 22.50 per unit.

You are required to prepare:

- (i) The cost sheet showing the number of units produced and the cost of production, by elements of costs, per unit and in total.
- (ii) The statement of profit or loss as per cost accounts for the year ended 31st December, 2014.
- (iii) The statement showing the reconciliation of profit or loss as shown by the cost accounts with the profit as shown by the financial accounts.

Solution:

Working Note:

Calculation of No. of Units Produced

Opening Stock + Production – Closing Stock = Sales

$$500 + ? - 250 = 10,250$$

Cost Sheet for Year 31.12.2014

**Production = 10,000 units
Sales = 10,250 units**

Particulars	Amount (₹)	Amount (₹)
Material	1,30,000	13.00
Labour	75,000	7.50
Prime Cost	2,05,000	20.50
Add: Factory overheads (60% of Labour)	45,000	4.50
Factory cost	2,50,000	25.00
Add: Administration overheads (20% of Factory Cost)	50,000	5.00
Cost of Production	3,00,000	30.0
Add: Opening stock of F.G. (500 × 22.50)	11,250	
	3,11,250	
Less: Closing stock of F.G. (250 × 30)	7,500	
Cost of goods sold	3,03,750	29.63
Add: Selling and Distribution overheads	30,750	3.00
Cost of Sales	3,34,500	32.63
Profit (Balancing Figure)	24,250	2.37
Sales	3,58,750	35.0

Reconciliation Statement

Particulars	Amount (₹)	Amount (₹)
N.P. as per Costing P & L A/c		24,250
Add: (1) Opening stock of Finished Goods recorded more in C.B.	2,500	

(2) S & D overheads more in C.B.	3,250	
(3) Interest received not recorded in C.B.	125	
(4) Rent received not recorded in C.B.	5,000	10,875
Less: (1) Factory overheads recorded less in C.B.	2,375	
(2) Administration overheads recorded less in C.B.	3,000	
(3) Closing stock of F.G. recorded more in C.B.	1,250	
(4) Bad Debts not recorded in C.B.	2,000	
(5) Preliminary Expenses written off not recorded in C.B.	2,500	11,125
N.P. as per Financial P & L A/c		24,000

Illustration 16: A company's Trading and Profit and Loss Accounts is as follows:

Particulars	₹	Particulars	₹
To Purchases	37,815	By Sales 75,000 units	
Less: Closing Stock	6,120	@ ₹ 1.50 each	1,12,500
To Wages (Direct)	15,750	By Profit on Sale of Machinery	3,900
To Works Expenses	18,195		
To Selling Expenses	10,650		
To Administration Expenses	8,010		
To Depreciation	1,650		
To Net Profit	30,450		
	1,16,400		1,16,400

The profit as per Cost Accounts was ₹ 29,655. Prepare Reconciliation Statement to reconcile Cost Profit with Financial Profit.

Further information as per Cost Accounts:

- Closing stock was taken as ₹ 6,420.
- The works expenses were taken at 100% of Direct Wages.
- Selling and Administration Expenses were charged at 10% of sales and at ₹ 0.10 per unit respectively.
- Depreciation was taken at ₹ 1,200.

Solution:

Reconciliation Statement

Particulars	Amount (₹)	Amount (₹)
Net Profit per Costing Record		29,655
Add: (1) S/D overheads recorded more in C.B. (10,650 – 11,250)	600	
(2) Profit on sale of Machinery unrecorded	3,900	4,500
		34,155
Less: (1) Closing stock recorded more in C.B. (6,420 – 6,120)	300	
(2) Work Expenses less in C.B. (18,195 – 15,750)	2,445	
(3) Administration overheads less in C.B. (8,010 – 7,500)	510	
(4) Depreciation less in C.B. (1,650 – 1,200)	450	3,705
Net Profit as per Financial Records		30,450

Illustration 17: A company's Trading and Profit and Loss Account was as follows:

Particulars	₹	Particulars	₹
To Purchase	25,210	By Sales (5,000) units at ₹ 15 each)	75,000
Less: Closing Stock	4,080	By Discount Received	260
	21,130	By Profit on sale of land	2,340
To Direct Wages	10,500		
To Work Expenses	12,130		
To Selling Expenses	7,100		
To Administration Expenses	5,340		
To Depreciation	1,100		
To Net Profit	20,300		
	77,600		77,600

The profit as per cost accounts was only ₹ 24,270. Reconcile the financial and cost profits using the following information:

- (a) Cost accounts value of closing stock ₹ 4,280.
- (b) The works expenses in the cost accounts were taken as 100% of direct wages.
- (c) Selling and administration expenses were charged in the cost accounts at 10% of sales and ₹ 0.10 per unit respectively.
- (d) Depreciation in the cost accounts was ₹ 800.

Solution:

Reconciliation Statement

Particulars	Amount (₹)	Amount (₹)
Net Profit as per Cost Books		24,270
Add: (1) Selling Expenses recorded more in cost books	400	
(2) Discount received not recorded in C.B.	260	
(3) Profit on sale of land not recorded in C.B.	2,630	3,000
		27,270
Less: (1) Closing stock more in C.B.	200	
(2) Work overheads less in C.B.	1,630	
(3) Administration overheads less in C.B.	4,840	
(4) Depreciation less in C.B.	300	6,970
Net Profit as per Financial Books		20,300

Illustration 18: The following figures are extracted from the financial accounts of Sellwell Ltd. for the year ending 31.3.2014.

Particulars	₹
Sales (20,000 units)	50,00,000
Materials	20,00,000
Wages	10,00,000
Factory overheads	9,00,000
Administrative overheads	5,20,000
Selling and distribution overheads	3,60,000
Finished goods (1.230 units) – closing stock	3,00,000

Work-in-progress (closing)		
Materials	60,000	
Labour	40,000	
Factory overhead	<u>40,000</u>	1,40,000
Goodwill written off		4,00,000
Interest paid on capital		40,000

In the costing records, factory overhead is charged at 100% of wages, administration overhead 10% of factory cost and selling and distribution overhead at the rate of ₹ 20 per unit sold.

Prepare a statement reconciling the profit as per cost records with the profit as per Financial records and prepare Cost Sheet and Profit and Loss A/c.

Solution:

Working Note

Calculation of No. of Units Produced:

Opening stock + Production – Closing Stock = Sales

Nil + ? – 1,230 = 20,000

Production = 21,230 units

Cost Sheet
Sales = 20,000

Production = 21,230

Particulars	Amount	CPU
Materials	20,00,000	94.2
Labour	10,00,000	47.1
Prime cost	30,00,000	141.3
Add: Factory overheads (100% of Labour)	10,00,000	47.1
	40,00,000	188.4
Less: Closing stock of W.I.P. (W.N. 1)	1,40,000	6.6
Factory cost	38,60,000	181.8
Add: Administration overheads	3,86,000	18.2
Cost of Production	42,46,000	200.00
Less: Closing stock of finished goods (1300)	2,46,000	
Cost of goods sold	40,00,000	200.0
Add: S/D overheads	4,00,000	20.0
Cost of sales	44,00,000	220.0
Profit (Balancing figure)	6,00,000	30.0
Sales	50,00,000	250.0

Working Note:

Calculation of W.I.P.:

Material	60,000
Labour	40,000

Factory overhead (100% of Lab.)	40,000
	1,40,000

Financial P & L A/c

Particulars	₹	Particulars	₹
To Materials	20,00,000	By Sales	50,00,000
To Labour	10,00,000	By Closing stock (F.G.)	3,00,000
To Factory overheads	9,00,000	By Closing stock (W.I.P.)	1,40,000
To Gross Profit c/d	15,40,000		
	54,40,000		54,40,000
To Administration overheads	5,20,000	By Gross Profit b/d	15,40,000
To S/D overheads	3,60,000		
To Goodwill Written off	4,00,000		
To Interest on capital	40,000		
To Net Profit	2,20,000		
	15,40,000		15,40,000

Reconciliation Statement

Particulars	Amount	Amount
Net Profit as per Cost Books		6,00,000
Add: (1) Factory overheads more in C.B.	1,00,000	
(2) Closing stock of F.G. less in C.B.	54,000	
(3) S/D overheads overcharged in C.B.	40,000	1,94,000
		7,94,000
Less: (1) Administration overheads undercharged in C.B.	1,34,000	
(2) Goodwill written off not recorded in C.B.	4,00,000	
(3) Interest on capital not recorded in C.B.	40,000	5,74,000
Net Profit as per Financial Books		2,20,000

Illustration 19: During a particular year, the auditors certified the financial accounts, showing a profit of ₹ 1,68,000, whereas, the same, as per costing books was coming out to be ₹ 2,40,000. Given the following information, you are asked to prepare a reconciliation statement showing clearly the reasons for the gap.

Trading and Profit & Loss A/c

Particulars	₹	Particulars	₹
To Opening Stock	8,20,000	By Sales	34,65,000
To Purchases	24,72,000	By Closing Stock	7,50,000
To Direct wages	2,30,000		
To Factory overheads	2,10,000		
To Gross Profit c/d	4,83,000		
	42,15,000		42,15,000
To Administrative expenses	95,000	By Gross Profit b/d	4,83,000

To Selling expenses	2,25,000	By Sundry Income	5,000
To Net Profit	1,68,000		
	4,88,000		4,88,000

The costing records shows:

- Book value of closing stock ₹ 7,80,000.
- Factory overheads have been absorbed to the extent of ₹ 1,89,800.
- Sundry income is not considered.
- Administrative expenses are recovered at 3% of selling price.
- Total absorption of direct wages ₹ 2,46,000.
- Selling prices include 5% for selling expenses.

Solution: **Reconciliation Statement as on**

Particulars	Amount	Amount
Net Profit as per Costing Books		2,40,000
Add: (1) Sundry Income not recorded in C.B.	5,000	
(2) Administration Expenses overcharged in C.B.	8,950	
(3) Direct wages overabsorbed in C.B.	16,000	29,950
Less: (1) Closing stock overvalued in C.B	30,000	2,69,950
(2) Factory overheads undercharged in C.B.	20,200	
(3) Selling expenses undercharged in C.B.	51,750	1,01,950
Net Profit as per Financial Books		1,68,000

Illustration 20: M/s Modern Company Limited furnishes the summary of the Trading and Profit and Loss Account for the year ending 31st December, 2014.

Particulars	₹	Particulars	₹
To Raw materials	1,39,600	By Sales (12,000 units)	4,80,000
To Direct wages	76,200	By Finished stock (200 units)	8,000
To selling and distribution overheads	42,700	By Work-in-progress:	
To Administration overheads	39,100	Materials	28,200
To Preliminary expenses – written off	2,200	Wages	11,796
To Goodwill – written off	2,501	Production overhead	7,999
To Dividend (net)	3,000	By interest on securities (gross)	6,000
To Income tax	4,100		
To Net Profit	1,89,994		
	5,41,995		5,41,995

The company manufactures a standard unit. Scrutiny of cost records for the same period show that:

- Factory 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 and work out profit as per cost accounts and to reconcile the same with that shown in the financial accounts.

Solution:

Working Note:

Calculation of No. of Units Produced:
 Opening stock + Production – Closing Stock = Sales
 Nil + ? – 200 = 12,000
 Production = 12,200 units

Cost Sheet

**Production = 12,000
 Sales = 12,000**

Particulars	Amount	CPU
Materials	1,39,600	11.44
Direct Labour	76,200	6.25
Prime Cost	2,15,800	17.69
Add: Factory overheads (20% of PC)	43,160	3.54
	2,58,960	
Less: Closing Stock W.I.P. (W.N. 1)	47,995	
Factory Cost	2,10,965	17.29
Add: Administration overheads	36,600	3.00
Cost of Production	2,47,565	20.29
Less: Closing Stock of Finished Goods (W.N. 2)	4,058	
Cost of Goods Sold	2,43,507	20.29
Add: S/D overheads	48,000	4.00
Total cost	2,91,507	20.29
Profit (Balancing figure)	1,88,493	15.71
Sales	4,80,000	40.00

Notes:

1. Amount of Factory overheads ₹ 42,600 not printed in given Financial P & L Account.
2. Interest on securities ₹ 6,000/- and W.I.P. ₹ 47,995 not printed in Financial P & L Account.

Working Note:

1. Calculation of W.I.P.:

Material	28,200
Labour	<u>11,796</u>
Prime Cost	39,996
Factory Overheads (20% of PC)	<u>7,999</u>
	47,995

2. Calculation of F.G. Stock:

$$= \frac{2,47,565}{12,200} \times 200$$

$$= 4,058$$

Reconciliation Statement

Particulars	Amount	Amount
Net Profit as per Costing Books		1,88,493
Add: (1) Factory overheads more in C.B.	560	
(2) Closing stock of Finished goods less in C.B.	3,942	
(3) S/D overheads more in C.B.	5,300	
(4) Interest on Securities received not recorded	6,000	15,802
		2,04,295
Less: (1) Administration overheads less in C.B.	2,500	
(2) Preliminary Expenses written off not recorded	2,200	
(3) Goodwill written off not recorded	2,501	
(4) Dividend paid not recorded	3,000	
(5) Income tax paid not recorded	4,100	14,301
Net Profit in Financial Books		1,89,994

Illustration 21: The following represents the Trading and Profit and Loss Account of a manufacture of a standard fire extinguisher:

Particulars	₹	Particulars	₹
To Materials used	29,150.00	By Sales	75,000.00
To Productive wages	18,610.00	By Stock of finished goods	1,812.50
To Factory expenses	14,055.00	By Work-in-progress:	
To Gross Profit c/d	20,527.50	Materials	2,800
		Wages	1,560
		Factory expenses	1,179
	82,342.50		5,530.00
			82,342.50
To Administration expenses	13,650.00	By Gross Profit b/d	20,527.50
To Net Profit	6,877.50		
	20,527.50		20,527.50

1,550 Extinguishers were manufactured during the year and 1,500 were sold during the same period.

The cost records showed that Factory Overheads work out at ₹ 8.25 and Administrative Overheads at ₹ 9.0625 per article produced; the Cost Accounts showing an estimated total profit of ₹ 7,031.25 for the year.

From the foregoing information, you are required to prepare:

- Factory Overheads A/c.
- Administration Overheads A/c in costing books, and
- An account showing reconciliation between the total net profit as per the cost accounts and the net profit shown in the financial books.

Solution: Factory Overheads A/c

Particulars	₹	Particulars	₹
To General Ledger A/c (Actual)	14,055.0	By W.I.P. Ledger Control A/c (1550 × 8.25 + 1170)	13,957.50
		By Underabsorption	97.50
	14,055.0		14,055.00

Administration Overheads A/c

Particulars	₹	Particulars	₹
To General Ledger Adjustment A/c	13,650.000	By Finished Good Ledger Control A/c (1550 × 9.0625)	14,046.875
To Overabsorption	396.875		
	14,046.875		14,046.875

Reconciliation A/c

Particulars	₹	Particulars	₹
To Underabsorption of factory overheads	97.500	By Profit as per Costing Books	7,031.250
To Overvaluation of closing stock (50 × 9.0625)	453.125	By Overabsorption of administration overheads	396.875
To Profit as per Financial Books	6,877.500		
	7,428.125		7,428.125

Illustration 22: The following is the summarised version of Trading and Profit and Loss Account of Continental Enterprises Limited for the year ended 31st December, 2014:

Particulars	₹	Particulars	₹
To Materials	48,000	By Sales	96,000
To Wages	36,000	By Closing stock of finished goods	20,400
To Work expenses	24,000	By Work-in-progress:	
To Gross Profit	14,400	Material	3,000
		Wages	1,800
		Works expenses	<u>1,200</u>
	1,22,400		6,000
			1,22,400
To Administrative expenses	6,000	By Gross Profit	14,400
To Net Profit	8,400		
	14,400		14,400

During the year, 6,000 units were manufactured and 4,800 of them were sold.

The costing records show that works overheads have been estimated at ₹ 3 per unit produced and administration overheads at ₹ 1.50 per unit produced. The costing books show a profit of ₹ 11,040.

Prepare factory overheads account, administration overheads account and an account showing the reconciliation between the total net profit as per cost accounts and net profit shown in the financial books.

Solution:

Factory Overheads A/c

Particulars	₹	Particulars	₹
To General Ledger Adj. A/c	24,000	By W.I.P. Ledger Control A/c (6,000 × 3 + 1,200)	19,200
		By Underabsorption	4,800
	24,000		24,000

Administration Overheads A/c

Particulars	₹	Particulars	₹
To General Ledger Adj. A/c	6,000	By Finished Goods Ledger Control A/c (6,000 × 1.50)	9,000
To Overabsorption	3,000		
	9,000		9,000

Reconciliation

Particulars	₹	Particulars	₹
To Underabsorption of factory overheads	4,800	By Profit as per Costing Books	11,040
To Overvaluation of closing stock	840	By Overabsorption of administration overheads	3,000
To Profit as per Financial Books	8,400		
	14,040		14,040

Cost Sheet

Production = 6,000
Sales = 4,800

Particulars	Amount	CPU
Materials	48,000	8.00
Labour	36,000	6.00
Prime Cost	84,000	14.00
Add: Factory overheads (18,000 + 1,200)	19,200	3.20
	1,03,200	17.20
Less: Closing stock of W.I.P.	6,000	
Factory Cost	97,200	16.20
Add: Administration overheads	9,000	1.50
Cost of Production	1,06,200	17.70
Less: Closing stock of Finished Goods	21,240	
Total cost	84,960	17.70
Profit (Balancing figure)	11,040	2.30
Sales	96,000	20.00

Illustration 23: The following information is available from the financial books of a company having a normal production of 60,000 units for the year ended 31st March, 2014:

- 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.
- Interest and dividends received ₹ 15,000.

You are required to:

- (i) Find out profit as per financial books for the year ended 31st March, 2014.
- (ii) Prepare the cost sheet and ascertain the profit as per cost accounts for the year ended 31st March, 2014 assuming that the indirect expenses are absorbed on the basis of normal production capacity.
- (iii) Prepare a statement reconciling profits shown by Financial and Cost Books.

Solution: Financial P & L A/c for the year ended 31st March, 2014

Particulars	Amount	Particulars	Amount
To Direct Material	5,00,000	By Sales	10,00,000
To Direct Wages	2,50,000	By Interest and Dividend	15,000
To Factory Expenses	1,50,000		
To Administration Expenses	45,000		
To Net Profit	70,000		
	10,15,000		10,15,000

Cost Sheet for the year ended 31st March, 2014

Particulars	Amount	Amount
Direct Materials consumed		5,00,000
Add: Direct Wages		2,50,000
Prime Cost		7,50,000
Add: Factory Overheads		
Variable $\left(\frac{60,000}{50,000} \times 60,000\right)$	72,000	
Fixed	90,000	1,62,000
Works Cost		9,12,000
Add: Administration expenses		45,000
Cost of Production/Total Cost		9,57,000
Profit		43,000
Sales		10,00,000

Working Note:

Particulars	Cost A/c	Financial A/c	Difference
1. Factory Expenses	1,62,000	1,50,000	12,000 (+)
2. Interest and Dividend	–	15,000	15,000 (+)

Reconciliation Statement as on 31st March, 2014

Particulars	Amount	Amount
Net Profit as per Cost A/c		43,000
Add: (1) Factory overheads over-recovered in Cost A/c	12,000	
(2) Interest and Dividend received not recorded in Cost A/c	15,000	27,000
Net Profit as per Financial A/c		70,000

Illustration 24: Profit and Loss Account of INTEL Ltd. (as prepared by the head office account department) is summarised as follows:

Particulars	₹	Particulars	₹
To Stock on 1st Jan., 2014	60,000	By Sales	1,30,000
To Purchases	82,000	By Stock on 31st Dec., 2014	80,000
To Wages	40,000		
To Works expenses	1,800		
To Gross Profit c/d	26,200		
	2,10,000		2,10,000
To Salaries	8,000	By Gross Profit b/d	26,200
To Rent and rates	4,000	By Rent received	6,000
To Selling expenses	5,600		
To Administration expenses	4,200		
To Net Profit	10,400		
	32,200		32,200

The following information and break up in respect of above items of Profit & Loss Account was also supplied:

Particulars	On 1 st Jan., 2014 ₹	On 31 st Dec., 2014 ₹
1. Stock:		
Manufactured Units	24,000	20,000
Purchased Units	14,000	44,000
Raw Materials	22,000	16,000
	60,000	80,000
2. Purchases:		
Purchased Units	54,000	
Raw material	28,000	
	82,000	
3. Wages:		
Direct Wages	30,000	
Indirect Wages (Factory)	8,000	
Clerical Wages (Sales)	2,000	
	40,000	
4. Salaries:		
Works Supervision	2,000	
Sales Department	4,000	
Administration	1,800	
	8,000	
5. Rent and Rates:		
Works	2,000	400
Sales Office Administration Office	1,600	
	4,000	

Questions for Self-practice**(I) Theory Questions**

1. Write a short note on Items of Reconciliation between Financial Statements and Cost Records.
2. Why do Cost Accounts and Financial Accounts disclose different profit and loss for the same accounting year?
3. Write a short note on Reasons for differences between Financial Profit and Cost Profit.
4. Write a short note on Purpose of Reconciliation of Cost and Financial Accounting.
5. Explain why periodic reconciliation of Cost and Financial Accounting is necessary.
6. What is the purpose of reconciling Cost and Financial Accounts?

(II) Objective Questions**A. Fill in the Blanks**

1. _____ facilitates internal control.
2. Dividend received is shown in _____ accounts only.
3. Overheads recovered in costing is more than actual. It is called _____.
4. Less overheads recovered in costing is called _____.
5. Donations paid reduces _____ profit.
6. Interest on capital reduces _____ profit.
7. Underabsorption of overheads in costing increases _____ profit.

[Ans. 1. reconciliation, 2. financial, 3. overabsorption, 4. underabsorption, 5. financial profit; 6. financial profit, 7. costing]

B. True or False

1. Interest on capital is debited to Costing Profit and Loss A/c.
2. Donations are debited to Financial Profit and Loss A/c.
3. Overvaluation of closing stock in Financial A/c increases profit.
4. Overabsorption of overheads in Cost A/c is added to net profit as per Cost A/c to get financial profit.
5. Undervaluation of closing stock in Cost A/c reduces costing profit.

[Ans. True: (2, 3, 4, 5). False: (1)]

C. Match the Pair**Group 'A'**

1. Reconciliation
2. Profit on sale of asset
3. Interest on capital
4. Notional expenses
5. Dividend on share capital

Group 'B'

- (i) Included in Cost A/c
- (ii) Credited to Financial Profit and Loss A/c
- (iii) Debited to Cost A/c
- (iv) Debited to Financial Profit and Loss A/c
- (v) Credited to Cost A/c
- (vi) Shown in Financial A/c
- (vii) Under non-integral system of accounting

[Ans.: 1. (vii), 2. (vi), 3. (iv), 4. (i), 5. (ii)]

D. Multiple Choice Questions

1. Premium on issue of share is _____.
 - (i) Shown in Costing Profit and Loss A/c
 - (ii) Shown in Financial Profit and Loss A/c
 - (iii) Ignored
 - (iv) None of the above
2. Notional rent is taken in _____.
 - (i) Cost A/c
 - (ii) Financial A/c
 - (iii) Balance Sheet
 - (iv) Ignored
3. Excess of overheads in costing as compared to Profit and Loss A/c is _____.
 - (i) Overabsorption of overheads
 - (ii) Underabsorption of overheads
 - (iii) Both (i) and (ii)
 - (iv) None of the above
4. Interest on investment increases _____.
 - (i) Financial profit
 - (ii) Costing profit
 - (iii) Asset
 - (iv) None of the above
5. Loss on sale of capital asset is _____.
 - (i) Added to financial profit
 - (ii) Added to costing profit
 - (iii) Ignored from Cost A/c
 - (iv) None of the above to get costing profit
6. Overvaluation of costing stock in Cost Accounts _____.
 - (i) Increases costing profit
 - (ii) Increases financial profit
 - (iii) Decreases costing profit
 - (iv) Decreases financial profit
7. Interest on Bank Deposits is _____.
 - (i) Credited in Costing P & L A/c
 - (ii) Credited in Financial P & L A/c
 - (iii) Debited in Costing P & L A/c
 - (iv) Debited in Financial P & L A/c
8. Dividend paid on share capital is _____.
 - (i) Debited to Costing P & L A/c
 - (ii) Debited to Financial P & L A/c
 - (iii) Credited in Costing P & L A/c
 - (iv) Credited in Financial P & L A/c
9. Overabsorption of overheads in costing _____.
 - (i) Decreases costing profit
 - (ii) Increases financial profit
 - (iii) Decreases costing profit
 - (iv) Both (i) and (ii)
10. Undervaluation of opening stock in costing _____.
 - (i) Increases costing profit
 - (ii) Decreases financial profit
 - (iii) Decreases costing profit
 - (iv) Both (i) and (ii)
11. Donations paid is _____.
 - (i) Debited to costing profit
 - (ii) Debited to Financial P & L A/c
 - (iii) Ignored in costing
 - (iv) Both (ii) and (iii)

[Ans.: 1. (ii), 2. (i), 3. (i), 4. (i), 5. (i), 6. (i), 7. (ii), 8. (ii), 9. (iv), 10. (iv), 11. (iv)]

Practical Questions

1. From the following, prepare a statement of reconciliation and find out profit/loss as per financial records.

Particulars	₹
Net loss as per cost records	1,72,400
Works overheads under-recovered in costing	3,120
Administrative overheads over-recovered in costing	1,700
Depreciation in Financial A/c	11,200
Depreciation in Cost A/c	12,500
Interest received	8,750
Obsolescence loss in Financial A/c	5,700
Provision for Income Tax	40,300
Opening Stock:	
Financial Records	52,600
Cost Records	54,000
Closing Stock:	
Financial Records	52,000
Cost Records	49,600
Interest charges in Cost Accounts only	6,000
Preliminary expenses written off	950

[T.Y.B.Com., Modified]

2. From the following details of KT & Co., compute profit as per P & L A/c as well as, as per cost sheet and reconcile profit between cost sheet and P & L A/c showing clearly the reasons for the variation of the two profit figures.

Particulars	₹
Sales	20,000
Purchases of material	3,000
Closing stock of material	500
Direct wages	1,000
Indirect wages	500
Indirect factory expenses	2,000
Bad debts	100
Interest on overdraft	50
Profit on sale of assets	1,000
Selling expenses	2,000
Distribution expenses	1,000

In cost sheet manufacturing overheads recovered at 300% of direct wages, selling overheads recovered ₹ 1,500 and distribution overheads recovered ₹ 700.

[T.Y.B.Com., Modified]

3. Enthusiasts Ltd. commenced business on 1st April 2013, cost and financial records are maintained for the year ended 31st March, 2014. From the following information, prepare statements:

- (a) Showing the result as per costing records, (b) Showing result as per financial records, and
(c) Reconciling these results.

Particulars	As per Costing Records	As per Financial Records
Material Consumed (20000 kgs)	₹ 28.50 per kg	₹ 26 per kg
Direct Wages (3000 man days)	₹ 80 per man day	₹ 85 per man day
Factory Overheads	20% of prime cost	₹ 3,60,000
Administrative Overheads	₹ 30 per kg. of output produced	₹ 4,00,000
Selling Overheads	₹ 50 per kg. of output sold	₹ 9,60,000
Stock (of output produced) as on 31-3-2014 (2000 kgs)	At cost of production	₹ 1,50,000
Work-in-progress as on 31-3-2014	₹ 1,62,000	₹ 1,62,000
Sales (16,000 kgs)	₹ 130 per kg	₹ 129.50 per kg
Rent Income	—	₹ 1,20,000
Preliminary Expenses Written off	—	₹ 30,000

[T.Y.B.Com., Modified]

4. The following figures have been extracted from the Financial Accounts of Bawa Manufacturing Company for the first year of its operations:

Particulars	₹
Direct Material Consumption	50,00,000
Direct Wages	30,00,000
Factory Overheads	16,00,000
Administrative Overheads	7,00,000
Selling and Distribution Overheads	9,60,000
Provision for Bad Debts	80,000
Preliminary Expenses Written off	40,000
Dividend Received	1,00,000
Interest Received on Deposits	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 Direct Material consumption was ₹ 56,00,000. Factory overheads are recovered at 20% on Prime Cost. Administrative overheads are recovered as ₹ 6 per unit of production. Selling and Distribution overheads are recovered at ₹ 8 per unit sold. Prepare the Profit and Loss Account as per Financial Records and Cost Sheet as per Cost Records. Reconcile the profits as per the two records. The cost accounts value closing stock of finished goods at cost of production.

[T.Y.B.Com., Modified]

5. From the following particulars, prepare Reconciliation Statement and ascertain Costing Profit/Loss. Net profit as per Financial P & L A/c ₹ 50,000. Opening Stock was overvalued by ₹ 2,000 in Cost Account as compared to financial accounts. Administrative overheads charged in Financial Books ₹ 20,000 but recovered in Cost Books ₹ 40,000.

Income Tax Provision ₹ 1,200. Notional Salary of Proprietor in Cost ₹ 20,000. Interest Received ₹ 12,000. Closing Stock as per financial books ₹ 16,200 whereas in cost books it was ₹ 19,000.

[T.Y.B.Com., Modified]

6. From the following, prepare Reconciliation Statement of M/s XYZ & Co. as on 30-6-2014:
 - (a) Net profit as per Financial Accounts ₹ 40,340.
 - (b) Income Tax Provision made ₹ 30,000.
 - (c) Material Purchases of 5,000 units were recorded in cost at standard cost ₹ 24/- per unit whereas in Financial books it was recorded at actual cost books ₹ 22/- per unit.
 - (d) Old Bad debts recovered ₹ 20,500.
 - (e) Loss on sale of furniture was ₹ 4,120.

[T.Y.B.Com., Modified]

Particulars	₹	Particulars	₹
To Opening Stock (500 units)	17,500	By Sales (10250 units)	7,17,500
To Materials	2,60,000	By Closing Stock (250 units)	12,500
To Wages	1,50,000		
To Factory Overheads	94,750		
To Gross Profit c/d	2,07,750		
Total	7,30,000	Total	7,30,000
To Administrative Overheads	1,06,000	By Gross Profit c/d	2,07,750
To Selling Overheads	55,000	By Dividend Received on Investments	10,250
To Loss on Revaluation of Assets	9,000		
To Net Profit	48,000		
Total	2,18,000	Total	2,18,000

In Cost Accounts, Material Charges @ ₹ 25 per unit and wages @ ₹ 15 per unit. Factory overheads taken @ 60% of wages. Administrative overheads applied @ 20% of works cost. Selling overheads taken @ ₹ 6 per unit sold. You are required to prepare:

- (i) Statement of Cost showing total cost and cost per unit.
- (ii) Statement of Reconciliation of Profit/Loss.

[T.Y.B.Com., Modified]

8. Following is the summarised Trading and Profit & Loss account of Sheetal Industries for the year ended 31.3.13.

Trading and Profit and Loss Account for the year ended 31.3.2013

Particulars	₹	Particulars	₹
To Opening Stock of Raw Materials	9,000	By Sales (12000 Units)	4,80,000
To Purchases of Raw Materials	2,10,000	By Closing Stock	
To Carriage Inwards	5,000	Finished Goods (3000 Units)	66,000
To Wages	75,400	Raw Materials	24,000
To Factory Expenses		By Profit on Securities	17,000
Paid	52,400	By Profit on Sale of Assets	1,20,000
Add: Outstanding	2,200		
	54,600		

To Administrative Overheads	52,500		
To Selling and Distribution Overheads	96,000		
To Goodwill Written off	12,500		
To Interest on Loans	1,500		
To Dividend	2,500		
To Income Tax	5,000		
To Net Profit	1,83,000		
Total	7,07,000	Total	7,07,000

A standard unit was manufactured during the year. The cost accounting records showed the following:

- (i) Materials consumed @ ₹ 10 per unit produced.
- (ii) Direct Wages @ ₹ 6 per unit produced.
- (iii) Factory Overheads were absorbed @ 25% of Prime Cost.
- (iv) Administration Overheads were absorbed @ ₹ 5 per unit produced.
- (v) Selling and Distribution Overheads were absorbed @ ₹ 7 per unit sold.

You are required to prepare the detailed cost statement for the year ended 31.3.2013 and a statement of reconciliation. **[T.Y.B.Com., Modified]**

9. Following is the Profit and Loss Account, as per Financial records, of M/s Tirupati Traders for the year ended 31st March, 2013.

Particulars	₹	Particulars	₹
To Operating Stock (Finished – 6,000 units)	59,760	By Sales (90,000 units)	11,70,000
To Raw Materials Consumed	5,19,400	By Closing Stock (Finished – 4,500 units)	52,776
To Carriage Inwards	5,100	By Bank Interest	410
To Direct Wages	72,872	By Dividend	6,900
To Salesman Commission	38,520		
To Office Salaries	25,368		
To Motor Car Expenses	18,384		
To Advertisement	61,920		
To Director's Remuneration:			
Office	12,000		
Works	12,000		
Sales	<u>14,400</u>		
	38,400		
To Indirect Wages	20,268		
To Plant – Depreciation	11,472		
To Workmen Compensation Reserve	13,275		
To Office Rent	6,900		
To After-sales Services Expenses	4,476		

To Interest		6,000	
To Showroom Rent		9,000	
To Carriage Outward		6,240	
To Depreciation on Delivery Van		5,040	
To Factory Fuel		4,248	
To Packing and Forwarding		3,270	
To Miscellaneous Factory Expenses		3,270	
To Preliminary Expenses written off		4,200	
To Audit Fees		2,520	
To General Office Expenses		1,500	
To Factory Rent		18,720	
To Loss on Sales of Investments		4,017	
To Insurance:			
Office	300		
Sales	720		
Factory	<u>1,800</u>	2,820	
To Printing and Stationery		720	
To Depreciation:			
Factory Furniture	600		
Office Furniture	900		
Showroom Furniture	<u>420</u>	1,920	
To Telephone Charges:			
Office	129		
Sales	<u>627</u>	756	
To Legal Fees		504	
To Net Profit c/d		2,59,226	
		12,30,086	12,30,086

Closing stock in cost Accounts is valued at cost of production. However, opening stock in cost records is same as per financial records.

Prepare:

- (a) Detailed cost statement showing total cost (excluding per unit) and profit.
- (b) Reconciliation statement showing reconciliation of profits. *[T.Y.B.Com., Modified]*

10. From the following details, find out Profit or Loss as per Financial Accounts.

Particulars	₹
Underabsorption of factory overheads	12,500
Overvaluation of closing stock of Raw Material in Cost Accounts	8,600
Profit as per Cost Accounts	2,70,000
Depreciation underrecovered in Cost Accounts	3,700

Overabsorption of Administrative Overheads	9,800
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[T.Y.B.Com., Modified]

11. From the following information, find out Profit or Loss as per Cost Records:

Particulars	₹
Profit as per Financial Records	1,45,000
Overabsorption of Indirect Wages	12,000
Overvaluation of Opening Stock of Finished Goods in Cost Accounts	5,000
Excess Depreciation charged in Financial Accounts	3,500
Underabsorption of Selling Overheads	7,500

[T.Y.B.Com., Modified]

12. From the following information, find out Profit or Loss as per Financial Records:

Particulars	₹
Overabsorption of Selling and Distribution Overheads	3,000
Overvaluation of Closing Stock in Cost Accounts	13,800
Underabsorption of Office and Administrative Overheads	24,700
Loss as per Cost Accounts	85,000
Excess Depreciation charged in Financial Accounts	4,500

[T.Y.B.Com., Modified]

13. From the following information, find out Profit or Loss as per Financial Records:

Particulars	₹
Loss as per Cost Records	12,900
Under-recovery of Depreciation in Cost Account	4,900
Notional Salary of Proprietor not considered in Financial Profit and Loss Account	12,000
Overvaluation of Closing Stock in Financial Accounts	1,200
Overabsorption of factory overheads	7,000

[T.Y.B.Com., Modified]

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

Dr.		Trading and Profit and Loss A/c		Cr.	
Particulars	₹	Particulars	₹		
To Opening Stock (Finished Goods 2500 units)	2,50,000	By Sales (47,500 units)	59,85,000		
To Raw Material	20,80,000	By Closing stock (Finished Goods 5000 units)	5,00,000		
To Direct Wages	15,15,000	By Commission received	35,000		
	10,18,000	By Bad debts recovered	12,000		
To Office and Administrative Expenses	8,45,000	By Net Loss	36,000		
To Selling and Distribution Expenses	7,00,000				

To Goodwill written off	60,000		
To Loss on Sale of Investments	1,00,000		
	65,68,000		65,68,000

[T.Y.B.Com., Modified]

The following information is revealed from the cost records for year ended 31st March, 2014:

- (a) Raw material consumption is ₹ 40 per unit of production.
- (b) Direct wages are 70% of Direct Material.
- (c) Factory overheads are recovered @ 50% of Direct Materials.
- (d) Administrative overheads are taken @ 20% of Works cost.
- (e) Selling and Distribution overheads are recovered ₹ 15 per unit.
- (f) Opening stock of finished goods is valued at cost ₹ 101.80 per unit.
- (g) Closing stock of finished goods is to be valued at cost of production.
- (h) Selling price is recoded at ₹ 125 per unit.

Prepare:

- (i) Detailed Cost Statement showing total cost, per unit cost and profit.
- (ii) Statement of Reconciliation.

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