

CHAPTER 5

Non Integrated Accounting

Question 1

Enumerate the factors which cause difference in profits as shown in Financial Accounts and Cost Accounts.

(May 2007, 3 Marks)

Answer

Causes of difference:

- (a) Items included in financial accounts but not in cost accounts such as:
Interest received on bank deposits, loss/profit on sale of fixed assets and investments, dividend, rent received.
- (b) Items included in cost accounts on notional basis such as rent of owned building, interest on own capital etc.
- (c) Items whose treatment is different in the two sets of accounts such as inventory valuation.

Question 2

Explain essential pre-requisites for integrated accounts.

(Nov 2007, 3 Marks)

Answer

Essential pre-requisites for integrated accounts:

- (a) The management's decision about the extent of integration of the two sets of books.
- (b) A suitable coding system must be made available so as to serve the accounting purposes of financial and cost accounts.
- (c) An agreed routine, with regard to the treatment of provision for accruals, prepaid expenses, other adjustment necessary for preparation of interim accounts.
- (d) Perfect coordination should exist between the staff responsible for the financial and cost accounts and an efficient processing of accounting document should be ensured.

Question 3

As of 31st March, 2008, the following balances existed in a firm's cost ledger, which is maintained separately on a double entry basis:

	Debit	Credit
	Rs.	Rs.
Stores Ledger Control A/c	3,00,000	—
Work-in-progress Control A/c	1,50,000	—
Finished Goods Control A/c	2,50,000	—
Manufacturing Overhead Control A/c		15,000
Cost Ledger Control A/c		6,85,000
	7,00,000	7,00,000

During the next quarter, the following items arose:

	Rs.
Finished Product (at cost)	2,25,000
Manufacturing overhead incurred	85,000
Raw material purchased	1,25,000
Factory wages	40,000
Indirect labour	20,000
Cost of sales	1,75,000
Materials issued to production	1,35,000
Sales returned (at cost)	9,000
Materials returned to suppliers	13,000
Manufacturing overhead charged to production	85,000

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

(May 2008, 15 Marks)

Answer

Cost Ledger Control Account

Dr.			Cr.		
Rs.			Rs.		
To	Store Ledger Control A/c	13,000	By	Opening Balance	6,85,000
To	Balance c/d	9,42,000	By	Store ledger control A/c	1,25,000
			By	Manufacturing Overhead Control A/c	85,000

_____	By	Wages Control A/c	<u>60,000</u>
<u>9,55,000</u>			<u>9,55,000</u>

Stores Ledger Control Account

Dr.					Cr.
		Rs.			Rs.
To	Opening Balance	3,00,000	By	WIP Control A/c	1,35,000
To	Cost ledger control A/c	1,25,000	By	Cost ledger control A/c (Returns)	13,000
		_____	By	Balance c/d	<u>2,77,000</u>
		<u>4,25,000</u>			<u>4,25,000</u>

WIP Control Account

Dr.					Cr.
		Rs.			Rs.
To	Opening Balance	1,50,000	By	Finished Stock Ledger Control A/c	2,25,000
To	Wages Control A/c	40,000	By	Balance c/d	1,85,000
To	Stores Ledger Control A/c	1,35,000			
To	Manufacturing Overhead Control A/c	<u>85,000</u>			
		<u>4,10,000</u>			<u>4,10,000</u>

Finished Stock Ledger Control Account

Dr.					Cr.
		Rs.			Rs.
To	Opening Balance	2,50,000	By	Cost of Sales	1,75,000
To	WIP Control A/c	2,25,000	By	Balance c/d	3,09,000
To	Cost of Sales A/c (Sales Return)	<u>9,000</u>			
		<u>4,84,000</u>			<u>4,84,000</u>

Manufacturing Overhead Control Account

Dr.		Rs.	Cr.		Rs.
To	Cost Ledger Control A/c	85,000	By	Opening Balance	15,000
To	Wages Control A/c	20,000	By	WIP Control A/c	85,000
		<u> </u>	By	Under recovery c/d	<u>5,000</u>
		<u>1,05,000</u>			<u>1,05,000</u>

Wages Control Account

Dr.		Rs.	Cr.		Rs.
To	Transfer to Cost Ledger Control A/c	60,000	By	WIP Control A/c	40,000
		<u> </u>	By	Manufacturing Overhead Control A/c	<u>20,000</u>
		<u>60,000</u>			<u>60,000</u>

Cost of Sales Account

Dr.		Rs.	Cr.		Rs.
To	Finished Stock Ledger Control A/c	1,75,000	By	Finished Stock Ledger Control A/c (Sales return)	9,000
		<u> </u>	By	Balance c/d	<u>1,66,000</u>
		<u>1,75,000</u>			<u>1,75,000</u>

Trial Balance

	Rs.		Rs.
Stores Ledger Control A/c	2,77,000	Cost ledger control A/c	9,42,000
WIP Control A/c	1,85,000		
Finished Stock Ledger Control A/c	3,09,000		
Manufacturing Overhead Control A/c	5,000		
Cost of Sales A/c	<u>1,66,000</u>		
	<u>9,42,000</u>		<u>9,42,000</u>

Question 4

A manufacturing company has disclosed a net loss of Rs.2,13,000 as per their cost accounting records for the year ended March 31, 2009. However, their financial accounting records disclosed a net loss of Rs.2,58,000 for the same period. A scrutiny of data of both the sets of books of accounts revealed the following information:

	Rs.
(i) Factory overheads underabsorbed	5,000
(ii) Administration overheads overabsorbed	3,000
(iii) Depreciation charged in financial accounts	70,000
(iv) Depreciation charged in cost accounts	80,000
(v) Interest on investments not included in cost accounts	20,000
(vi) Income-tax provided in financial accounts	65,000
(vii) Transfer fees (credit in financial accounts)	2,000
(viii) Preliminary expenses written off	3,000
(ix) Over-valuation of closing stock of finished goods in cost accounts	7,000

Prepare a Memorandum Reconciliation Account.

(May 2009, 7 Marks)

Answer**Memorandum Reconciliation Account**

Particulars	Rs.	Particulars	Rs.
To Net loss as per costing books	2,13,000	By Administrative overhead over absorbed in costs	3,000
To Factory overheads under absorbed	5,000	By Depreciation over charged in cost books (80,000 – 70,000)	10,000
To Income tax not provided in cost books	65,000	By Interest on investments not included in cost books	20,000
To Preliminary expenses written off in financial books	3,000	By Transfer fees not considered in cost books	2,000
To Over-valuation of Closing Stock of finished goods in cost books	7,000	By Net loss as per financial books	2,58,000
	2,93,000		2,93,000

Question 5

List the Financial expenses which are not included in cost

(November 2009, 2 Marks)

Answer

Financial expenses which are not included in cost accounting are as follows:

- Interest on debentures and deposit
- Gratuity
- Pension
- Bonus of Employee,
- Income Tax,
- Preliminary Expenses
- Discount on issue of Share
- Underwriting Commissions.

Question 6

When is the reconciliation statement of Cost and Financial accounts not required?

(November 2009, 2 Marks)

Answer

Circumstances where reconciliation statement can be avoided

When the Cost and Financial Accounts are integrated - there is no need to have a separate reconciliation statement between the two sets of accounts. Integration means that the same set of accounts fulfill the requirement of both i.e., Cost and Financial Accounts.