Reconciliation of Cost & Financial Accounts

PARAMJIT SHARMA

Reconciliation-need

Cost & Financial Accounting

Integral Accounting

Cost Accounting

Financial Accounting

Non-integrated Accounting System

Separate Books

Reconciliation

'Reconciliation is a process whereby **profits** revealed by **two sets** of books are **tallied** after ascertaining the **reasons** for **disagreement** of the two profits'

Reasons Of Difference

1 Items Shown in Cost Accounts Only

- Notional Rent of Own Building
- Notional Interest on Capital Employed
- Notional Salaries
- Notional Depreciation

Reasons Of Difference

1 Items of Expenses and losses Shown in Cost Accounts Only

Abnormal Losses

- Abnormal Wastage of Materials
- Loss By Fire or theft (not insured)
- Cost of Abnormal idle time
- Exceptional Bad Debts

Reasons Of Difference

2 Items(INCOME) Shown Only in Financial Accounts

- Interest rec. on Loans, deposits, investments
- Dividend Received
- Dividend Receivable
- Profit on Sale of Assets
- Transfer Fees
- Brokerage, Commission, Discount Received

Reasons Of Difference

3 Items of Expenses and losses Shown in Fin. Accounts Only

Financial Expenses

- Interest on Loan and Debentures
- Discount on Issue of Shares & Debentures
- Cash Discount
- Fines & Penalties
- Loss On Sale of Fixed Assets
- Donations, Subscriptions etc

Reasons Of Difference

3 Items of Expenses and losses Shown in Fin. Accounts Only

Appropriation of Profits

- **Dividend & Bonus to Share holders**
- **Transfer to Gen. Reserve, Sinking Fund**
- **Taxes on Income & Profits**
- **Excess Provision against Depreciation**

Reasons Of Difference

4 Under or Over absorption of Overheads

Reasons Of Difference

5 **Valuation of Stocks**

Reasons Of Difference

6 Different Methods Of Depreciation

Reconciliation-- procedure

- ✓ 1 Ascertainment of profit as per Cost Accounts
- ✓ 2 Ascertainment of Profit as per Financial Accounts
- ✓ 3 Reconciliation of both the profits

Reconciliation-- procedure

- Reconciliation Statement
- Reconciliation Account

Reconciliation Procedure

1 Ascertain the points of differences between CA & FA

2 Start with the profit as per Cost Accounts

3 Add items which have reduced Profit in CA
Deduct items which have increased profit in CA

Reconciliation Procedure

4 (a) Items of Expenses & Losses

Add : **items overcharged in CA- PROFIT IS LESS in CA**

Deduct **:Items Undercharged in CA- Profit is more**

(b) Items of Incomes & Gains

Add Income under-recorded or not recorded in CA- profit is less
deduct: Income over recorded in cost Account - profit is more

Reconciliation Procedure

4 (c) Valuation of Stock

(i) Opening Stock

Add :Amount of Overvaluation in Cost Accounts- profit is less
Deduct :Amount of Under Valuation in Stock—Profit is more

(ii) Closing Stock

Add : Amount of Under Valuation in CA— profit is less
Deduct : Amount of Over valuation In Stock— profit is more

Reconciliation-- procedure

Reconciliation Statement

PARTICULARS	Rs +	Rs –
Profits as per Cost Accounts		
Add Incomes not recorded in CA		
Expenses only recorded in CA		
Overheads over absorbed in CA		
Overvaluation of op. stock in CA		
Undervaluation of Cl. stock in CA		
Less Expenses not recorded in CA		
Overheads Under absorbed in CA		
Undervaluation of op. stock in CA		
Overvaluation of Cl. stock in CA		
Profit as per Profit & Loss A/c (Balance)	-----	

Costing Profit
Is less
Increase it

Costing Profit
Is More
Decrease it

Reconciliation-- procedure

- Reconciliation Account

Particulars	Rs	Particulars	Rs
To Exp. Not recorded in CA	----	By Profit as per CA	---
To OH under absorbed in CA	----	By Items to be added	
To undervaluation of OS in CA	---	By Incomes Not Recorded in CA	---
TO Overvaluation of CS in CA	---	By Expenses not Recorded in CA	---
To Profit as per Profit & loss A/c	----	By OH over absorbed in CA	---
		By Overvaluation of OS/CA	---
		By undervaluation of CS/CA-	----
Total	---	Total	---

Question

The net profit as per FA amounted to Rs 18,550 while the profits as per cost accounts were Rs 28,660.On reconciling the figures,the Following differences were noted:

	Rs
Directors fees not charged in cost Accounts	1050
A provision for bad & doubtful debts	970
Bank interest credited	30
Provision for Income tax	8,300
Over recovery of overheads in CA	180

Prepare Reconciliation Statement & M R statement

Reconciliation--solution

Reconciliation Statement

PARTICULARS	Rs +	Rs −
Profits as per Cost Accounts	28,660	
Add		
Bank interest credited in P L Account	30	
Over recovery of OH in CA	180	
Less		
Directors fee not Charged in CA		1,050
Prov. for Bad Debts not recorded in CA		
970	28,870	10,320
Prov, for income tax not recorded in CA		
8,300 Profit as per Profit & Loss A/c (Balance)	18,550	

Question

Prepare a Reconciliation Statement

	Rs
Net Profit as per Fin Books	63,780
Net Profit as per Cost Books	66,760
F OH Under Recovered in Costing	5,700
Adm OH Recovered in Excess	4,250
Depreciation Charged in Fin.Books	3,660
Depreciation Recovered in Costing	3,950
Int Received-not included in Costing	450
Income tax provided in Fin Books	600
Bank Interest credited in Fin Books	230
Stores Adjust. Credited in Fin. Books	420
Dep. Of stock charged in Fin. Accounts	860
Dividend appropriated in Fin Accounts	1,200
Loss due to theft provided in Fin Books	260

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Reconciliation--solution

Reconciliation Statement

PARTICULARS	Rs	Rs
Profits as per Cost Accounts		66,760
Add		
Adm OH Recovered in Excess	4,250	
Depreciation Overcgarged(3950-3660)	290	
Interest Not Charged in Costing	450	
Bank Interest Cr. In Fin Books only	230	
Stores Adjustments	420	5,640
		72,400
Less		
Factory Overhead Under Recovered	5,700	
Income Tax Provided in Fin Books	600	
Dividend Appropriated	1,200	
Depreciation of Stock in Fin Books	860	
Loss Due to theft not in Cost Books	260	8,620
Profit As Per Fin Books		63,780

Question-3

From the following data prepare a reconciliation Statement

	Rs
Profit as per Cost Accounts	145500
Works overhead under recovered	9500
A OH under recovered	22750
Selling OH Over Recovered	19500
O Valuation of OP Stock in CA	15000
O Valuation of Cl Stock in CA	7500
Interest Earned during the year	3750
Rent Received during the year	27000
Bad Debts Written Off During The Year	9000
Preliminary Expenses Written Off	18000

Reconciliation--solution

Reconciliation Statement

PARTICULARS	Rs	Rs
Profits as per Cost Accounts		145500
Add		
Selling OH Recovered in Excess	19500	
Over Valuation Of OP Stock	15000	
Interest Earned not shown in CA	3750	
Rent Received Not Shown in CA	27000	
65,250		
210750		
Less		
Works Overhead Under Recovered	9500	
Under Recovery of AOH	22750	
Over Valuation of CL Stock in CA	7500	
Bad Debts not Recorded in CA	9000	
P expenses not recorded in CA	18000	66750