COST BOOK – KEEPING

Q.NO.1:- Briefly describe about the Non-Integrated Accounting system?

Ans:-

- The Non-Integrated system or cost control seeks to recognize the movements and flows of cost within the firm.
- For example, materials issued to production, Production OH absorbed, abnormal costs etc. are not recognized and recorded specifically in the financial accounting system. These cost transactions within the firm are recorded under the cost accounting system.
- Under this system, separate ledgers are maintained for financial transactions while the cost accounts department is responsible for maintaining cost accounts.

Q.NO.2:- What are the features of the Non-Integrated Accounting system?

Ans:-

1.**Entity concept:-** Cash flows /movements within the firm as well as transactions with outsiders (suppliers, customers) are captured by the system, e.g. issue of materials from stores to production department is recognized as a transaction , even if no outsiders is involved.

2.**No personal accounts:-** The Non-Integrated system involves the use of nominal accounts and three Real accounts (stores ledger control a/s, WIP control a/c, Finished goods control a/c). Personal and other Real accounts are not used in this system.

3.**General ledger adjustment account:-** For computing contra –posting involving personal accounts and other real accounts(cash , bank) the General Ledger adjustment account is used. This account is also called as cost ledger adjustment account, or cost ledger control account, or general ledger control account.

4.**Costing P&L Account:-** A Trial Balance is drawn under this system . The costing P & L Account is prepared , to ascertain the profits as per cost records. Balance sheet is not prepared under this system.

5.**Reconcilication:-** Non- cost transactions are not fully recorded by this system. Hence, whenever Non-Integrated system is in use, regular financial accounting should also be done in parallel. This creates the need of reconciliation between profits as per cost records and as per financial records.

Q.NO.3:-List the accounts that are maintained under the Non-Integrated Accounting system.

Ans:-

SL. NO.	Name of account	Debited with	Credited with
1	Stores ledger control account or Raw material control account	Receipt of materials in stores department, i.e. Cost of purchases including carriage inwards, Material Returned from production department.	Materials issue to Jobs(WIP), Repairs work(Factory overhead), Office ,(Administrative), Sales department(selling overhead) Materials returned to vendor, Normal and Abnormal loss of materials.
2	Wages control account	Wages paid	Wages analysed into- Direct wages (WIP) Indirect wages (OH) Abnormal idle time , if any
3	Factory overhead control a/c or Production Overhead control a/c	Factory Overhead incurred i.e. Indirect material consumed, Indirect wages Indirect expenses	Factory overheads absorbed to production i.e. transfer to WIP control a/c. Adjustment of underabsorption
4	WIP ledger control a/c or Job Ledger control a/c	Factory cost items of jobs i.e. Direct material Direct wages, factory overheads.	Factory cost of production , i.e. transfer to Finished goods control a/c. Abnormal in production department , if any.
5	Administrative Overhead control A/c	AOH incurred.	AOH absorbed to goods produced i.e. transfer to finished goods control a/c.
6	Finished goods control a/c	Factory Cost of production ,	Total cost of goods sold, i.e. transfer

	or stock ledger control a/c	Administrative overheads absorbed, Cost of goods returned by customers, if any	to cost of sales a/c. Abnormal loss in warehouse, if any.
7	Selling and distribution overheads control a/c	Selling and distribution overheads incurred.	S & D overhead absorbed to units sold, i.e. transfer to cost of sales account.
8	Cost of sales a/c	Cost of goods sold and selling and distribution overhead	Total cost of sales , i.e. transfer to costing P&L account.
9	Sales account	Transfer to Costing P/L Account.	Sales value
10	Abnormal loss account	Abnormal loss of materials , abnormal idle time wages, Overheads etc.	Transfer to costing Profit and loss account.
11	General ledger adjustment account	Sales made during the period, Net loss for the period, if any, transferred from costing P&L a/c.	Cost of materials purchased, Wages paid Various OH incurred and depreciation Profit for the period transferred from Costing and P&L Account

Q.NO.4:- what do the closing balances in various control accounts in Non-Integrated System indicate?

Ans:

Name of account	Type of balance	Significance
Raw Materials control account	Always debit	Closing Raw material stock
Work in Progress control account	Always debit	Closing WIP
Finished goods control account	Always debit	Closing stock of finished goods.
Factory/administrative/Selling and Distribution overhead control account	Debit or credit	Debit- represents under- absorption of overheads Credit- Over absorption of overheads.
General ledger adjustment account	Credit	Net effect of balances in all other accounts, balancing figure in the Trial Balance.

Q.NO.5:- What are the limitations of Non-Integrated Accounting?

Ans:-

1.**Incomplete Recording**: Omission of many transactions like asset creation, settlement of liabilities, realization of amounts from debtors etc.
2.**Non-cash Expenditure**: Non-cash expenditures are ignored .
3.**Duplication of Work** :Duplication of work, since some transactions are recorded twice.
4.**Profit Reconciliation required**.

Q.NO.6:- What do you mean by Integrated Accounting? What are its features? State its benefits.

Ans:-

Meaning

under this system of preparing accounts, financial and cost accounts are integrated. In other words, a single book keeping system, which contains both financial and cost accounts is known as integral accounting system. The need for reconciliation between the Profits shown by cost accounts and financial accounts is eliminated totally as only one set of books of accounts is maintained. The benefits of this system are as follows.

Features:-

1.**Same set of Books:** Integrated or Integral Accounting system is the system of accounting , wherein cost and financial accounts are kept in the same set of books.
2.**Comprehensive Information**: Integrated accounts provide the entire information requirements of costing as well as financing account.

3.**Useful information:** For costing purposes, the system will provide information useful for ascertaining the cost each product, job, process, operation or any other identifiable activity and for carrying necessary analysis.
4.**Helps in Control:** Further, the system will provide all the information necessary for preparing Profit and loss account and the Balance sheet as per legal requirements. It also helps in exercising effective control over the liabilities and assets of the business.
5.**No Need of GLA:** The general ledger adjustment account is not used , since the contra entry postings are made in the respective real and personal accounts.

Benefits
1.**No need of Reconciliation:** As only one set of accounting records is kept, the need for reconciliation between the Profits shown by the two records is eliminated.
2.**Duplication of work eliminated:** The duplication of work is eliminated, thus the cost of operating this system is reduced.
3.**Simple to understand:** This method is simple to understand and easy to operate. Unnecessary complications are eliminated.
4.**Regular availability of cost data:** Cost data can be available promptly and regularly.
5.**Cross Checking:** There is a cross checking of various figures in cost as well as financial accounts. This ensures accuracy of figures of cost and financial data.

Q.NO.7:-What are the essential pre-requisities to install the integrated accounting system?

Ans:-
1.**Extent of Integration:-**The management should decide on the extent of integration of costing and financial books. Some concerns find it useful to integrate upto the stage of Prime cost or factory cost while others prefer full integration of the accounting records.
2.**Codification:-**A suitable coding system must be made available so as to serve the accounting purposes of financial and cost account.
3.**Account Closing procedures:-** There should be an agreed routine or scheme of action as regards annual account closing procedures, with regard to the treatment of provision for accruals, prepaid expenses, other adjustments relevant for preparation of interim accounts.
4.**Co-Ordination:-** A high degree of co-ordination should exist between the staff responsible for the financial and cost aspects of accounts. Efficient procession of accounting documents should also be ensured.

JOURNAL ENTRIES

Nature of Transactions	Non-Integrated accounting	Integrated accounting
Material cost		
Purchase of material	Raw material control/stores ledger control dr. To general Ledger control account	Raw Material control Dr. To Cash / Creditors account ....
Special material purchased- directly issue to production without routing through stores department	WIP control Dr. To, general Ledger Adjustment a/c	WIP control Dr. To, Cash/creditors
Return of Materials to vendor	General Ledger Adjustment Dr. To Raw Material control a/c	Vendor a/c Dr. To Raw Material control a/c
Issue of raw materials for production from stores	WIP control a/c Dr. To, Raw Material control a/c	WIP control a/c Dr. To, Raw Material control a/c
Return of excess material from production dept. to stores.	Raw material control a/c dr. To, WIP Control a/c	Raw material control a/c dr. To, WIP Control a/c
Issue of material for maintenance purposes	Factory overhead control a/c Dr. Raw material control a/c	Factory overhead control a/c Dr. Raw material control a/c
Transfer of materials from one job/department to another	No entry required in control accounts , however , in the individual accounts, the receiving job account is debited and the transferring job account is credited.	
Normal loss of materials	Factory Overhead control Dr. To Raw material control a/c	Factory Overhead control Dr. To Raw material control a/c
Abnormal loss of materials	Loss Recognition:	Loss Recognition:

	Abnormal loss Dr. To Raw- material control **Transfer of loss:** Costing P&L account dr. To, Abnormal loss a/c (Note insurance claim is not recorded in cost accounts)	Abnormal loss Dr. To Raw- material control **Insurance claim , if any** Bank/claim receivable a/c dr. P&L account dr. To, Abnormal loss a/c (Note insurance claim is not recorded in cost accounts)
	Labour cost	
Payment of wages	Wages control a/c Dr. To, general Ledger adjustment a/c	Wages control a/c Dr. To, Cash /Bank a/c
Analysis of wages into direct, indirect and abnormal (idle time , overtime etc.)	WIP Control (direct) FOH(indirect) Abnormal loss (for abnormal idle time and overtime) To wages control account	WIP Control (direct) FOH(indirect) Abnormal loss (for abnormal idle time and overtime) To wages control account
	Overheads	
Incurrence of various overheads	FOH/AOH/SOH control a/c Dr. To general ledger control a/c	FOH/AOH/SOH control a/c Dr. To ,cash/payable a/c
Depreciation of fixed assets	FOH/AOH/SOH control Dr. To, general ledger adjustment account	FOH/AOH/SOH control Dr. To, Fixed assets
Absorption of Factory overhead	WIP control a/c dr. To, Factory overhead control a/c	WIP control a/c dr. To, Factory overhead control a/c
Normal under-absorption of factory overhead	COS (for units sold) dr. FG control (for clg. FG) dr. WIP(for clg. WIP dr. To, Factory overhead control account	COS (for units sold) dr. FG control (for clg. FG) dr. WIP(for clg. WIP dr. To, Factory overhead control account
Abnormal under-absorption of factory overhead	Costing P/LA/c dr. To, Factory overhead control a/c	P/L A/c dr. To, Factory overhead control a/c
Over-absorption of factory OH	Factory OH control a/c dr. To, Costing P/L a/c	Factory OH control a/c dr. To, P/L a/c
Over absorption of factory overheads- alternative accounting treatments	If over-absorption is carried forward to next accounting period, no entry will be passed. If over-absorption is adjusted by reversal of entries, the reverse of the entry passed for normal under-absorption will passed.	
Recording goods produced (at factory cost)	Finished goods control Dr. To WIP control a/c	Finished goods control Dr. To WIP control a/c
Absorption of AOH	Finished goods control a/c dr. To AOH control a/c	Finished goods control a/c dr. To AOH control a/c
Under-absorption of AOH	COS (for units sold) dr. FG control (for clg. Stock) dr. To AOH control a/c	COS (for units sold) dr. FG control (for clg. Stock) dr. To AOH control a/c
Recording of COGS(at cost of production)	Cost of Sales dr. To, Finished goods control a/c	Cost of Sales dr. To, Finished goods control a/c
Absorption of SOH	Cost of sales Dr. To, SOH control a/c	Cost of sales Dr. To, SOH control a/c
Under-absorption of SOH	Costing P/L a/c dr. To, SOH control a/c	P/L a/c dr. To, SOH control a/c
	Sales and Profit	
Recording of sales and other income	General Ledger adjustment a/c dr. To, Sales a/c	Bank /Receivable a/c dr. To, Sales a/c
Transfer of cost of sales to Profit and loss account	Costing P/L a/c dr. To cost of sales	P/L a/c dr. To cost of sales

Transfer of sales to profit and loss account	Sales dr. TO, Costing P/L a/c	Sales dr. TO, P/L a/c
Profit for the period	Costing P/L a/c dr. To, general Ledger adjustment a/c	P/L a/c dr. To, capital a/c