

# VIVEKANANDA COLLEGE THAKURPUKUR KOLKATA-700063

NAAC ACCREDITED 'A' GRADE



Topic:Reconciliation of Cost&Financial accounts

Course Title:B.Com

Paper:Cost&Mgt.Accounting-1

Unit:05

Semester:2nd

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### Reconciliation Procedure

The cost and financial accounts are reconciled by preparing a Reconciliation Statement

**Reconciliation Statement :** The same principles of bank reconciliation will apply here. One may start with the profit shown by one set of accounts (usually cost accounts) as base profit and items which do not tally are either added to it or deducted from it to get the profit shown by other set of accounts (*i.e.*, financial accounts). The treatment of items will be reversed if the starting point in the reconciliation statement is the profit as per financial accounts. A proforma of reconciliation statement is shown below :

#### Proforma of Reconciliation Statement

	Rs.	Rs.
<b>Profit as per Cost Accounts</b>		*****
<b>Add :</b> (1) Over-absorption of overheads	*****	
(2) Financial incomes not recorded in cost accounts	*****	
(3) Under-valuation of Closing Stock in cost accounts	*****	
(4) Over-valuation of Opening Stock in cost accounts	*****	
(5) Items charged only in cost accounts ( <i>i.e.</i> , Notional rent and interest on capital <i>etc.</i> )	*****	*****
<b>Less :</b> (1) Under-absorption of overheads	*****	*****
(2) Financial charges not considered in cost accounts ( <i>e.g.</i> , Bad debts written off, preliminary expenses, goodwill and discount on issue of shares written off)	*****	
(3) Under-valuation of Opening Stock in cost accounts	*****	
(4) Over-valuation of Closing Stock in cost accounts	*****	*****
<b>Profit as per Financial Accounts</b>		*****

From the following data prepare a Reconciliation Statement to find out profit as per Financial Accounts :

	Rs.
Profit as per cost accounts	2,50,000
Works overheads over-absorbed	20,000
Administration overheads under-absorbed	45,000
Under valuation of opening stock in cost accounts	15,000
Bad debt written off during the year	14,000
Preliminary expenses written off during the year	10,000

[C.U. B.Com. (Hons.) 2005]

2005

### Reconciliation Statement as at ...

Profit as Per Cost Accounts	₹	₹
		2,50,000.
Add: ① works oh overabsorbed	20,000	20,000
Less:- ① Adm. oh underabsorbed	45,000	2,70,000
② under valuation of ope. stock in cost accounts	15,000	
③ Bad Debt written off during the year	14,000	
④ Preliminary Exp. written off during yr.	10,000	
Profit as per Financial Accounts.		84,000
		1,86,000

From the following figures, prepare a Reconciliation Statement :

	Rs.
Net Profit as per Cost Accounts	66,760
Net Profit as per Financial Accounts	65,120
Factory overhead under-recovered in costing	5,700
Administration overhead recovered in excess	4,250
Depreciation charged in Financial Accounts	3,660
Depreciation recovered in costing	3,950
Interest received but not included in Cost Accounts	450
Income Tax provided in Financial books	230
Stores adjustment (credited in Financial books)	420
Dividend apportioned in Financial Accounts	860
Loss due to theft provided only in Financial books	260

[C.U. B.Com. (Hons.) 2012]

2012

### Reconciliation Statement as at .

	(₹)	(₹)
Net Profit as per Cost-accounts.		66,760
Add:- ① Adm. oh recovered in excess	4,250	
② Dep <sup>n</sup> over-recovered in Cost records. (3,950 - 3,660)	290	
③ Int received received in Financial accounts only	450	
④ Stores adjustment credited in Financial accounts	420	
		5,410
Less: ① F.oh under-recovered in Cost records	5,700	72,170
② Income tax provided in Financial Books	230	
③ Dividend apportioned in Financial Accounts	860	
④ Loss due to theft provided in Financial Books only	260	
		7,050
Profit as per Financial Accounts		65,120

The following is the Trading and Profit & Loss A/c of PKB Ltd. for the year ended 31.12.2014 :

	Rs.		Rs.
To Materials	90,000	By Sales (4800 units)	1,92,000
To Wages	66,000	By Closing Stock	40,800
To Works expenses	48,000	(1200 units)	
To Administrative exp.	12,000		
To Net Profit	16,800		
	<u>2,32,800</u>		<u>2,32,800</u>

The company's cost records show that :

- (a) Works overhead have been absorbed at Rs. 7 per unit produced and  
 (b) Administrative overheads have been absorbed at Rs. 3 per unit produced.  
 Assuming there is nothing by way of work-in-progress either at the beginning or at the end and there is no opening stock of finished goods, prepare :
- A statement of cost indicating the net profit and
  - A statement reconciling the profit as disclosed by cost accounts and that shown in financial accounts.
- [C.U. B.Com. (Hons.) 2015]

**2015** We know,  $Op. Fin. Gms + Production = Sales + Clo. F.G.$   
 $\therefore Production \text{ during the yr} = Sales + Clo. F.G. - Op. F.G.$   
 $\therefore Production \text{ during the yr} = 4,800 + 1,200 - 0$   
 $\therefore Production \text{ during the yr} = 6000 \text{ units.}$

(i) Statement showing Cost & Profit for 1st year ended 31-12-14

Particulars	Amount (₹)	Cost P.V (₹)
Cost of Materials	90,000	15.00
Adv:- wages	66,000	11.00
Prime Cost →	<u>1,56,000</u>	<u>26.00</u>
Adv:- works overhead (6000 x ₹7)	42,000	7.00
Works Cost →	<u>1,98,000</u>	<u>33.00</u>
Adv:- Administration oh (6000 x ₹3)	18,000	3.00
Cost of Production →	<u>2,16,000</u>	<u>36.00</u>
Adv:- closing stock of F.G (1200 x 36)	43,200	
Cost of Production of Goods Sold OR Cost of Sales	<u>1,72,800</u>	36.00
Profit (Bal. fig)	19,200	4.00
Sales	<u>1,92,000</u>	<u>40.00</u>

(ii) Profit Reconciliation Statement as at 31-12-14

Net Profit as per Financial Accounts		16,800
ADD ① works oh under recovered in Cost Records (48000 - 42000)	6,000	
② clo. stock under stated in Financial Records (43,200 - 40,800)	2,400	8,400
		<u>25,200</u>
Adv:- ① Adm. oh over recovered in Cost Records (18000 - 12000)	6,000	6,000
Profit as per Cost Records →		<u>19,200</u>

[2013] – Prepare a reconciliation statement from the following information:

Particulars	As per financial records	As per cost records
	(₹)	(₹)
Cost stock	8,160	8,560
Factory Expenses	24,260	21,000
Office Expenses	10,680	10,000
Selling Expenses	14,200	15,000
Depreciation	2,200	1,600
Rent received	5,200	—
Net profit	—	39,540

2013

Profit Reconciliation Statement as at.

	(₹)	(₹)
Net Profit as Per Cost records		39,540
Add: - ① Selling Exp. over recovered in Cost records (15,000 - 14,200)	800	
② Rent received credited in financial records only	5,200	61,000
Min: - ① F. Exp. under recovered in Cost records (24,260 - 21,000)	3,260	45,540
② office Exp. under recovered in Cost records (10,680 - 10,000)	680	
③ clo. stock over stated in Cost records (8,560 - 8,160)	400	
④ Dep. <del>under</del> under recovered in Cost records (2,200 - 1,600)	600	4,940
Profit as Per Financial Records	→	40,600