**Cost Control Account**

1. Cost Ledger Control Account.

This control account is also popularly known as ‘General Ledger Adjustment Account’ is opened in Cost Ledger to complete double-entry. All items of income and expenditure taken from financial accounts and all transfers from cost accounts to financial books are recorded in this accounts. Since the purpose of this account is to complete double entry in the cost ledger, therefore all transactions in the cost ledger must be recorded through the ‘Cost Ledger Control Account’. The balance in this account will always be equal to the total of all the balances of the impersonal accounts.

2. Integrated Accounts.

 It is the name given to a system of accounting whereby cost and financial accounts are kept in the same set of books. This system avoids the need for separate sets of books for financial and costing purposes. Integrated accounts provides or meets out fully the information requirement for costing as well as financial accounts. Due to the use of one set of books, there is significant extent of saving in efforts made. No delay is caused in obtaining information as it is provided from books of original entry. The question of reconciling profit & financial profit does not arise, as there is one figure of profit only.

3. Advantages of integrated Accounting :

 (i) Since there is one set of accounts, thus there is one figure of profit. Hence the question of reconciliation of costing profit and financial profit does not arise.

 (ii) There is no duplication of recording of entries & efforts to maintain separate set of books.

 (iii) Costing data are available from books of original entry and hence no delay is caused in obtaining information.

 (iv) The operation of the system is facilitated with the use of mechanized accounting.

 (v) Centralization of accounting function results in economy.

**4. Essential pre-requisites for integrated accounts:**

 (i) The management’s decision about the extent of integration of the two sets of books.

Some concerns find it useful to integrate up to the stage of primary cost or factory cost while other prefer full integration of the entire accounting records.

 (ii) A suitable coding system must be made available so as to serve the accounting purposes of financial and cost accounts.

 (iii) An agreed routine, with regard to the treatment of provision for accruals, prepaid expenses, other adjustment necessary for preparation of interim accounts.

 (iv) Perfect coordination should exist between the staff responsible for the financial and cost aspects of the accounts and an efficient processing of accounting documents should be ensured.

**5. Essential Factors for installing a Cost Accounting System**

(a) Objective: The objective of costing system, for example whether it is being introduced for fixing prices or for insisting a system of cost control.

 (b) Type of Business: The areas of operation of business wherein the management’s action will be most beneficial.

 (c) General Organization: The business, with a view of finding out the manner in which the system of cost control could be introduced without altering the organization appreciably.

 (d) The Technical Details: Technical aspects of the concern must support of the supervisory staff & workmen.

 (e) Change in operations: The manner in which different variable expenses would be affected with expansion or cessation of different operations.

 (f) Method of maintenance of cost records: so that cost and Financial accounts could be inter locked into a single integral accounting system.

 (g) Information: The maximum amount of information that would be sufficient and how the same should be secured without too much clerical labour.

 (h) Accuracy: the system should be accurate.

 (i) Information and Simple: especially those in charge of production department.

 (j) Support: Support by top management and employees are essential.

**Journal Entries :**

Non integral

 Transaction Cost Control A/c. Integral A/c

1. Cash purchases of Dr. SLC A/c. Dr. SLC A/c.

 materials for stock Cr.Cost Ledger control A/c. Cr. Cash

2. Credit purchases of Dr. SLC A/c. Dr. SLC A/c

 Materials for stock Cr.Cost Ledger control A/c Cr. Sundry Creditors.

3. Purchase of Materials Dr. WIP A/c Dr. WIP A/c

 direct for Jobs Cr.Cost Ledger control A/c Cr. Cash or S. Creditors

4. Direct Materials issued Dr. WIP A/c Dr. WIP A/c

 to Production Cr. SLC A/c Cr. SLC A/c

5. Issue of Indirect Dr. Prod. Ohd Con. A/c Dr. Prod. Ohd Con. A/c

 Materials Cr. SLC A/c Cr. SLC A/c

6. Materials Returned Dr. SLC A/c Dr. SLC A/c

 from Prodn Dept or shop floor Cr. WIP A/c Cr. WIP A/c

7. Materials Returned Dr.Cost Ledger control A/c Dr. Creditors A/c

 to Suppliers. Cr. SLC A/c Cr. SLC A/c

8. Material transfer between jobs No entry No entry

9. Materials Shortage: If it is normal Dr. Prod. Ohd Con. A/c Dr. Prod. Ohd Con. A/c

 (In case of normal loss without any Cr. SLC A/c Cr. SLC A/c

 scrap , no entry is required )

 For scrap realization Dr.Cost Ledger control A/c Dr. Cash

 Cr. Prod. Ohd Con. A/c Cr. Prod. Ohd Con. A/c

 If it is abnormal & have scrap value Dr. Costing P&L. A/c Dr. P&L. A/c

 Transfer the net cost Cr. SLC A/c Cr. SLC A/c

10. Payment to Creditors No entry Dr. Creditors A/c

 Cr. Bank A/c

11. Payment of Wages Dr. Wg.Con A/c Dr. Wg. Con A/c

 and salaries. (Direct +Indirect) Cr.Cost Ledger control A/c Cr. Cash A/c

12. Direct Wages Dr. WIP A/c Dr. WIP A/c

 allocated/Transfer Cr. Wg.Con A/c Cr. Wg.Con A/c

13. Indirect Wages Dr. …Ohd Control A/c Dr. …Ohd Control A/c

 allocated Cr. Wg.Con A/c Cr. Wg.Con A/c

14. Direct Expenses. Dr. WIP A/c Dr. WIP A/c

 Cr.Cost Ledger control A/c Cr. Cash A/c, or

 Creditors A/c

15. Depreciation on Dr. Prod. Ohd Con. A/c Dr. Prod. Ohd Con. A/c

 plant and Machinery Cr.Cost Ledger control A/c Cr. Plant & Machinery A/c

 both in case of wdv or st. line method) Cr Provn. For Depn A/c

16. Overheads incurred Dr. …Ohd. Control A/c Dr. …Ovh. Control A/c

 (Production admin, or selling) Cr. GLA A/c Cr. Cash A/c or Creditors.

17. Prodn Ohd absorbed. Dr. WIP A/c Dr. WIP A/c

 Cr. Prod. Ohd Con. A/c Cr. Prod. Ohd Con. A/c

18. Ad Ohd absorbed - in production nature Dr. WIP A/c Dr. WIP A/c

 Cr. Ad.Ohd Con A/c Cr. Ad.Ohd Con A/cc

19. Ad Ohd - marketing nature Dr. S & D ohd con A/c Dr. S & D ohd con A/c

 Cr. Ad.Ohd Con A/c Cr. Ad.Ohd Con A/c

20. S & D Ohd absorbed Dr. COS A/c Dr. COS A/c

 Cr. S & D Ohd A/c Cr. S & D Ohd A/c

21. Under absorption Dr. Costing P&L A/c Dr. P & L A/c

 of Overheads Cr. …Ohd Control A/c Cr. …Ohd Control A/c

22. Over-absorption Dr. …Ohd Control A/c Dr. …Ohd Control

 of overheads. Cr. Costing P & L A/c Cr. P & L A/c

 ( for 21 & 22 , refer class note )

23. Finished goods produced Dr. Finished Goods A/c Dr. Finished Goods A/c

 i.e. cost of production. Cr. WIP A/c Cr. WIP A/c

24. Cost of Goods sold – transfer from Dr. COS A/c Dr. COS A/c

 FG control a/c Cr. Finished Goods A/c Cr. Finished Goods A/c

25. Cost of sales Dr. Costing P&L A/c Dr. P & L A/c

 Cr. COS A/C Cr. COS A/C

26 Sales. Dr.Cost Ledger control A/c Dr. Cash or Debtors.

 Cr. Costing P&L A/c Cr. Sales A/c

27. Net Profit Dr. Costing P&L A/c Dr. P & L A/c

 Cr.Cost Ledger control A/c Cr. Capital A/c.

Note :

1. WIP ledger is actually the summation of different jobs. So material transfer from one job to another is not to be shown.

2. Generally SLC A/C, WIP A/C, FGL A/C have debit balances & GLA A/c has credit balance. Prepare the Trial balance on that basis. If there any missing figure at the start of the period, then find it from the opening trial balance. When overhead control a/c appears in trail balance, it implies that carry forward method is followed.

**Advantages of integral system**

 (a) The question of reconciling costing profit and financial profit does not arise, as there is one figure of profit only.

 (b) Due to use of one set of books, there is a significant extent of saving in efforts made.

 (c) No delay is caused in obtaining information as it is provided from books of original entry.

 (d) It is economical also as it is based on the concept of “centralization of Accounting Functions”

**Problems :**

1. From the following details show the necessary accounts in the Cost Ledger

 Materials Work – in – Progress Finished Stock

 **** **** ****

 Opening Balance 8,000 5,000 10,000

 Closing Balance 11,000 9,000 12,000

 Transactions during the period:

 ****

 Materials purchased 25,000

 Wage paid (including ****2,000 indirect) 10,000

 Overheads incurred 8,000

 Overheads absorbed 9,000

 Sales 50,000

1. A company operates separate cost accounting and financial accounting system. The following is the list of Opening balance as on 1.04.2013 in the Cost ledger :

 Debit Credit

  

 Stores Ledger Control Account 53,375 --

 WIP Control Account 1,04,595 --

 Finished Goods Control Account 30,780 --

 General Ledger Adjustment Account 1,88,750

 Transactions for the quarter ended 30.06.2013 are as under :

 

 Materials purchased 26,700

 Materials issued to production 40,000

 Materials issued fro factory repairs 900

 Factory wages paid (including indirect wages 23,000) 77,500

 Production overheads incurred 95,200

 Production overheads under-absorbed and written – off 3,200

 Sales 2,56,000

 The Company’s gross profit is 25% on Factory Cost. At the end of the quarter. WIP stocks increased by 7,500.

 Prepare the relevant Control Accounts, Costing Profit and Loss Account and General Ledger Adjustment Account to record the above transaction for the quarter ended 30.6.2013.

1. A company operates on historic job cost accounting system, which is not integrated with the following accounts. At the beginning of a month, the opening balances in cost ledger were :

  (in lakhs) Stores Ledger Control Account 80

 Work-in-Progress Control Account 20

 Finished Goods Control Account 430

 Building Construction Account 10

 Cost Ledger Control Account 540

 During the month, the following transaction took place :

 Materials -- Purchased 40

 Issued to production 50

 Issued to general maintenance 6

 Issued to building construction 4

 Wages -- Gross wages paid 150

 Indirect wages 40

 For building construction 10

 Works Overheads -- Actual amount incurred (excluding

. items shown above) 150

 Absorbed in building construction 20

 Under absorbed 8

 Royalty paid 5

 Selling, distribution and administration overheads. 25

 Sales 450

At the end of the month, the stock of raw material and work-in-progress was ****55 lakhs & ****25 lakhs respectively. The loss arising in the raw material account is treated as factory overheads. The building under construction was completed during the month.

Company’s gross profit margin is 20% on sales. Prepare the Relevant Control A/c to record the above transactions in the cost ledger of the co.

1. A B C Ltd. operates an integrated accounting system and the following details are given in the Trial Balance as at 31st March 2013:

 Debit (**** ) Credit(**** )

 Share Capital 20,00,000

 Reserves 2,00,000

 Creditors for purchases 1,50,000

 Expenses creditors 20,000

 Freehold buildings, at cost 5,00,000

 Plant and Machinery, at cost 13,00,000

 Provision for depreciation on plant and machinery 1,00,000

 Stock of : Raw material 2,20,000

 Work in progress 40,000

 Finished goods 60,000

 Debtors 2,00,000

 Bank 1,50,000 . .

 24,70,000 24,70,000

 The following data for the month of April 2013 are given:

 ****

 Raw material purchased on credit 9,90,000

 Raw material returned to suppliers 40,000

 Material issued to production 8,50,000

 Material returned from shop floor 20,000

 Factory wages paid: Productive 2,50,000

 Non Productive 50,000

 Salaries paid : Administration 1,00,000

 Selling & Distribution 75,000

 Overhead expenses incurred but not paid:

 Production 3,00,000

 Administration 50,000

 Selling & Distribution 1,00,000

 Depreciation for the month on Plant & machinery 50,000

 Sales on credit 20,00,000

 Cash received from debtors 19,50,000

 Paid the following by cheque

 Creditors for purchases 10,00,000

 Creditors for Expenses 4,30,000

 Overhead Recovered during the month

 Production overhead applied to production 3,90,000

 Administration overhead applied to finished goods 1,45,000

 Selling & distri. overhead applied to cost of sales 1,80,000

 Closing Stock:

 Work-in-progress 2,10,000

 Finished goods 2,15,000

Required:

1. Show the appropriate ledger accounts.; (b) Prepare the income statement for April 2013.

(c) Prepare the Balance Sheet as at 30th April 2012.

1. The following incomplete accounts are furnished to you for the month ended 31st October, 2013:

 Store Control Account

1.10.13 To Balance 5,400

 Work in progress .

1.10.13 To Balance 6,000

 Finished Goods Control Account .

 1.10.13 To Balance 75,000

 Factory Overhead Control Account

Total debits for October, 2013 45,000

 Creditors for Purchases Account

 1.10.13 By Balance 30,000

 Additional information:

* + 1. The factory overheads are applied by using a budgeted rate based on Direct Labour Hours. The budget for the overheads for 2013 is ****6,75,000 and the budget of direct labour hours is 4,50,000 .
		2. The balance in the account of creditors for purchases on 31.10.13 is ****15,000 & payments made to creditors in October, 2013 amount to ****1,05,000.
1. The finished goods inventory as on 31st October,2013 is ****66,000.

 (iv) The cost of goods sold during the month was ****1,95,000.

(v) On 31st October,2013 there was only one unfinished job in the factory . The cost records show that ****3,000 (1,200 direct labour hours) of Direct Labour Cost and ****6,000 of Direct Material Cost had been charged.

(vi) A total of 28,200 direct labour hours were worked in October, 2013. All factory workers earn same rate of pay.

(vii) All actual factory overheads incurred in October, 2013 have been posted.

 Required to find:

a. Materials purchased during October, 2013. b. Cost of goods completed in Oct, 2013.

c. Overheads applied in October, 2013. d. Balance of W.I.P. on 31st October, 2013.

e. Direct materials consumed during Oct, 2013. f. Balance of Stores Control Account on 31st Oct. 13

g. Over absorbed or under absorbed Overheads for October,

**Reconciliation**

**Proforma of A Reconciliation Statement:**

 ** **

**Profit as per cost accounts: xx**

**Add.**

1. **Income and profits taken in financial accounts**

**and not in cost accounts. Xx xx**

1. **Notional expenses taken in cost accounts**

 **and not in financial accounts. xx**

1. **Over-absorption overheads in cost accounts. xx**
2. **Excess valuation of opening inventory in cost accounts**

 **as compared to valuation in financial accounts. xx**

1. **Lower valuation of closing inventory in cost accounts**

 **as compared to valuation in financial accounts. xx**

1. **Excess depreciation accounted for in cost accounts. Xx xx**

**Less:**

1. **Expenses and losses accounted for in financial accounts**

 **and not in cost accounts. xx**

**2. Appropriations in financial accounts only. xx**

**3. Notional income taken in cost accounts and not in**

 **financial accounts. xx**

**4. Under-absorption of overheads in cost accounts. xx**

**5. Lower valuation of opening inventory in cost accounts**

 **as compared to valuation in financial accounts. xx**

**6. Higher valuation of closing inventory in cost accounts**

 **as compared to valuation in financial accounts. xx**

1. **Lower depreciation accounted for in cost accounts. Xx xx**

 **Profit or loss as per Financial A/c xx**

**Note: Inventory includes raw materials, stores, spares work-in-progress, stock of finished goods etc.**

**Problems**

1. The figures have been extracted from the financial accounts of a manufacturing firm for the first year of its operation.

 ****

 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

 Bad Debts 80,000

 Preliminary Expenses written off 40,000

 Legal charges 10,000

 Dividends received 1,00,000

 Interest on deposit received 20,000

 Sales - 1,20,000 units 1,20,00,000

 Closing Stock :

 Finished Stock -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 overhead is recovered at 20% on Prime cost ; Admn. Overhead (of production nature) is recovered @ 6 per unit of production ; and Selling and distribution overheads are recovered at ****8.00 per unit sold.

 You are required to prepare costing, and Financial Profit and Loss Accounts and reconcile the difference in the Profits as arrived at in the two sets of accounts.

1. The financial records of Modern Manufacturers Ltd. reveal the following for the first year ended 30.6.2013:

 ****  in ‘000

 Sales (20,000 units). 4,000

 Materials 1,600

 Wages 800

 Factory Overheads 720

 Office and Administrative Overheads 416

 Selling and Distribution Overheads 288

 Finished Goods (1,230 units). 240

 Work in Progress :

 Materials 48

 Labour 32

 Overhead (Factory) 112

 Goodwill written off. 320

 Interest of Capital 32

In the Costing Records, factory overheads is charged at 100% wages, administration overhead of production nature is 10% of conversion cost and selling and distribution overhead at the rate of ****16 per unit sold.

Prepare a statement reconciling the Profit as per cost records with the Profit as per financial records of the Company & also memorandum Reconciliation statement.

1. The following figures have been extracted from the Cost Records of a manufacturing unit:

Stores : ****

 Opening Balance 30,000

 Purchases 1,60,000

 Transfers from work-in-Progress 80,000

 Issues to work-in-Progress 1,60,000

 Issues to Repairs and Maintenance 20,000

 Deficiencies found in stock taking 6,000

 Work-in-Progress :

 Opening Balance 60,000

 Direct Wages applied 60,000

 Overheads applied 2,40,000

 Closing balance 40,000

Finished products : Entire output is sold at a profit of 10% on cost from work-in-progress

Others : wages incurred ****70,000 ; Overhead incurred ****2,50,000. Items not included in Cost Records : Income from investments ****10,000.

Prepare Profit and Loss Account, Costing Profit & Loss A/c and Reconciliation statement.

1. The profit and loss account as shown in the financial books of a company for the year ended 30.9.2012 together with a statement of reconciliation between the profit as per financial and cost accounts is given below

 Profit and Loss Account for the year ended 30.9.2012

    

 Opening Stock Sales 15,00,000

 Raw Materials 90,000 Closing Stock :-

 Work in progress 50,000 Raw Materials 98,000

 Finished goods \_70,000 Work in progress 53,000

 2,10,000 Finished goods \_72,000

 2,23,000

 Raw Material purchases 5,00,000 Miscellaneous receipts 45,000

 Direct wages 2,00,000 Factory overheads 2,00,000

 Administration expenses 1,70,000

 Selling & Distribution Expenses 2,20,000

 Preliminary expenses Written off 75,000

 Debenture Interest 30,000

 Net Profit 1,63,000

 17,68,000 17,68,000

 Statement of reconciliation of profit as per financial and cost accounts

 **** ****

 Profit as per financial accounts 1,63,000

Difference in valuation of stock :

 Add : Raw Materials - Closing stock 1,200

 Work in progress - Opening stock 1,300

 Finished goods - Opening stock 2,000

 - Closing stock 1,000

 Total 5,500

 Less : Raw Materials - Opening stock 1,650

 Work in progress - Closing stock 750

 Total 2,400

 Other items :

 Add : Preliminary expenses written off 75,000

 Debenture interest 30,000

 1,05,000

 Less : Miscellaneous receipts 45,000

 60,000

 Add: Under recovery of production overhead 20,000

 80,000

 Less: Over recovery of administration overhead 15,000 65,000

 Profit as per Cost Accounts 2,31,100

 You are required to calculate the profit as per cost accounts

1. The following information is available from the financial books of a company having a normal production capacity of 60,000 units for the year ended 31st March, 2012:
2. Sales ****10,00,000 (50,000 units).
3. There was no opening and closing stock of finished units

. (iii) Direct material and direct wages cost were ****5,00,000 and ****2,50,000 respectively.

 (iv) Actual factory expenses were ****1,50,000 of which 60% are fixed.

(v) Actual administrative expenses were ****45,000 which are complete fixed.

(vi) Actual selling and distribution expenses were ****30,000 of which 40% are fixed.

 (vii) Interest and dividends received ****15,000.

 You are required to prepare a statement reconciling profits shown by financial and cost books.

1. A manufacturing company disclosed a net loss of ****3,47,000 as per their cost accounts for the year ended March 31,2012. The financial accounts however disclosed a net loss of ****5,10,000 for the same period. The following information was revealed as a result of scrutiny of the figures of both the sets of accounts:

 ****

(i) Factory Overheads under-absorbed 40,000

(ii) Administration Overheads over-absorbed 60,000

(iii) Depreciation charged in Financial Accounts 3,25,000

(iv) Depreciation charged in Cost Accounts 2,75,000

(v) Interest on investments not included in Cost Accounts 96,000

(vi) Income-tax provided 54,000

(vii) Interest on loan funds in Financial Accounts 2,45,000

(viii) Transfer fees (credit in financial books) 24,000

(ix) Stores adjustment (credit in financial books) 14,000

(x) Dividend received 32,000

Prepare a Memorandum Reconciliation Account.

1. From the following figure prepare a reconciliation statement to determine net profit as per financial books.

Net profit as shown the cost books 2,80,000

Depreciation shown excess in cost books 4,000

Interest on Investment Received 2,000

Provision for income tax 80,000

Income received from transfer fees 300

Factory overhead under Recovered in cost books 6,000

Office Expenses under recovered in financial books 2,000

From the following figure prepare a reconciliation statement

Profit as per cost accounts was 75,150.

Works Overhead were Under recovered in Cost accounts 2,000

Depreciation charge were over recorded in cost accounts 500.

Rent received during the year  1,500.

Bad debt written off during the year  1,000

Provision for income tax made in financial accounts  10,000

Store adjustment ( credited in financial Books)  475.

1. Prepare reconciliation statement from the Following information

|  |  |  |
| --- | --- | --- |
| Particulars | As per financial records | As per cost records |
| Closing stockFactory ExpenseOffice ExpensesSelling ExpensesDepreciation Rent ReceivedNet Profit | 816024260106801420022005200- | 8560210001000150001600-39540 |

1. The following is the Trading and profit and Loss A/c of RKP Ltd. For the year ended 31.12.14

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | rupeesymbol_thumb | Particulars | rupeesymbol_thumb |
| To MaterialsTo WagesTo Works ExpensesTo Administrative Exp.To net profit | 90,00066,00048,00012,00016,800 | By sales ( 4800 units)By closing stock (1200 units) | 1,92,00040,800 |

1. Journalize the following transaction in the cost ledger under cost control Accounts:

Raw materials Purchase 50,000

Direct materials issued to production 30,000

Wages Paid ( 70% Direct) 40,000

Manufacturing Expenses Incurred 30,000

Manufacturing Expenses charge to production 40,000

Selling and distribution expenses incurred 5,000

 Selling and distribution expenses recovered 4,000

Sales 1,00,000

1. From the following information , prepare the necessary ledger accounts in the cost ledge

|  |  |  |
| --- | --- | --- |
|  | Opening balancerupeesymbol_thumb | Closing balancerupeesymbol_thumb |
| Store-ledger control A/cWork-in-progress control A/cFinished stock control A/c | 20,00014,00016,500 | 25,00018,50017,500 |

Following transaction took place during the period:

Material purchase 47,500

Direct wages paid 25,000

Overhead incurred 12,500

Overhead recovered 17,000

Sales 80,000

1. The following are the balances in the cost ledger of a manufacturing company on 1st January ,2011

 Dr. () Cr.( )

 Stores ledger 9,000

 Work-in –progress ledger 8,000

 Finished goods ledger 10,000

 Financial ledger - 27,000

Summary of the transaction during the year 2011

Material purchased 15,000

Materials issued to jobs 16,000

Materials issued for repairs in factory 2,000

Direct wages paid 10,000

Indirect wages paid 2,000

Factory expenses paid 8,000

Administration 9,000

Selling Expense Paid 5,000

Cost of finished goods produce 40,000

Cost of finished goods sold 55,000

Sales 90,000