

Dear Students,

Hope you, your parents and other family members are safe and secured. We are going through a world-wide crisis that seriously affects not only the normal life and economy but also the teaching-learning process of our Mahavidyalaya and our department is not an exception.

As the lock-down is continuing and it is not possible to reach you face to face class room teaching. This material is not an exhaustive one though it is an indicative so that you can understand different topics. I believe that it is not the alternative of direct teaching learning.

It is a gentle request you to circulate this material only to your friends those who are studying in Semester IV (2020).

Stay safe and stay home.

Best wishes.

Notes on Paper: C8T...Cost Accounting

**Date: 11/06/2020**

## **Note: 3-Unit 5 (Book Keeping in Cost Accounting) / C8T**

### **Reconciliation of Cost and Financial Accounts**

#### **Reconciliation:**

Where cost accounts and financial accounts are separately maintained in two different sets of books, the profit or loss shown by one may not agree with that shown by other. Therefore, it becomes necessary that periodically the profit or loss shown by the two sets of accounts is reconciled.

A memorandum of reconciliation is prepared showing the reasons for difference between the results disclosed by each system. It is done to check the arithmetical accuracy of both sets of accounts as well as to detect mistakes committed in the accounts.

#### **Need for Reconciliation:**

1. The difference in profit or loss between cost and financial accounts can be revealed.
2. It helps in checking the arithmetical accuracy of both sets of accounts.
3. It ensures that no income or expenditure item has been omitted to record and there is no under- or over-recovery of overheads.

4. It helps in co-ordination and co-operation between cost and financial accounting departments for the purpose of generate correct and reliable accounting data or information.

### **Reconciliation Procedure:**

The cost and financial accounts are reconciled by preparing a (1) Reconciliation Statement or a (2) Memorandum Reconciliation Account.

### **Reconciliation Statement:**

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.

### **Proforma of reconciliation statement:**

Proforma of Reconciliation Statement		
	Rs.	Rs.
<b>Profit as per Cost Accounts</b>		*****
<i>Add :</i> (1) Over-absorption of overheads in cost accounts	*****	
(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.e., Notional rent and interest on capital etc.)	*****	*****
<i>Less :</i> (1) Under-absorption of overheads in cost accounts	*****	*****
(2) Financial charges not considered in cost accounts (e.g. 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>		*****

\*Note: In case of Loss, the amount shall appear as a minus item.

### Memorandum Reconciliation Account:

Here the reconciliation procedure is in the form of an account. The profit as per cost accounts is the starting point and is shown on the credit side of this account. All items which are added to costing profit for reconciliation are also shown on credit side.

The items to be deducted from costing profit for reconciliation are shown on the debit side. The balancing figure gives the profit as per financial accounts. It is only a memorandum account and does not form part of double entry system of book-keeping.

### Proforma of Memorandum Reconciliation Account

<i>Dr.</i>		<i>Memorandum Reconciliation Account</i>		<i>Cr.</i>
		Rs.		Rs.
To	Financial Expenses debited in financial accounts :		By	Profit as per Cost Accounts
	Discount	***	"	Financial Incomes not recorded in Cost Accounts
	Fines and Penalties	***		Rent received
	Loss on Sale of Assets	***		Interest received
	Bank Interest	***	"	Dividend/Profit on Sale of Assets
	Donations	***	"	Items charged only in cost accounts
	Preliminary expenses &		"	Over-absorption of overheads
	Goodwill written off	***	"	Over-valuation of opening stock (in cost)
		***		
To	Under-absorption of overheads	***	By	Under-valuation of closing stock (in cost)
"	Under-valuation of opening stock in cost accounts	***	"	Depreciation over charged in Cost Accounts
"	Over-valuation of closing stock in cost accounts	***		
"	Net profit as per Financial Accounts	***		
		***		***