

Cost Book-Keeping and Reconciliation of Cost and Financial Accounts

B. Com. (Hons. and Gen.) Semester: 2
Department of Commerce (Day Shift)
Section: 2H and 2G

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Cost Control Accounting

As per C.I.M.A, Cost Control Accounting is a system in which the cost accounts are distinct from the financial accounts. The two sets of accounts are being kept continuously in agreement by the use of control accounts or made readily reconcilable by other means.

Ledger Maintained

Financial accounting department maintains: **(a)** General ledger; **(b)** Debtors' ledger; and **(c)** Creditors' ledger

Cost department maintains: **(a)** Cost ledger; **(b)** Stores ledger; **(c)** Work-in-progress ledger; and **(d)** Finished goods ledger

Cost ledger is the most important ledger of the cost department. Impersonal accounts are recorded in it. Stores ledger maintained all stores accounts. Work-in-progress ledger records production during a period and the cost incurred therefore. Finished goods ledger records all products completed. For effective control over all the activities a control account is maintained for each of the above ledgers. Cost ledger contains all these four control account is maintained for each of the above ledger. Cost ledger contains all these four control accounts and often others like material control account.

Cost Control Accounts are discussed below:

- 1. Cost ledger control account:** All items of income and expenditure extracted from financial accounts are posted. Transfer from cost book to financial books are also entered in this account.
- 2. Stores ledger control account:** This account shows the receipts of materials as per goods received notes and the issues of materials as per stores requisition. The balance of this account represents the total of the balances of stores accounts.
- 3. Work-in-progress ledger control account:** it represent the work-in-progress at any time. Its balance at the end of a period must agree with the total of the balances of the job or process accounts.
- 4. Finished goods ledger control account:** This account represents the total value of finished goods in stock.

Book – Keeping Entries:

1. For purchase of material during a period:

(a) In financial books:

Purchases A/c	Dr
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Cost Ledger Control A/c (memorandum)	Dr
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To Cash / Supplier A/c

(b) In cost books:

(i) Material Control A/c	Dr
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To Cost Ledger Control A/c

(ii) Stores Ledger Control A/c	Dr
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To Material Control A/c

2. For return of materials purchased:

(a) In financial books:

Supplier's A/c	Dr
To Purchase Return A/c	
To Cost Ledger Control A/c (memorandum)	

(b) In cost books:

Cost Ledger Control A/c	Dr
To Stores Ledger Control A/c	

3. For issue of materials to production:

(a) In financial books:

No entry

(b) In cost books:

Work- in – Progress Ledger Control A/c	Dr
To Stores Ledger Control A/c	

4. For issue of indirect materials:

(a) In financial books:

No entry

(b) In cost books:

Factory Overhead Control A/c	Dr
To Stores Ledger Control A/c	

5. For return of materials from production to stores:

(a) In financial books

No entry

(b) In cost books:

Stores Ledger Control A/c

Dr

To Work-in-progress Ledger Control A/c

6. For transfer of materials from one job to another job:

(a) In financial books:

No entry

(b) In cost books:

(Receiving) Job A/c

Dr

To (Giving) Job A/c

(Both in work - in - progress ledger)

7. For wages (gross) accruing far a period:

(a) In financial books:

Wages A/c

Dr

Cost Ledger Control A/c (memorandum)

Dr

To Cash A/c (net amount paid)

To Various Accounts for deductions A/c

(b) In cost books:

(i) Wages Control A/c Dr

To Cost Ledger Control A/c

(ii) Total wages will be first analyzed into – direct wages and indirect wages. The latter will be further analyzed into production staff, selling and distribution staff.

For direct wages:

Work – in – Progress Control A/c Dr

To Wages Control A/c

For indirect wages according to further analysis:

Factory Overhead Control A/c Dr

Administrative Overhead Control A/c Dr

Selling and Distribution Overhead Control A/c Dr

To Wages Control A/c

8. For overhead expenses accruing for a period:

(a) In financial books:

Expenses A/c	Dr
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Cost Ledger Control A/c (memorandum)	Dr
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To Creditors A/c

(b) In cost books:

The total expenses shall be analyzed into production, administration, selling and distribution.

Entry will be according to the analysis, as shown below:

Factory Overhead Control A/c	Dr
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Administrative Overhead Control A/c	Dr
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Selling and Distribution Overhead Control A/c	Dr
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To Cost Ledger Control A/c

9. For Payment of expenses accrued:

(a) In financial books:

Creditors A/c

Dr

To Cash A/c

(b) In cost books:

No entry

10. For total factory overhead recovered during a period:

(a) In financial books:

No entry

(b) In cost books:

Work-in-Progress Ledger Control A/c

Dr

To Factory Overhead Control A/c

10. For total factory overhead recovered during a period:

(a) In financial books:

No entry

(b) In cost books:

Work-in-Progress Ledger Control A/c Dr

To Factory Overhead Control A/c

11. For over or under recovery of factory overhead:

(a) In financial books:

No entry

(b) In cost books:

(i) For over recovery:

Factory Overhead Control A/c Dr

To Overhead Adjustment A/c (or Costing Profit and Loss A/c)

(ii) For under recovery:

Overhead Adjustment A/c (or Costing Profit and Loss A/c) Dr

To Factory Overhead Control A/c

12. For administration overhead recovery:

(a) In financial books:

No entry

(b) In cost books:

Finished Goods Ledger Control A/c

Dr

To Administration Overhead Control A/c

13. For selling and distribution overhead recovery:

Cost of sales A/c

Dr

To Selling and Distribution Overhead Control A/c

14. For sales during a period:

(a) In financial books:

Cash / Customers A/c

Dr

To Sales A/c

To Cost Ledger Control A/c (memorandum)

(b) In cost books:

Cost Ledger Control A/c

Dr

To Costing Profit and Loss A/c

15. For profit and loss during a period:

(a) Credit balance of profit and loss account represents net profit and debit balance of profit and loss account represents net loss. These are carried forward.

(b) In cost books:

(i) For net profit:

Costing Profit and Loss A/c	Dr
To Cost Ledger Control A/c	

(ii) For net loss:

Cost Ledger Control A/c	Dr
To Costing Profit and Loss A/c	

Q. Pass necessary journal entries in cost records for the following:

- (a) Materials (direct) amounting to Rs 42000 are issued to production.
- (b) Depreciation of factory equipment Rs 9600
- (c) Goods completed and transferred to finished stock Rs 72000
- (d) Factory overhead incurred Rs 15000(of which Rs 3000 left unpaid)
- (e) Office overhead recovered Rs 16000

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Cost Journal			Dr	Cr
Date	Particulars	JF	Rs.	Rs.
	(a) Work-in-Progress Ledger Control A/c Dr To Stores Ledger Control A/c (Amount of materials issued as per materials abstract)		42,000	42,000
	(b) Factory Overhead Control A/c Dr To Cost Ledger Control A/c (Amount of depreciation as per financial books)		9,600	9,600
	(c) Finished Goods Control A/c Dr To Work-in-Progress Ledger Control A/c (Cost of completed goods transferred from work-in-progress account)		72,000	72,000
	(d) Factory Overhead Control A/c Dr To Cost Ledger Control A/c (Amount of factory overhead as per financial books)		15,000	15,000
	(e) Finished Goods Control A/c Dr To Office Overhead Control A/c (Amount of office overhead recovered)		16,000	16,000

Source(Book): Cost and Management Accounting
Basu and Das (Rabindra Library Private Limited.