



Cost Accounting
4th semester
Bengaluru Central University
Chapter- 5
Reconciliation of Cost and Financial Accounts

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Reconciliation of Cost & Financial Accounts

Meaning

Reconciliation of cost and financial accounts mean, tallying the profit or loss revealed by both set of accounts. A statement which is prepared for reconciling the profit between financial accounts and cost accounts is known as cost reconciliation statement.



Reasons for the difference of Profit or loss in cost and financial accounts

1. Items shown only in financial accounts
 - a) Purely financial incomes
 - b) Purely financial expenses
 - c) Appropriation of profits
2. Items shown only in cost accounts
3. Absorption of overheads
4. Methods of stock valuation
5. Abnormal losses and gains
6. Different methods of charging depreciation



Methods of Reconciliation

1. Reconciliation Statement: When reconciliation is attempted by preparing a reconciliation statement, profit shown by one set of accounts is taken as base profit and items of difference are either added to it or deducted from it to arrive at the figure of profit shown by other set of accounts

2. Memorandum Reconciliation Account: Reconciliation can also be done by preparing a Memorandum Reconciliation Account. This account is a memorandum account only and does not form part of the double entry. When reconciliation is attempted through Memorandum Reconciliation Account, profit to be taken as “base profit” is shown like opening balance of this account. All items of differences required to be deducted are debited and those to be added are credited to this account, the balancing figure of this account is the profit shown by other set of accounts



Proforma of Reconciliation statement

Particulars	Amount	Amount
Profits as per cost accounts		XXX
Add:		
1. Overvaluation of overheads		
2. Financial items not recorded in cost a/cs.	XX	
3. Items charged only in cost a/cs	XX	XX
4. Overvaluation of opening Stock in cost books	XX	XXX
5. Under valuation of closing Stock in cost books	XX	
		XXX
Less:		
1. Under absorption of overheads	XX	
2. Purely financial Charges	XX	
3. Under valuation of opening Stock in cost books	XX	
4. Over valuation of closing Stock in cost books	XX	XXX
Profits as per financial books		XXX



Proforma of Memorandum Reconciliation Account

To Financial expenses:		By profit as per Cost accounts	XXX
Discount	XXX	By Financial income:	
Fines and penalties	XXX	Rent	XXX
Bank Interest	XXX	Interest	XXX
Underwriter's Commission	XXX	Dividend	XXX
Donations	XXX	Profit on sales of assets	XXX
Goodwill written off	XXX	By items charged in cost accounts:	XXX
To Under-absorption of overheads	XXX	Interest on own capital	XXX
To Under-valuation of opening stock in Cost accounts	XXX	Rent on own Building	XXX
To Over-valuation of closing stock in Cost accounts	XXX	By Over-absorption of overheads	XXX
To Under-charge of depreciation in cost accounts	XXX	By Over-valuation of opening stock in cost accounts	XXX
To Profit as per Financial Accounts (b/f)	XXX	By Under-valuation of closing stock in Cost accounts	XXX
		By Over-charge of depreciation in Cost Accounts	XXX
	XXX		XXX



Thank you

