
Cost Accounting System

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What we learn

- ✓ How to maintain books under cost accounting system
- ✓ Meaning of Integrated and non integrated system of book keeping
- ✓ Difference between Cost accounting book keeping and financial book keeping
- ✓ Why do the profits differ under the two systems - reconciling



Books of Accounts – Cost Accounting system

- ✓ records the flow of cost in line with the production activity
- ✓ Starts with recording goods purchased – goods issue to production (WIP) – and from WIP to finished stock – a/cing for sales
- ✓ Aim is to find the **COST** of finished goods produced
- ✓ Overheads (Expenses) are accounted for on the basis of predetermined OH rate
- ✓ Aids in finding under absorbed or over absorbed OH's



Meaning of Integrated and Non Integrated

- Single set of books for both Cost Accounting and Financial accounting entries –

INTEGRATED

- Different set of books separately/ side by side for cost accounting and financial accounting –

NON INTEGRATED



Integrated v/s Non Integrated Book Keeping

Integrated	Non Integrated
➤ Both costing as well as financial accounting entries are recorded in the same book	➤ Separate books of Accounts – Transactions related to actual expenses incurred are recorded in Financial books and
➤ No question of reconciling Costing profits with the financial profits	➤ Financial profits differ from costing profits 'cos
➤ No delay in obtaining information as regards cost and as well as profits	
➤ Economical as only one department records and maintains both costing and financial records, - A/c are centralised	



Journal Entries

Transaction	Financial A/ctg	Non intergrated	Integrated
Purchase of Raw material	Purchases A/c Dr To Cash/Bank A/c	Raw Mat Cntrl A/c Dr To Gen Leg Adj A/c	Raw Mat Cntrl A/c Dr To Cash/Bank A/c
Material Issued to production	No Entry	WIP Cntrl A/c Dr To Raw Mat Cntrl A/c	WIP Cntrl A/c Dr To Raw Mat Cntrl A/c
Payment of wages	Wages Dr To Bank/Cash A/c	Wages Control A/c Dr To Gen Led Adj A/c	Wages Cntrl A/c Dr To Cash/Bank A/c
Analysis of Wages – Direct/Indirect	No entry	WIP Cntrl a/c(Dirct)Dr FOH Cntrl A/c(Indrt)Dr To Wages Control A/c	WIP Cntrl a/c(Dirct)Dr FOH Cntrl A/c(Indrt)Dr To Wages Control A/c
OH expenses incurred	Expenses a/c Dr To Cash/bank A/c	FOH/AOH/SD cntrl a/c Dr To Gen Led Adj a/c	FOH/AOH/SD cntrl a/c Dr To Gen Lef Adj a/c
Absorbtion of OH	No entry	WIP Cntrl A/c Dr To FOH cntrl a/c	WIP Cntrl A/c Dr To FOH cntrl a/c
Recording of goods produced (At fC)	N entry	Fin Goods Cntrl a/c Dr To WIP cntrl A/c	Fin Goods Cntrl a/c Dr To WIP cntrl A/c
Recording cost of goods sold	No Entry	Cost of Sales A/c Dr To Fin Goods Cntrl A/c	Cost of Sales A/c Dr To Fin Goods Cntrl A/c
Sales realisation	Cash/S.drs a/c Dr To Sales a/c	Gen Ledger Adj a/c Dr To Sales A/c	Cash/S.drs a/c Dr To Sales a/c
Profit for the period	P/L A/c Dr	Costing P/l a/c Dr To Gen Led adj a	P /l A/c Dr To Cap A/c

