

CHAPTER 2: RECONCILIATION OF COST AND FINANCIAL ACCOUNTS

- ❖ Reconciliation simply means Settling, Resolving, **Adjustments**, Balancing, Agreement between Two data.
- ❖ **RECONCILIATION OF COST AND FINANCIAL ACCOUNTS:-**
 - ✓ **Some items of Income & Expenses appearing in Financial Accounts** only like *Income such as Dividend received, Interest received etc.* & *Expenses such as Interest paid, Loss on sale of Fixed Assets etc.*
 - ✓ **Some items of Income & Expenses appearing in Cost Accounts only** like *Income such as Notional Interest charged to Owner for Drawings, Notional Rent charged to owner for personal use of business premises etc.* & *Expenses such as Notional Interest on Owner's Capital, Notional Remuneration to owner for his/her Labour & Management, Notional Rent to Owner for his/her premises for business etc.*

RECONCILIATION OF COST AND FINANCIAL ACCOUNTS

- ✓ so, *there are several items of income & expenses which are treated differently in the two sets of accounts viz. Cost Accounts & the Financial Accounts.*
- ✓ *The difference in the amounts has to be ascertained & adjusted in order to reconcile the respective profits as per the two accounts.*
- ✓ so, *the difference between these two accounts can be settled through reconciliation between the two Accounts i.e. Cost A/c & Financial A/c.*

SIMPLE RULE TO RECONCILIATION

SIMPLE RULE



If Starting Point is From Financial Book



See the other book i.e. Costing Book



*If Costing book balance increases
As compared to financial books* Then

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*If Costing book balance decreases as
compared to financial books* Then

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IMPORTANT WORDS TO BE USED FREQUENTLY

IN COST BOOKS

- ❖ **For Overheads**:- Over- recovered/ Over- absorbed/ Under- recovered/ Under- absorbed
- ❖ **For Depreciation**:- Overcharged/ Undercharged
- **In General For Stock Valuation**: Undervalued/ Overvalued