

Semester II

CMA I

Cost Ledger Control Accounts

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“The objective of Cost Accounting is to accumulate, classify, record, interpret and report cost information to the managers at different levels of the organization.”

“Cost Accounting aims at projection of future costs related with alternative courses of action.”

“Apart from ascertainment of actual costs of products / services / processes / operations, Cost Accounting involves establishment of Budgets and determination of Standard Costs.”

The above statements signify the importance of cost control.

While Double Entry Principles are applied for recording of cost-transactions, the **Cost Ledgers can be made self-balancing with the help of a few Control Accounts**. This will also provide a check on the accuracy of postings made to the individual accounts, and a separate Trial Balance can be prepared for each Cost Ledger without referring to any other ledger.

Ledgers maintained in cost accounting system are as follows:

1. **Cost Ledger [It is the principal ledger in cost accounts]**
 2. **Stores Ledger**
 3. **Work-in-Progress Ledger**
 4. **Finished Stock Ledger**
- [2, 3, 4 are Subsidiary Ledgers to the Principal Ledger, i.e.1]

A Control A/c is opened for each ledger. Transactions recorded in each ledger are also recorded in Control A/cs, but in a summary form. The balance of a Control A/c should equal the sum of the balances on the individual accounts in that ledger. [ICMA]

Cost Ledger should have the following Control Accounts:

1. A Control Account for each Subsidiary Ledger---
 - i. **Stores Ledger Control A/c**
 - ii. **Work-in-Progress Ledger Control A/c**
 - iii. **Finished Stock Ledger Control A/c**
2. **Financial Ledger Control A/c** [For recording transfers from and to the Financial Books. For example, making payments for materials purchases, payment of wages and overheads, transfer of profit made from sales, etc]

**The other names of Financial Ledger Control A/c are:
General / Nominal / Cost Ledger Control A/c.**

3. There are some other Control A/cs, which do not represent any particular ledger. These remaining Control A/cs are:
- i. **Wages Control A/c**
 - ii. **Factory Overhead Control A/c**
 - iii. **Administration Overhead Control A/c**
 - iv. **Selling & Distribution Overhead Control A/c**
 - v. **Cost of Sales A/c**
 - vi. **Sales A/c**
 - vii. **Costing Profit & Loss A/c**

Journal Entries involving Control A/cs

1. Materials purchased for cash or credit:

i) For Stock purpose—

Stores Ledger Control A/c Dr.

To, Financial Ledger Control A/c

ii) For special jobs—

WIP Ledger Control A/c Dr.

To, Financial Ledger Control A/c

2(a) Direct Materials issued from stores—

WIP Ledger Control A/c Dr.

To, Stores Ledger Control A/c

2(b) Indirect Materials issued from Stores—

Overhead Control A/c Dr.

To, Stores Ledger Control A/c

3 Materials returned to the supplier—

Financial Ledger Control A/c Dr.

To, Stores Ledger Control A/c

4. Materials returned from Job—

Stores Ledger Control A/c Dr.

To, WIP Ledger Control A/c

5. Materials transferred by one Job to another Job—

Transferee Job A/c Dr.

To, Transferrer Job A/c

(This transaction affects two accounts in WIP Ledger. Hence WIP Ledger Control A/c is not disturbed)

6. Salaries & Wages paid or accrued (Direct or Indirect)—

Wages Control A/c Dr.

To, Financial Ledger Control A/c

7. Direct Wages allocated to Job—

WIP Ledger Control A/c Dr.

To, Wages Control A/c

8. Indirect Wages allotted to Overheads—

Overheads Control A/c(s) Dr.

To, Wages Control A/c

9. Overhead expenditures incurred or accrued—

Overheads Control A/c(s) Dr.

To, Financial Ledger Control A/c

10. Overheads recovered—

WIP Ledger Control A/c Dr.

[for recovery of Factory Overhead]

Finished Stock Ledger Control A/c Dr.

[for recovery of Office Overhead]

Cost of Sales A/c Dr.

[for recovery of Selling & Distribution Overhead]

To, Overheads Control A/c(s)

11. Under-recovery of Overheads—

Costing Profit & Loss A/c Dr.

To, Overheads Control A/c(s)

12. Over-recovery of Overheads—

Overheads Control A/c(s) Dr.

To, Costing Profit & Loss A/c

13. Finished Goods produced—

Finished Stock Ledger Control A/c Dr.

To, WIP Ledger Control A/c

14. Cost of Goods Sold ascertained—

Cost of Sales A/c Dr.

To, Finished Stock Ledger Control A/c

15. Cost of Sales ascertained—

Sales A/c Dr.

To, Cost of Sales A/c

16. Sales made—

Financial Ledger Control A/c Dr.

To, Sales A/c

17. Profit made on goods sold—

Sales A/c Dr.

To, Costing P/L A/c

18. Net Profit transferred—

Costing P/L A/c Dr.

To, Financial Ledger Control A/c

A few problems:

Problem 1.

From the following figures, ascertained from costing records and financial books in a factory, you are required to pass necessary entries in the Cost Journal (assume that a system of maintaining Control Accounts prevails in the organization) :

Purchases Rs. 420000

Carriage Inward 6250

Stores issued 408200

Productive Wages 416250

Unproductive Wages 182780

Works Overhead 368900

Materials used in Repaires 2560

Cost of Completed Jobs 1450240

Solution

For Purchases Rs. 420000 [Stores LC A/c Dr. To, Financial LC A/c]

For Carriage Inward 6250 [, ,]

For Stores issued 408200 [WIP LC A/c Dr. To, Stores LC A/c]

For Productive Wages 416250 [Wages Control A/c Dr. To, Financial LC A/c]

For Unproductive Wages 182780 [, ,]

For Productive Wages allocated to Jobs 416250 [WIP LC A/c Dr. To, Wages Control A/c]

For Unproductive Wages allotted to Works Overhead 182780 [Works OH Control A/c Dr. To, Wages Control A/c]

For Works Overhead 368900 [Works OH Control A/c Dr. To, Fin LC A/c]

For Materials used in repaires 2560 [Works OH Control A/c Dr. To, Stores LC A/c]

For Cost of completed jobs 1450240 [Finished Stock LC A/c Dr. To, WIP LC A/c]

Problem 2.

Assuming Non-Integrated Accounting System, pass Journal Entries in the Cost Records for the following transactions:

Purchase of Materials Rs. 80, 000
Issue of Materials for Production 50000
Issue of Materials for Repairs and Maintenance 5000
Direct Wages charged to Production 15000
Stock destroyed by fire 4000

Solution

For Purchase of Materials Rs. 80, 000 [Stores LC A/c Dr. To, Financial LC A/c]
For Issue of Materials for Production 50000 [WIP LC A/c Dr. To, Stores LC A/c]
For Issue of Materials for Repairs and Maintenance 5000 [Works OH Control A/c Dr. To, Stores LC A/c]
For Direct Wages charged to Production 15000 [WIP LC A/c Dr. To, Wages Control A/c]
For Stock destroyed by fire 4000 [Costing P/L A/c Dr. To, Stores LC A./c]

Problem 3.

Pass necessary Journal Entries in the Cost Records for the following:

Materials (Direct) issued to Production Rs. 42000
Depreciation of Factory Equipments 9600
Goods completed and transferred to Finished Stock 72000
Factory Overhead incurred 15000 (of which 3000 left unpaid)
Office Overhead recovered 16000

Solution

For Materials (Direct) issued to Production Rs. 42000 [WIP LC A/c Dr. To, Stores Lc A/c]
For Depreciation of Factory Equipments 9600 [Factory OH Control A/c Dr. To, Financial LC A/c]
For Goods completed and transferred to Finished Stock 72000 [Finished Stock LC A/c Dr. To, WIP LC A/c]
For Factory Overhead incurred 15000 (of which 3000 left unpaid) [Factory OH Control A/c Dr. To, Financial LC A/c, (for the full amount Rs. 15000)]
For Office Overhead recovered 16000 [Finished Stock LC A/c Dr. To, Office OH Control A/c]

Problem 4

Pass Journal Entries for the following transactions in a Double Entry Cost Accounting System:

- (a) Issued Material :
Direct Rs. 550000

- Indirect 150000
- (b) Wages & Salaries allocated :
Direct 200000
Indirect 40000
- (c) Overheads absorbed :
Factory 150000
Administration 50000
Selling 30000
- (d) Overhead over-absorbed/under-absorbed :
Factory OH (over-absorbed) 20000
Administration OH (under-absorbed) 10000

Solution

For

- (a) Issued Material :
Direct Rs. 550000 [WIP LC A/c Dr. To, Stores LC A/c]
Indirect 150000 [Factory OH Control A/c Dr. To, Stores LC A/c]
- (b) Wages & Salaries allocated :
Direct 200000 [WIP LC A/c Dr. To, Wages Control A/c]
Indirect 40000 [Factory OH Control A/c Dr. To, Wages Control A/c]
- (c) Overheads absorbed :
Factory 150000 [WIP LC A/c Dr. To, Factory OH Control A/c]
Administration 50000 [Finished Stock LC A/c Dr. To, Admn OH Control A/c]
Selling 30000 [Cost of Sales A/c Dr. To, Selling OH Control A/c]
- (d) Overhead over-absorbed/under-absorbed
Factory OH (over-absorbed) 20000 [Factory OH Control A/c Dr. To, Costing P/L A/c]
Administration OH (under-absorbed) 10000 [Costing P/L A/c Dr. To, Admn OH Control A/c]