Integral System:

Integral or Integrated system is a system of accounting under which only one set of account books is maintained to record both the Cost and Financial transactions. The system implies the merger of both cost and financial accounts in one set of books.

The two sets of account books merge into a composite system. CIMA, London defines Integral system as a system in which the financial and cost accounts are interlocked to ensure that all relevant expenditure is absorbed into the cost accounts.

The system of accounting has the following advantages:

(i) There is no need for reconciliation because there will be only one figure of profit or loss as there is only one set of books.

(ii) This system is economical because it avoids duplication of recording the transactions in two separate set of books.

(iii) Accounting information is readily available and the correctness of the data is automatically checked.

(iv) It enables the introduction of mechanised accounting.

(v) A better understanding exists among the staff.

Basic Features of Integral System:

(a) There is no need for cost ledger because all control accounts are maintained in the financial ledger.

(b) There is no need to open a Cost Ledger Control Account because both the aspects (i.e., debit and credit) of all transactions are recorded in respective accounts.

(c) Subsidiary ledgers i.e., Stores Ledger, Work-in-Progress Ledger and Finished goods ledger are maintained as is done in non-integrated accounting. In addition, a Sales Ledger (containing personal accounts for each customer) and a Purchase Ledger (containing personal accounts for each supplier) are also maintained.

Overhead ledger is maintained to contain separate accounts for factory, administration and selling and distribution overhead.

(d) A control account for each subsidiary ledger is maintained in the general ledger.

The important control accounts are as follows:

(i) Stores Ledger Control Account;

(ii) Work-in-Progress Ledger Control Account;

(iii) Finished Goods Ledger Control Account;

(iv) Wages Control Account;

(v) Factory Overhead Control Account;

(vi) Administrative Overhead Control Account;

(vii) Selling and Distribution Overhead Control Account;

(viii) Sales Ledger Control Account;

(ix) Purchase Ledger Control Account.

(e) The balances of overheads Control Accounts represent under or over absorption of overheads which are transferred to Profit and Loss Account.

(f) The profit or loss as per Profit and Loss Account is transferred to Profit and Loss Appropriation Account.

(g) The degree of integration must be determined in advance. Some business firms may integrate the cost and financial accounts up to the stage of prime cost or factory cost while other firms integrate the two completely.

(h) A suitable coding system is generally developed to serve the purposes of both cost accounts as well as financial accounts.

(i) There should be an agreed accounting procedure in respect of treatment of provision for accruals, prepaid expenses and other adjustments necessary for preparing interim accounts.

Essential Prerequisites for Integrated Accounting System:

The essential prerequisites for integrated system include the following:

(a) Degree of Integration:

The degree of integration of the two sets of accounts should be determined. It is the management which has to decide on full or partial integration. Full integration changes the entire accounting records.

(b) Suitable Coding System:

A suitable coding system must be developed to serve the accounting purposes of both financial and cost accounts.

(c) Accounting Policy:

An agreed routine with regard to the treatment of provision for accruals, pre-paid expenses, other adjustments necessary for the preparation of interim accounts.

(d) Co-ordination:

Prefect co-ordination should exist between the staff responsible for the financial and cost aspects of the accounts and an efficient processing of various accounting documents should be ensured.

Practical Problems Relating to Integrated Accounting System:

Give journal entries for the following transactions under integrated Accounting:

(i) Materials purchased on credit

(ii) Payment to Creditors

(iii) Issue of direct materials for production

(iv) Payment of wages and

(v) Charging wages for production.

Non-Integral System:

Non-integral system is a system of accounting under which two separate sets of account books are maintained—one for cost accounts and the other for financial accounts. In other words, cost accounts are maintained separately from financial accounts.

Since separate ledgers are maintained for cost and financial accounts in this system, the cost accountant is responsible for recording of the cost accounting transactions and the financial accountant is responsible for financial transactions.

Non-integral system of accounting is also known as non-integrated system or Inter-locking system or Cost Ledger Accounting system. CIMA, London defines Non-integral system as a system in which the cost accounts are distinct from financial accounts, the two sets of accounts being kept continuously in agreement by the use of control accounts or made readily reconcilable by other means.

Basic Features of Non-Integral System:

(i) Separate ledgers are maintained for cost and financial accounts.

(ii) Like financial accounting, it is also based on double entry system.

(iii) There are no personal accounts because cost accounts do not show relationship with outsiders.

(iv) Cost accounts are concerned with impersonal accounts i.e., real and nominal accounts.

(v) In real accounts, only stocks are shown in cost accounts.

(vi) Transactions affecting the nominal accounts are recorded separately in detail. Thus cost accounting department is concerned mainly with the ascertainment of income and expenditure of business,

(vii) Under this system one main ledger (i.e., Cost Ledger) and various subsidiary ledgers are maintained,

(viii) Since the system is not properly integrated, some items may appear in financial ledgers only, while some other items appear only in cost ledger,

(ix) The profit or loss disclosed by the two sets of accounts for a particular period will never be the same and as such a reconciliation of costing profit or loss with that of financial accounts is essential.

Ledgers under Non-Integral Accounts:

(a) The principal financial ledgers are:

(i) General Ledger:

It contains all real, nominal and personal accounts except trade debtors and trade creditors account.

(ii) Debtors Ledger:

It has personal accounts of trade debtors.

(iii) Creditors Ledger:

It has personal accounts of trade creditors.

(b) The principal cost ledgers are:

(i) Cost Ledger:

It is the principal ledger in cost books which controls all other ledgers in the costing department. It contains all impersonal accounts and is similar to General Ledger of financial accounts.

(ii) Stores Ledger:

It is a subsidiary ledger. It contains all stores accounts.

(iii) Work-in-Progress Ledger:

It is a subsidiary ledger. It contains a separate account for each job in progress. Each such account is debited with the materials costs, wages and overheads chargeable to the jobs and credited with the cost of work completed. The balance in this account shows the cost of uncertified work.

(iv) Finished Goods Ledger:

It is a subsidiary ledger. It contains accounts of completely finished goods and jobs. The cost ledger is made self-balancing by opening a control account for each of the above subsidiary ledgers.

Difference Non-Integral System:

Two separate sets of account books are maintained—one to record cost transactions and the other to record financial transactions.

Cost Ledger is maintained.

Control Accounts are opened in the Cost Ledger.

There are two figures of profit or loss—one as per cost accounts and another as per financial accounts.

There is need for reconciliation of cost accounts and financial accounts because there are two figures of profit or loss as there are two sets of account books.

Balances of Overheads Control Accounts which represent under or over absorption of overheads are transferred to costing Profit & Loss Account.

There is duplication of recording the transactions in two sets of account books. It requires more manpower, time and money.

Difference **Integral System:**

Only one set of account books is maintained to record both the cost transactions and financial transactions.

Cost Ledger is not maintained.

Control Accounts are opened in the General Ledger.

There is only one figure of profit or loss because only one set of account books is maintained.

There is no need for reconciliation because there will be only one figure of profit or loss as there is only one set of account books.

Balances of Overhead Control Accounts which represent under- or over-absorption of overheads are transferred to Profit and Loss Account.

It is economical because it avoids the duplication of recording the transactions in two sets of account books.