

## MANUFACTURING FINAL A/CCOUNTS

Accounts forming parts of manufacturing final a/c:

- A. Manufacturing a/c
- B. Trading a/c of manufacturer or trading a/c of trader
- C. Profit and loss a/c
- D. Balance sheet as on that date.

A. **Manufacturing a/c:** a manufacturer sells finished goods manufactured by him in factory while a trader sells goods purchased by him. A manufacturing a/c means account showing the summery of cost of manufacturing during an accounting year.

➤ **Items to be recorded in manufacturing a/c:**

- |                                       |                                             |
|---------------------------------------|---------------------------------------------|
| I. Opening stock of WIP               | Less: closing stock of raw material         |
| II. Raw material                      | III. Wages                                  |
| Add: Carriage inward                  | IV. Manufacturing expenses                  |
| Add: Freight inward                   | V. Factory expenses                         |
| Add: Octroi                           | VI. Closing stock of WIP                    |
| Add: Custom duties                    | VII. Sale of scrape cost of production etc. |
| Less: purchase return of raw material |                                             |

➤ **Closing entries**

1. Transfer debit balance

Manufacturing a/c	DR.
To opening stock of WIP	
To Raw material purchase	
To direct purchase expenses	
To wages	
To manufacturing expenses	
To factory expenses	

2. Closing stock of WIP

Closing stock of WIP a/c	DR
To manufacturing a/c	

3. Sale of scrape

Sale of scrape a/c	DR
To manufacturing a/c	

4. Transfer cost of production to trading a/c

Trading a/c	DR
To manufacturing a/c	

**Imp point:**

1. Stock reserve : the unrealised profit in closing stock is eliminated by creating stock reserve in respect of stock of manufactured goods. The amount for reserve is calculated by following formula:

$$\text{Stock reserve} = \frac{\text{transfer value of stock} * \text{profit included in transfer price}}{\text{Transfer price}}$$

Entry for stock reserve

Profit and loss a/c	DR.
To stock reserve a/c	

## B. Trading account of manufacturer or trading account of trader

### ➤ Items to be recorded:

- I. Opening stock of finished goods
- II. Cost of finished goods manufactured
- III. Sale of finished goods
- IV. Other finished goods a/c
- V. Closing stock of finished goods
- VI. Gross profit or gross loss

### ➤ Closing entries in the books of manufacturer

1. Transfer debit balance

Trading a/c	DR
To opening stock of finished goods	
To return inwards	
2. Transfer credit balance

Sale of finished goods a/c	DR
Finished goods lost/taken/distributed a/ c	DR
To trading a/c	
3. Closing stock

Closing stock of finished goods a/c	DR
To trading a/c	
4. Transfer gross profit or gross loss to profit and loss a/c

GP: trading a/c	DR
To profit and loss a/c	
GL: profit and loss a/c	DR
To trading a/c	

### ➤ Closing entries in the books of trader

1. Transfer debit balance

Trading a/c	DR
To opening stock a/c	
To purchase a/c	
To return inward a/c	
To carriage inward a/c	
To octroi a/c	
To dock dues/custom duties a/c	
2. Transfer credit balance

Sales a/c	DR
Return outward a/c	DR
Goods lost/taken/distributed a/c	DR
To trading a/c	
3. closing stock

closing stock a/c	DR
to trading a/c	
4. transfer gross profit or gross loss to profit and loss a/c

GP: trading a/c	DR
to profit and loss a/c	
GL: profit and loss a/c	DR
to trading a/c	

C. **Profit and loss account** P/L account shows closing balance of all nominal a/c.

➤ **Items to be recorded in P/La/c:**

1. gross profit or gross loss
2. administrative expenses
3. selling and distribution expenses
4. finance and interest expense
5. losses
6. gains
7. other income
8. appropriations
9. net profit or net loss

➤ **Closing entries in P/La/c**

1. transfer debit balance

P/La/c                      DR  
                                    to various expense a/c  
                                    to various losses a/c

2. transfer credit balance

various income a/c        DR  
various gain a/c            DR  
                                    to P/La/c

3. appropriations

P/La/c                      DR  
                                    to income tax  
                                    to reserves a/c

4. transfer net profit or net loss to capital a/c

NP: P/L a/c                      DR  
                                    to capital a/c  
NL: capital a/c                      DR

to P/L a/c.

D. **Balance sheet:** balance sheet is a statement containing the list of all real and personal accounts as on particular day, normally the year end. The real accounts and personal accounts are classified in the balance sheet in assets and liabilities.

➤ **Items to be recorded in balance sheet:**

1. Fixed assets
2. Investments
3. Current assets
4. Capital : capital means the amount due to the owner of the business. Capital is shown in the balance sheet as follows:  
Capital A/c b/d (opening balance)  
Add: net profits for the year  
Less: net loss for the year  
Less: drawings  
= net capital
5. Reserves
6. Loans
7. Current liabilities.

## ✓ ADJUSTMENTS

### a. Closing stocks:

- Entry: closing stock a/c            dr  
    To trading a/c
- Final accounts: the value of closing stock is shown
  - i. On the credit side of the trading a/c.
  - ii. On the asset side of the balance sheet

### b. Outstanding expenses:

- Entry: concerned expenses a/c (rent, wages, salary etc)    dr  
    To outstanding expense a/c
- Final accounts:
  - i. the amount due is added to the concerned expenses a/c in the trading and P/L a/c
  - ii. the outstanding expense a/c is shown on the liability side of the balance sheet.
- Hint in trial balance: some times the amount of outstanding expense is not given directly by way of adjustments in problem. Instead an indirect hint is given in the balance sheet.

### c. Prepaid expenses:

- Entry: prepaid expense a/c            dr  
    To concerned expenses (insurance premium a/c etc)
- Final accounts:
  - i. The amount paid in advance are deducted from concerned expense a/c in the P/L a/c.
  - ii. The prepaid expense a/c is shown on the asset side of the balance sheet.
- Hint in trial balance: some times the amount of prepaid expense/advances is not given directly by way of adjustments in problem. Instead an indirect hint is given in the balance sheet.

### d. Income received in advance:

- Entry: concerned income a/c (rent etc)            dr  
    To income received in advance
- Final accounts:
  - i. The income received in advance are deducted from concerned income from the P/L a/c.
  - ii. The income received in advance is shown the liability side of the balance sheet.
- Hint in trial balance: some times the amount of advance income is not given directly by way of adjustments in problem. Instead an indirect hint is given in the balance sheet.

### e. Income receivable (accrued income)

- Entry: accrued income a/c                            dr  
    To concerned income a/c
- Final accounts:
  - i. The amount receivable is added to the concerned income a/c in the P/L a/c.
  - ii. The accrued income a/c is shown on the asset side of the balance sheet.
- Hint in trial balance: some times the amount of accrued income is not given directly by way of adjustments in problem. Instead an indirect hint is given in the balance sheet.



3. Record payment by insurance company

Cash/bank a/c    dr  
    To insurance company a/c

**c. The claim was accepted by the insurance company only in part and insurance company has yet to pay the claim (claim accepted/paid partly):**

1. Record the loss:  
Loss of goods a/c    dr  
    To trading a/c
2. Record claim due from insurance company:  
Insurance company a/c    dr  
    To loss of goods
3. Transfer balance loss to P/L a/c:  
P/L a/c    dr  
    To loss of goods a/c

**i. Goods distributed as free samples**

- Entry: free sample a/c dr  
    To goods given as free sample a/c
- Final accounts: free sample a/c is shown on the debit side of the P/L a/c and goods given as free sample a/c is shown credit side of the trading a/c.

**j. Goods withdrawn by proprietor:**

- Entry: capital a/c    dr  
    To goods withdrawn by proprietor
- Final accounts: the amount debited to proprietor is deducted to proprietors capital a/c in the balance sheet. The goods withdrawn by proprietor a/c shown on the credit side of the trading a/c.

**k. Rectification of errors:**

**1. Revenue receipts is included in capital receipts**

Eg. Sales include sale of machinery

- Entry: sales of machinery a/c    dr  
    To sales

**2. Capital receipts included in revenue receipts**

Eg. Sale of machinery included in sales

- Entry: sales a/c    dr  
    To sales a/c

**3. Capital expenditure is included in revenue expenditure (error of principle)**

Example : carriage inward on new machine is debited to carriage inward a/c, instead of machinery a/c ;wages paid for construction of a building is debited to the wages a/c instead of machinery a/c.

- Entry: machinery a/c    dr  
    To carriage inward  
Building a/c    dr  
    To wages a/c

**4. Revenue expenditure shown in capital expenditure**

Normal wages are debited to building a/c and carriage inward is debited to new machinery a/c

- Entry: wages a/c    dr  
    To building a/c

Carriage inward a/c    dr  
                                    To machinery

**5. Unrecorded purchase( error of omission)**

- Entry: purchase a/c    dr  
                                    To creditors
- Final accounts:
  - i.        Amount of purchase is added to purchase a/c on the debit side of the trading a/c.
  - ii.       Amount is added to the sundry creditors of the balance sheet on the liability side.

**6. Unrecorded sales**

- Entry: debtors a/c    dr  
                                    To sales a/c
- Final accounts:
  - i.        Amount of sales is added to the sales a/c on the credit side of the trading a/c.
  - ii.       Amount is added to the sundry debtors are shown on the asset side of the balance sheet.

## FINAL ACCOUNTS OF MANUFACTURING CONCERN

Q1. From the following particulars prepare the manufacturing and trading account for the year ended 31-3-2014.

Particulars	Amt (rs)	Particulars	Amt(rs)
Raw material(1-4-2013)	12,000	Carriage inward	1,000
Work in progress (1-4-2013)	8,000	Return outward	2,000
Finished goods (1-4-2013)	9,000	Royalty on production	1,000
Purchase of raw material	80,000	Purchase of finished goods	8,000
Direct wages	10,000	Carriage outwards	500
Indirect wages	8,000	Fuel and power	2,500
Sales	1,74,000	Repairs and maintenance	1,500
Return inwards	5,000	Raw materials(31-3-2014)	6,000
Depreciation on factory assets	4,000	Work in progress(31-3-2014)	2,500
		Finished goods(31-3-2014)	5,000

Adjustments :

1. Outstanding direct wages amounting to rs 3,000.
2. Prepaid fuel and power amounted to rs 500.

Q2. Amar chemicals has the following ledger balances as on 31<sup>st</sup> march 2014.

Particulars	Dr (rs)	Cr (rs)	Particulars	Dr (rs)	Cr (rs)
Goodwill	50,000		Net sales		11,00,000
Factory shed	20,000		Miscellaneous income		4,000
Machinery	1,30,000		Bad debts reserves		5,000
Furniture	8,000		Purchase of materials	8,60,000	
Investments	10,000		Freight on materials	50,000	
Capital		1,95,000	Factory power	15,000	
Bank loan		3,00,000	Salary and wages		
Creditors		1,50,000	-Factory	1,50,000	
Debtors	1,35,000		-Office	65,000	
Stock on 1-4-2013			Repairs and renewals	2,500	
-Materials		1,30,000	Rent and taxes	16,500	
-Work in progress		7,500	Insurance	3,900	
-Finished goods		82,500	General expenses	18,100	
			Total	17,54,000	17,54,000

Additional information:

1. Closing stock: materials rs 2,10,000; work in progress rs 12,500; finished goods rs 2,07,500.
2. Depreciation to be provided at 2.5% on factory shed, 10% on machinery, 15% on furniture.
3. Repairs and rent and taxes are to be apportioned between factory and office in the ratio of 3:2.
4. Reserve for bad and doubtful debts to be provided for 4% on debtors.
5. Insurance premium covers a period on 1 month in advance.

You are required to prepare manufacturing, trading and profit and loss account for the year ended 31<sup>st</sup> march 2014 and balance sheet as on that date.

Q3. The trial balance of miss dipali as on 31<sup>st</sup> December 2013 was as follows:

Debit balance	Rs	Credit balance	Rs
Raw materials	23,000	Sundry creditors	17,000
Work in progress	10,000	Bills payable	8,500
Finished goods	15,500	Sales of scrap	1,500
Sundry debtors	27,000	Commission	400
Carriage inwards	1,000	Provision for doubtful debts	1,600
Carriage outwards	1,000	Dipali's capital account	1,00,000
Bills receivables	16,000	Sales	2,00,000
Wages	12,000		
Salaries	10,000		
Repairs of plant	1,200		
Repairs of office furniture	600		
Purchase	1,00,000		
Cash at bank	2,300		
Plant and machinery	90,000		
Office furniture	9,000		
Rent lighting expenses	5,000		
Lighting expenses	1,800		
Factory insurance	2,000		
General expenses	1,600		
Total	3,29,000	Total	3,29,000

Additional information:

1. Closing stock as on 31<sup>st</sup> December 2013 was: raw materials rs 15,000, finished goods rs 18,200 semi finished goods rs 18,200.
2. Salaries rs 2,000 and wages for December 2013 rs 2,000 was paid in January 2014.
3. Lighting expenses were outstanding rs 600 where as insurance was prepaid rs 500.
4. 25% of the lighting expenses and rent is to be charged to office premises and the remaining amt was to be charged to factory.
5. Depreciation is to be written off on machinery @ 10%p.a. and on furniture @ 5%p.a.
6. Provision for doubtful debts is to maintained at 10%.

You are require to prepare manufacturing trading acc and profit and loss acc for the year ended 31-12-2013 and balance sheet as on that date.

Q4. From the following balance of shri karodimal prepare manufacturing account trading and profit and loss account for the year ended 31<sup>st</sup> December 2013 and balance esheet as on that date.

Particulars	Amt(rs)	Particulars	Amt(rs)
Drawings	36,000	Capital	4,50,000
Goodwiil	40,000	Sundry creditors	1,25,000
Plant and machinery	2,00,000	Bank loan	75,000
Land and building	1.20,000	Reserve for bad debts	5,500
Cash and bank balance	37,000	Sales	3,24,000
Sundry debtor	59,000	Discounts	3,500
Trade marks	9,000	Return outwards	6,500
Salary to manager	16,000		
Purchase of raw material	1,50,000		
Opening stock			
-raw material	35,000		
-work in progress	60,000		
-finished goods	90,000		
Carriage inward	10,000		
Wages and salaries	75,000		
Factory expenses	12,000		
Factory rent and rates	15,000		
Office expenses	8,000		
Printing and stationary	7,500		
Discount	5,500		
Bad debts	4,500		
Total	9,89,500	Total	9,89,500

Adjustments :

1. On 31<sup>st</sup> December 2013 stock were valued as:
  - Raw material        55,000 rs
  - Work in progress    75,000rs
  - Finished goods      95,000rs
2. Outstanding expenses: printing and stationary rs 1,500.
3. Prepaid expenses: factory rent and rates rs 2,000.
4. Manager is entitled to a commission @ 2% of net profit before charging his commission.
5. Increase reserve for bad debts by rs 5,000.
6. Interest on bank load still unpaid rs 1,200.
7. Depreciate: plant and machinery @ 10%p.a.
8. Write off trade marks @ 33 1/3% p.a.

Q5. From the following particulars of Jaydeep Mukharjee, prepare manufacturing and trading & profit and loss account for the year ended 31<sup>st</sup> March 2014 and balance sheet as on that date after giving effect to the adjustment indicated below:

Particulars	Amt(rs)	Particulars	Amt(rs)
Capital a/c as at 1-4-2013	3,66,000	Sundry expenses	1,750
Drawings	50,000	Patents	6,000
Purchase	10,52,000	Postage and telegrams	6,500
Rates and taxes	12,500	Wages	17,500
Salaries	50,000	Factory building	1,00,000
Carriage	10,000	Furniture and fixture	25,750
Fuel and coal	7,000	Cash discount received	7,500
Factory insurance	3,000	Plant and machinery	47,500
Advertisement	10,000	Sundry debtors	93,500
Factory power	8,000	4% govt. Promissory notes (subscribed on 1-4-2013)	10,000
Bad debts w/off	5,000		
Cash discount allowed	1,000	Sundry creditors	52,500
Opening stock		Sales	12,66,500
- materials	30,000	Cash in hand	22,750
- finished goods	25,000	Cash at bank	97,250

Adjustments:

- Depreciation to be provided at the following rates:
 

Plant and machinery	10%
Patents	10%
Building	2.5%
Furniture	5%
- Provide 2 ½% on debtors for doubtful debts.
- Purchase invoices aggregating rs 12,500 were omitted to be entered in the purchase day book.
- Debtors include rs 2,500 due from proprietor.
- An amount of rs 2,500 received in respect of private loan advanced by the proprietor was wrongly credited to sundry creditors accounts.
- Purchase invoice of the value of rs 37,500 were entered in the purchase day book on 29<sup>th</sup> March 2013 but the goods in respect thereof were received on 3<sup>rd</sup> April 2013. These goods were included in the closing stock.
- An amount of rs 1,750 received from a debtor was wrongly credited to a sales account.
- The annual interest on Govt. Promissory notes accrued due on 31<sup>st</sup> March 2014 but was collected only after 31<sup>st</sup> March 2014.
- Carriage includes rs 4,000 towards outward charge.
- Stock in trade as at 31<sup>st</sup> March 2014
  - Raw materials rs 25,000
  - Finished goods rs 20,000.

Q6. From the following balances extracted at 31<sup>st</sup> march 2014 prepare accounts in such a form as to disclose:

- a) Cost of raw material consumed
- b) Gross profit on manufacture
- c) Gross profit on sales
- d) Percentage of net profit to sales.

Particulars	Amt(rs)	Particulars	Amt(rs)
Stock on 1 <sup>st</sup> april 2013		Office rent and rates	1,300
-raw material	600	Coal	1,158
-manufactured goods	1,948	Carriage inward	782
Depreciation of plant and machinery	2,600	Office salaries	1,880
Printing and stationary	186	Carriage outwards	466
Discount allowed	748	General expenses	634
Purchase	17,452	Factory rent and rates	4,542
-raw material		Manufacturing salaries and wages	22,058
-manufactured goods	2,548	Travelling expenses	558
Repairs to machinery	500	sales	59,884

Additional information:

1. Stock on 31<sup>st</sup> march 2014: manufactured goods rs 5,588(all stock from goods supplied by the manufacturing department); raw material rs 400.
2. Goods manufactured are supplied by manufacturing department at current sales price of rs 54,300.
3. Stock of finished goods as at april 2012 belong to that category of goods which were purchased from the open markets.