



Final Accounts of Manufacturing Concerns

INTRODUCTION

- ❖ Period matching concept leads to the preparation of Final Accounts
- ❖ Final Accounts include Income Statements and Balance Sheet
- ❖ Income statements are Manufacturing A/c, Trading A/c and Profit & Loss A/c
- ❖ Final Accounts help us to evaluate the Financial Performance and Financial Position

MANUFACTURING ACCOUNT

- ❖ This account is to be prepared by a “Manufacturing Concern”
- ❖ All items relating to production and factory costs are recorded in the Manufacturing A/c
- ❖ It is just like any other income statement (Ledger Account)
- ❖ It is an account prepared before the Trading A/c

PROFORMA MANUFACTURING ACCOUNT

PARTICULARS	Rs.	PARTICULARS	Rs.
To Opening stock (Raw Materials)	xxx	By Sale of Scrap	xxx
To Opening stock (WIP)	xxx	By Closing stock (Raw Materials)	xxx
To Purchases of Raw material	xxx	By Closing stock (WIP)	xxx
To Carriage Inward	xxx		
To any Purchase related expenses	xxx	By Trading A/c (Cost of Production)	xxx
To Direct Wages	xxx	[Balancing Figure]	
<u>To Factory Expenses -</u>			
Salary to supervisors	xxx		
Power, Fuel and Heat	xxx		
Wages	xxx		
Rent of Factory Expenses	xxx		
Depreciation on Factory Assets	xxx		
<u>TOTAL</u>	<u>XXX</u>	<u>TOTAL</u>	<u>XXX</u>

TRADING ACCOUNT

- ❖ This account is for transactions relating to the finished goods
- ❖ Thus for a manufacturing concern, the scope of trading account is very limited
- ❖ It is just like any other income statement (Ledger Account)
- ❖ It is an account prepared after the Manufacturing A/c and before the P&L Account

PROFORMA TRADING ACCOUNT

PARTICULARS	Rs.	PARTICULARS	Rs.
To Opening stock (Finished Goods)	xxx	By Sales	xxx
To Manufacturing A/c (C.O.P)	xxx	By Goods lost or destroyed	xxx
To Purchases of Finished Goods	xxx	By goods taken by the proprietor	xxx
To Carriage Inward on Finished Goods	xxx	By Goods given as free samples	xxx
To Gross Profit c/d [Balancing Figure]	xxx	By Gross Loss c/d [Balancing Figure]	xxx
<u>TOTAL</u>	<u>XXX</u>	<u>TOTAL</u>	<u>XXX</u>

PROFIT AND LOSS ACCOUNT

- ❖ P&L Account shows the balances of all remaining Nominal Accounts (Income and Exp.)
- ❖ These include, admin exp, selling exp, Finance exp and Income other than Sales
- ❖ It is just like any other income statement (Ledger Account)
- ❖ It is an account prepared after the Trading A/c and before the Balance Sheet

PROFORMA PROFIT & LOSS ACCOUNT

PARTICULARS	Rs.	PARTICULARS	Rs.
To Gross Loss b/d (Trading A/c)	xxx	By Gross Profit b/d (Trading A/c)	xxx
To Office Rent	xxx	By Commission Received	xxx
To Salaries	xxx	By Discount Received	xxx
To Postage, Telephone, Printing	xxx	By Interest on Loans given	xxx
To General Expenses	xxx	By Interest on Investments	xxx
To Salesman's expenses	xxx	By Dividend on Investments	xxx
To Carriage outward, Discount allowed	xxx	By Profit on sale of Fixed Assets	xxx
To Advertising	xxx	By Net Loss (transfer to Capital A/c)	xxx
To Interest and Bank charges	xxx		
To Bad Debts and provisions	xxx		
To Depreciation (Non Factory Assets)	xxx		
To Net Profit (transfer to Capital A/c)	xxx		
<u>TOTAL</u>	<u>xxx</u>	<u>TOTAL</u>	<u>xxx</u>

BALANCE SHEET

- ❖ Balance Sheet shows the balances of all Assets and Liabilities (Personal and Real)
- ❖ Balance sheet shows the financial position at a particular date
- ❖ It is a “Statement” and not an “Account”
- ❖ It is the last statement to be prepared in the Final Accounts

PROFORMA BALANCE SHEET

LIABILITIES		Rs.	ASSETS	Rs.
Capital A/c (Opening Bal.)	xx		Goodwill	xxx
+ / (-) Fresh Cap. / (Drawings)	xx		Patents	xxx
+ / (-) Net Profit / (Net Loss)	<u>xx</u>	xxx	Land and Building	xxx
General Reserve		xxx	Plant and Machinery	xxx
Capital Reserve		xxx	Furniture and Fittings	xxx
Loans taken		xxx	Investments	xxx
Bank Overdraft		xxx	Closing Stock	xxx
Sundry Creditors		xxx	Debtors / Bills Receivable	xxx
Bills Payable		xxx	Loans given (Advances)	xxx
Outstanding Expenses		xxx	Prepaid expenses	xxx
Incomes received in Advance		xxx	Cash in hand / Cash at Bank	xxx
			Fictitious assets (Prelim. Exp., etc)	xxx
<u>TOTAL</u>		<u>XXX</u>	<u>TOTAL</u>	<u>XXX</u>

KEY POINTS TO REMEMBER

- ❖ Manufacturing A/c includes all the production related expenses
- ❖ Expenses like depreciation and rent need to be classified for Factory and Office Assets
- ❖ Manufacturing A/c will always have balance as Cost of Production and not profit or loss
- ❖ Most of the expenses in the trading A/c of the trader are shifted to the Manufacturing A/c

ADJUSTMENTS



1. CLOSING STOCKS

❖ The effects of this adjustment are as follows –

1. Record as closing stock in the Asset side (Debit effect)
2. Record on the Manufacturing A/c Credit side (Raw material and WIP)
Record on the Trading A/c Credit side (Finished Goods)

2. OUTSTANDING EXPENSES

❖ The effects of this adjustment are as follows –

1. Record as Outstanding expense in the Liability side (Credit effect)
2. Add to that particular expense (Debit Effect)

3. PREPAID EXPENSES

❖ The effects of this adjustment are as follows –

1. Record as Prepaid expense in the Asset side (Debit effect)
2. Subtract from that particular expense (Credit Effect)

4. ADVANCE INCOME

❖ The effects of this adjustment are as follows –

1. Record as Advance Income in the Liability side (Credit effect)
2. Subtract from that particular Income (Debit Effect)

5. INCOME RECEIVABLE (ACCRUED)

❖ The effects of this adjustment are as follows –

1. Record as Accrued Income in the Asset side (Debit effect)
2. Add to that particular Income (Credit Effect)

6. DEPRECIATION

❖ The effects of this adjustment are as follows –

1. Subtract from the Fixed Asset in the Asset side (Credit effect)
2. Record on the P&L A/c Debit side (Debit Effect)

7. BAD DEBTS

❖ The effects of this adjustment are as follows –

1. Subtract from Debtors in the Asset side (Credit effect)
2. Record on the P&L A/c Debit side (Debit Effect)

8. RESERVE FOR DOUBTFUL DEBTS (NEW RDD)

❖ The effects of this adjustment are as follows –

1. Subtract from Debtors in the Asset side (Credit effect)
2. Record on the P&L A/c Debit side (Debit Effect)

❖ NOTE – To be calculated after subtracting actual bad debts

9. PROVISION FOR DISCOUNT ON DEBTORS

❖ The effects of this adjustment are as follows –

1. Subtract from Debtors in the Asset side (Credit effect)
2. Record on the P&L A/c Debit side (Debit Effect)

❖ NOTE – To be calculated after subtracting New R.D.D

10. GOODS LOST BY FIRE / THEFT / ACCIDENT

❖ The effects of this adjustment are as follows –

1. Record on the Credit side of the Manufacturing A/c or Trading A/c (Credit effect)
2. Record on the P&L A/c Debit side as “Loss on Goods Lost” (Debit Effect)

11. GOODS DISTRIBUTED AS FREE SAMPLES

❖ The effects of this adjustment are as follows –

1. Record on the Credit side of the Manufacturing A/c or Trading A/c (Credit effect)
2. Record on the P&L A/c Debit side as “Advertising Expense” (Debit Effect)

12. GOODS WITHDRAWN BY THE OWNER

❖ The effects of this adjustment are as follows –

1. Record on the Credit side of the Manufacturing A/c or Trading A/c (Credit effect)
2. Subtract from the Capital from the Liability side (Debit Effect)