

Final Accounts of Manufacturing Concern

Manufacturing account

The main aim of [accounting](#) is to arrange accounting data in order to ascertain the amount of profit or loss of an entity. For this purpose, we prepare the financial statements. The primary purpose of preparing **Manufacturing Account format is to ascertain the manufacturing costs of finished goods.**

Non-manufacturing entities or the trading entities are involved in the purchase and sale of goods at a profit. Usually, Manufacturing entities prepare a Manufacturing Account also in addition to Trading Account, Profit and Loss Account and [Balance Sheet](#).

Manufacturing Account Format

The manufacturing [account](#) helps to better the cost-effectiveness of manufacturing activities. After **the ascertainment of the costs of finished goods**, we need to transfer this cost to Trading Account.

The trading account shows Gross Profit. Whereas, the [Manufacturing](#) Account depicts the cost of goods sold and also includes direct expenses. **Manufacturing account addresses the raw material and work in progress and does not deal with the finished goods.**

We debit all the direct production expenses such as depreciation on plant and machinery and factory building, repairs on plant and machinery and factory building, salary to the factory manager, [wages](#), cartage on raw-materials, etc.

Thus, the cost of finished goods includes the cost of raw materials and all direct expenses. All indirect expenses form a part of the [Profit](#) and Loss A/c.

However, there is no standardized format of a Manufacturing Account. The following format covers various elements:

Manufacturing Account

1. In the absence of ledger balances like Inventories, quantity manufactured etc, we need to calculate the figures for Inventories, sales etc. from the available data.
2. The Manufacturing Account format must show the quantities and values.
3. **Units sold = Opening inventory + units manufactured- closing inventory**

Manufacturing Account Formula

The manufacturing cost of goods completed for an accounting period is calculated using the cost of goods manufactured formula as follows.

Cost of goods manufactured formula

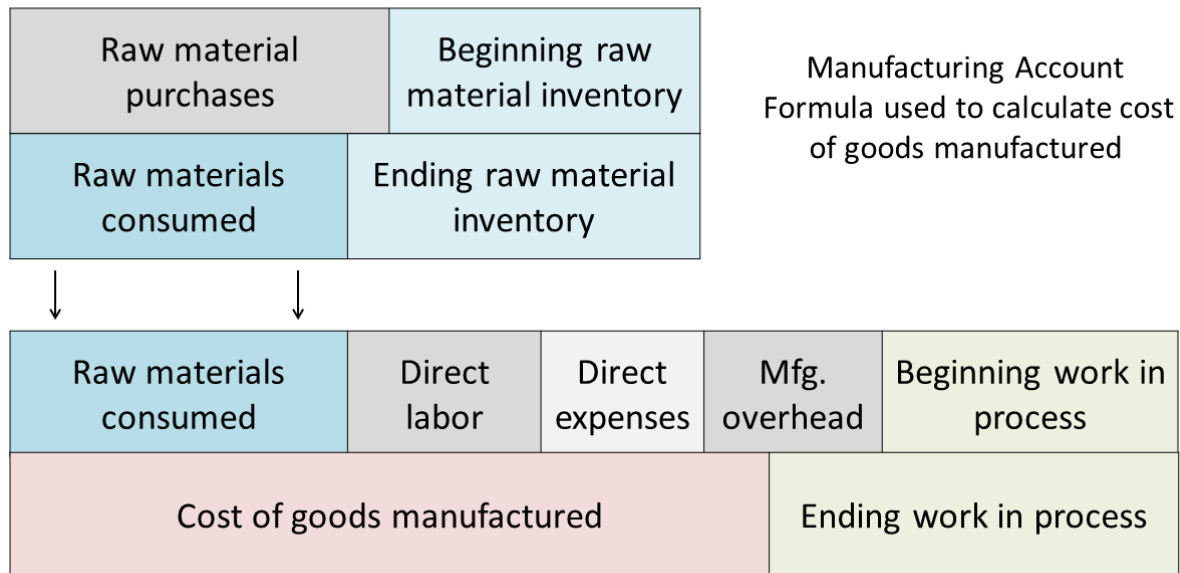
Beginning/ opening raw material inventory

+ Raw material purchases

– Ending raw material inventory

= Raw materials consumed

- + Direct labor
- + Direct expenses
- + Beginning WIP inventory
- Ending WIP inventory
- + Manufacturing overhead
- = Cost of goods manufactured



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In the formula raw material purchases is equal to the gross raw material purchases

Difference Between Manufacturing and Trading Account

The manufacturing account accumulates costs of production and is only used by a manufacturing business. The trading account is used to determine the gross profit on finished goods and is used by both trading and manufacturing businesses.

Manufacturing Account for the year ended.....

Opening stock of Raw Materials				X
Add: Purchases of Raw Materials			X	
Return Outwards (raw materials)			(X)	
Carriage inwards (raw materials)			(X)	
Drawings (raw materials)			(X)	
			X	
			X	
Less: Closing stock of Raw Materials			(X)	
Cost of Raw Materials Consumed			X	
Direct Labor Wages			X	
Royalties			X	
Prime Cost			X	
Factory Overhead Expenses:				
Production Manager's salaries			X	
Factory Power			X	
Maintenance of Plant & Machinery			X	
Depreciation of Plant & Machinery			X	
			X	
			X	
			X	
			X	
			X	



Direct material

Direct labour

Direct Expenses

Overhead

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In the Books of ABC Ltd.

Manufacturing Account for the period 01.04.2013 to 31.03.2014

Particulars	Amount Rs.	Amount Rs.	Particulars	Amount Rs.	Amount Rs.
Direct Materials			Closing Stock:		
Opening Stock of :			Raw Materials	xxx	
Raw Materials	xxx		Work in Progress	xxx	xxxx
Work in Progress	xxx	xxxx	Cost of Goods Transferred		
Purchases:			to Trading Account		xxx
Raw Materials	xxx				
Work in Progress	xxx	xxxx			
Carriage Inwards		xxx			
Direct Labor					
Factory Wages		xxx			
Direct Overheads					
Factory Rent	xxx				
Fule Power Gas Etc.	xxx				
Factory Insurance	xxx				
Dep. On Factory Bldng.	xxx	xxxx			
Manufacturing Overheads		xxx			
		xxxxx			xxxxx

Trading Accounts

Trading accounts calculates trading profit or Gross Profit. This account shows how the gross profit gets generated through the prime trading activities of a concern. The expenses that are directly related to the trading are included in this account.

Profit & Loss Account

Profit & Loss Account generates the Net Profit of a concern. The expenses and other incomes that are indirectly related to the trading are included in this account. This shows how the profit was earned.

Profit & Loss Appropriation Account

Profit & Loss Appropriation Account is used to show how a firm's profit has been utilized, i.e. used in Dividend Payments, increase reserve etc. This is more interested to show the fate of the profit than the origin of profit.

Balance Sheet

The purpose of Balance Sheet is to ascertain the financial position of an organization i.e. to know what it owes and what it owns on a certain date. Hence it shows all assets and liabilities of the organization as at the end of the accounting year.

Sample Trading Account, Profit & Loss Account and Balance Sheet (For Manufacturing Unit)

Dr.		Trading Account for the year ended.....		Cr.	
Particulars	₹	Particulars	₹		
To Opening stock (FG)	xxxx	By Sales	xxxx		
To Manufacturing Account (cost of production tfd.)	xxxx	Less : Return inwards	xxxx		xxxx
		By Goods lost or destroyed			xxxx
		By Goods taken by proprietor			xxxx
		By Goods given as free sample			xxxx
To Gross profit c/d.....or	xxxx	By Closing stock (FG)			xxxx
Total	xxxx	By Gross loss c/d			xxxx
		Total			xxxx

WORKSHEET 6 : PROFIT & LOSS ACCOUNT

Dr.		Profit & Loss Account for the year ended.....		Cr.	
Particulars	₹	Particulars	₹		
To Gross loss b/d..... or	xxxx	By Gross profit b/d			xxxx
Administrative Expenses		Other Income or Gains			
To Rent, insurance & repairs	xxxx	By Commission received			xxxx
To Office salaries	xxxx	By Discount received			xxxx
To Postage, telephones, telex etc.	xxxx	By Provision for discount from creditors			xxxx
To Printing & stationery	xxxx	By Interest on loans given to outsiders			xxxx
To Fees (legal/audit etc.)	xxxx	By Income (dividend) on investments			xxxx
To Sundry / general expenses	xxxx	By Profit on sale of fixed assets			xxxx
Selling & Distribution Expenses					
To Salesmen's salaries, commission, etc.	xxxx				
To Travelling	xxxx				
To Carriage outwards, freight, duties	xxxx				
To Warehousing charges	xxxx				
To Packing expenses	xxxx				
To Royalties on sale	xxxx				
To Advertising & sales promotion expenses	xxxx				
To Goods given as free samples	xxxx				
Financial Expenses & Interest					
To Interest & bank charges	xxxx				

To Bad debts & provision for bad debts	xxxx		
To Discount given & prov. for discount on debtors	xxxx		
Depreciation			
To Depreciation on :			
- Plant & machinery	xxxx		
- Building	xxxx		
- Motor vehicles/delivery vans	xxxx		
- Office equipments	xxxx		
Unusual Expenses or Losses			
To Goods lost or destroyed (Cost less insurance claim)	xxxx		
To Loss on sale of fixed assets	xxxx		
Appropriations			
To Income-tax	xxxx		
To Reserves	xxxx		
To Net profit tfd. to capital..... or	xxxx	By Net loss tfd. to capital	xxxx
Total	xxxx	Total	xxxx

WORKSHEET 7 : BALANCE SHEET

Balance Sheet as at.....

Laibilities	₹	₹	Assets	₹	₹
Capital Account :			Fixed Assets		
Balance b/d (opening)	xxxx		Goodwill		xxxx
- Add : Fresh capital brought in	xxxx		Land		xxxx
- Add : Net profit for the year	xxxx		Plant & machinery	xxxx	
- Less : Drawings	(xxxx)		- Less : Depreciation	xxxx	xxxx
- Less : Loss during the year	(xxxx)	xxxx	Premises / Building	xxxx	
Reserves			- Less : Depreciation	xxxx	xxxx
General Reserve		xxxx	Vehicles	xxxx	
Loans			- Less : Depreciation	xxxx	xxxx
Loans from bank		xxxx	Furniture & fittings	xxxx	
Bank overdraft		xxxx	- Less : Depreciation	xxxx	xxxx
Current Liabilities			Investments		
Sundry creditors	xxxx		Investment in shares/bonds		xxxx
- Less : Provision for discount	xxxx	xxxx	Current Assets		
Bills payable		xxxx	Closing Stock		xxxx
Outstanding expenses		xxxx	Debtors	xxxx	
Income received in advance		xxxx	- Less : Prov. for bad debts	xxxx	
			- Recoverable	xxxx	
			- Less : Prov. for discounts	xxxx	
			- Realisable		xxxx
			Loans and advance given		xxxx
			Bills receivable		xxxx
			Prepaid expenses		xxxx
			Cash at bank		xxxx
			Cash in hand		xxxx
			Fictitious assets		
			Capital account debit balance		xxxx
Total		xxxx	Total		xxxx

- 1) Manufacturing Account
 - 2) Trading Account
 - 3) Profit & Loss Account
 - 4) Balance sheet
- Adjustments

Adjusting entries are accounting journal entries that convert a company's accounting records to the [accrual basis of accounting](#). An adjusting journal entry is typically made just prior to issuing a company's [financial statements](#).

An accounting adjustment is a [business transaction](#) that has not yet been included in the [accounting records](#) of a business as of a specific date.

ADJUSTMENTS AT A GLANCE

[A] YEAR-END ADJUSTMENTS

	ADJUSTMENT	TRADING, PROFIT & LOSS A/C	BALANCE SHEET
1.	Closing Stock	Show on Credit side of Tr. A/c	Show on Asset side
2.	Outstanding Expenses	Add to Expense A/c	Show on Liability side
3.	Prepaid Expenses	Deduct from Expense A/c	Show on Assets side
4.	Income Received in Advance	Deduct from Income A/c	Show on Liability side
5.	Accrued Income	Add to Income A/c	Show on Asset side
6.	Bad Debts	Show on Debit side of P & L A/c	Deduct from Debtors on Assets side
7.	Reserve for Doubtful Debts	Bad Debts xx Add : New Reserve xx Less : Old Reserve xx Final Figure* xx	Deduct from Debtors on Assets side

* **Note** : If final figure is positive (+) show on Debit side; if negative (-) show on Credit side of P & L A/c.

8.	Reserve for Discount on Debtors	Discount Add : New Reserve Less : Old Reserve Final Figure*	xx xx <u>xx</u> <u>xx</u>	Deduct from Debtors on Assets side
* Note : If final figure is positive (+) show on Debit side; if negative (-) show on Credit side of P & L A/c.				
9.	Reserve for Discount from Creditors	Discount Add : New Reserve Less : Old Reserve Final Figure*	xx xx <u>xx</u> <u>xx</u>	Deduct from Creditors on Liability side
* Note : If final figure is positive (+) show on Credit side; if negative (-) show on Debit side of P & L A/c.				
10.	Depreciation	Show on Debit side		Deduct from Gross Cost of Each Asset
11.	Interest on Investment & Loans	Show on Credit Side of P & L		Add to concerned Investment A/c or Loan A/c on Assets side.
12.	Goods Entirely Lost	(a) Show Cost on Cr. of Trading A/c (b) Show Cost on Dr. of P & L A/c		--
13.	Goods Lost; Insurance Claim Due	(a) Show Full Cost on Cr. of Trading A/c (b) Show Loss (Cost-Claim) on Dr. of P & L A/c		Show Insurance Claim Due on Assets side
14.	Goods given away as Samples	(a) Show Cost on Cr. of Trading A/c (b) Show Cost on Dr. of P & L A/c		--
15.	Goods Taken by Proprietor	Show Cost on Cr. of Trading A/c		Debit to Capital A/c
16.	Purchases Not Recorded	Add to Purchases as per T.B.		Add to Creditors as per T.B.
17.	Sales Not Recorded	Add to Sales as per T.B.		Add to Debtors as per T.B.
18.	Capital Exp. treated as Revenue Exp.	Deduct from Expenses A/c		Add to Asset A/c
19.	B/R Dishonoured	--		Add to Debtors Deduct from B/R
20.	Bills Payable Dishonoured	--		Add to S/Creditors and Deduct from B/P, both on Liabilities side
21.	Capital Receipt treated as Revenue Receipt	Add to Liability or Deduct from Asset A/c		Deduct from Income A/c
22.	Profit on Sale of Asset	Show Profit on Cr. of P & L A/c		Deduct W.D.V. from Assets A/c
23.	Loss on Sale of Asset	Show Loss on Dr. of P & L A/c		Deduct W.D.V. from Assets A/c
24.	Net Profit Transferred	Show on Dr. side of P & L A/c		Credit Capital A/c
25.	Net Loss Transferred	Show on Cr. side of P & L A/c		Debit Capital A/c

Trial balance

- 1) Prepaid exp :- BA side
- 2) O/s expenses :- BL side
- 3) Income received in advance :- BL side
- 4) Income due but not received / Accrued Income :- BA side
- 5) Depreciation :- P&L dr

6) Closing Stock :- BA side

7) Provision for depreciation :- Deducted from assets (BA side)