

UNIT III

MANUFACTURING ACCOUNT

Manufacturing concerns which convert raw material into finished product is required to prepare manufacturing account and then prepare trading and profit and loss account. This is necessary because they have to ascertain cost of goods manufactured, gross profit and net profit.

TRADING ACCOUNT

Trading account is prepared for an accounting period to find the trading results or gross margin of the business i.e., the amount of gross profit the concern has made from buying and selling during the accounting periods. The difference between the sales and cost of sales is gross profit.

PROFIT AND LOSS ACCOUNT

Profit and loss account is prepared to ascertain the net profit of the business concern for an accounting period Profit and loss account starts with gross profit brought down from trading account on the credit side.

BALANCE SHEET

The Balance sheet comprises of lists of assets, liabilities and capital fund on a given date. It presents the financial position of a concern as revealed by the accounting records. It reflects the assets owned by the concern and the sources of funds used in the acquisition of those assets.

ADJUSTMENTS

On preparing Trading and profit and Loss Account, adjustments are necessary when accrual basis of accounting is followed.

1. Closing Stock

Closing stock A/c Dr.

To Trading A/c

2. Outstanding Expenses

Expenses A/c Dr

To Outstanding expenses A/c

3. Prepaid Expenses

Prepaid expense A/c Dr

To Expenses A/c

4. Income Earned but not received (Outstanding or accrued income)

Accrued Income A/c Dr

To Income A/c

5. Income received in advance

Income A/c Dr

To Income received in advance

6. Depreciation

Depreciation A/c Dr.

To Concerned Assets A/c

7. Bad Debts

Bad debts A/c Dr.

To Sundry Debtors A/c

8. Provision for doubtful debts

Profit and Loss A/c Dr

To Provision for doubtful debts A/c

9. Provision for discount on debtors

Profit and Loss A/c Dr.

To Provision for discount on debtors A/c

10. Reserve for discount on creditors

Reserve for discount on creditors A/c Dr.

To Profit and Loss A/c

11. Interest on capital

Interest on capital A/c Dr

To Capital A/c

12. Interest on Drawings

Drawings A/c Dr

To Interest on drawings A/c