UNIT – 2 FINAL ACCOUNTS OF MANUFACTURING ENTITIES

LEARNING OUTCOMES

After studying this unit, you would be able to:

- ♦ Understand the purpose of preparing Manufacturing Account.
- ♦ Learn the items to be included in the Manufacturing Account
- ♦ Draw Manufacturing accounts of Manufacturing entities

UNIT OVERVIEW

MANUFACTURING BUSINESS ENTITIES

- Final Accounts
  - Manufacturing Account
  - Trading Account
  - Profit & Loss Account
  - Balance Sheet

2.1 INTRODUCTION

The manufacturing entities generally prepare a separate Manufacturing Account as a part of Final accounts in addition to Trading Account, Profit and Loss Account and Balance Sheet. The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities. Manufacturing costs of finished goods are then transferred from the Manufacturing Account to Trading Account.

(a)	Trading account shows Gross Profit while Manufacturing Account shows cost of goods sold which includes direct expenses.
(b)	Manufacturing account also deals with the raw materials, and work in progress while the trading account would deal with finished goods only.

2.2 PURPOSE

A manufacturing account serves the following functions:

(1) It shows the total cost of manufacturing the finished products and sets out in detail, with appropriate classifications, the constituent elements of such cost. It is, therefore, debited with the cost of materials, manufacturing wages and expenses incurred directly or indirectly to manufacture.

(2) It provides details of factory cost and facilitates reconciliation of financial books with cost records. It also serves as a basis of comparison of manufacturing operations from period to period.

(3) The Manufacturing Account may also be used for various other purposes. For example, if the output is carried to the Trading Account at market prices, it shows the profit or loss on manufacture. Similarly, it may also be used to fix the amount of production linked bonus when such schemes are in force.

2.3 MANUFACTURING COSTS

Manufacturing costs are classified into:

+ Raw Material Consumed	....
+ Direct Manufacturing Wages	....
+ Direct Manufacturing Expenses	....
+ Direct Manufacturing Cost	....
+ Indirect Manufacturing expenses or	
+ Manufacturing Overhead	....
Total Manufacturing Cost	_____

Raw Material consumed is arrived at after adjustment of opening and closing Inventory of raw materials:

Raw Material Consumed	=	Opening inventory of Raw Materials	+ Purchases	–	Closing inventory of Raw Materials

If there remain unfinished goods at the beginning and at the end of the accounting period, cost of such unfinished goods (also termed as Work-In-Process) is shown in the Manufacturing Account.

Opening inventory of Work-in-Process is posted to the debit of the Manufacturing Account and closing inventory of Work-in-Process is posted to the credit of the Manufacturing Account.

DIRECT MANUFACTURING EXPENSES

Direct manufacturing expenses are costs, other than material or wages, which are incurred for a specific product or saleable service.

Examples of direct manufacturing expenses are (i) Royalties for using license or technology if based on units produced, (ii) Hire charge of the plant and machinery used on hire, if based on units produced, etc.

When royalty or hire charges are based on units produced, these expenses directly vary with production.

ILLUSTRATION 1

1,00,000 units were produced in a factory. Per unit material cost was ₹ 10 and per unit labour cost was ₹ 5. That apart it was agreed to pay royalty @ ₹ 3 per unit to the Japanese collaborator who supplied technology.

Required

Calculate Manufacturing Cost.

SOLUTION

In this case Manufacturing Cost comprises of –

Raw Material consumed	(1,00,000 × ₹ 10)	₹ 10,00,000
Direct Wages	(1,00,000 × ₹ 5)	₹ 5,00,000
Direct Expenses	(1,00,000 × ₹ 3)	₹ 3,00,000
		₹ 18,00,000

INDIRECT MANUFACTURING EXPENSES OR OVERHEAD EXPENSES

These are also called Manufacturing overhead, Production overhead, Works overhead, etc. Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

Overhead = Indirect Material + Indirect Wages + Indirect Expenses

Indirect material means materials which cannot be linked directly with the units produced, for example, stores consumed for repair and maintenance work, small tools, fuel and lubricating oil, etc.

Indirect wages are those which cannot be directly linked to the units produced, for example, wages for maintenance works, holding pay, etc.

Indirect expenses are those which cannot be directly linked to the units produced, for example, training expenses, depreciation of plant and machinery, depreciation of factory shed, insurance premium for plant and machinery, factory shed, etc.

Accordingly, indirect manufacturing expenses comprise indirect material, indirect wages and indirect expenses of the manufacturing division.

BY-PRODUCTS

In most manufacturing operations, the production of the main product is accompanied by the production of a subsidiary product which has a value on sale. For example, the production of hydrogenated vegetable oil is accompanied by the production of oxygen gas and the production of steel yields scrap. The subsidiary product is termed as a by-product because its production is not consciously undertaken but results out of the production of the main product. It is usually very difficult to ascertain the cost of the product. Moreover, its value usually forms a very small percentage of the main product.

By-product is a secondary product. This is produced from the same raw materials, which are used for producing the main product and without incurring any additional expenses from the same production process in which the main product is produced. Some examples of by-product are given below:

(i) Molasses is the by-product in sugar manufacturing;

(ii) Butter milk is the by-product of a dairy which produces butter and cheese, etc.

By-products generally have insignificant value as compared to the value of main product. They are **generally valued at net realizable value,** if their costs cannot be separately identified. It is often treated, as Other Operating income" but the correct treatment would be to credit the sale value of the by-product to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

2.4 DESIGN OF A MANUFACTURING ACCOUNT

There is no standardized design for the presentation of a Manufacturing Account. Given below is a format covering various elements:

Manufacturing Account

Particulars	Units	Amount	Particulars	Units	Amount
		₹			₹
To Raw Material Consumed:			By By-products at net realizable value		
Opening inventory					
Add: Purchases	… .		By Closing Work-in- Process		
Less: Closing inventory	…..		By Trading A/c		
To Direct Wages	…..	……	Cost of production		
To Direct expenses:	……				
Prime cost		……			
To Factory overheads:					
Royalty	…..				
Hire charges	…..				
To Indirect expenses:	…..				
Repairs & Maintenance	…..				
Depreciation	…..	…….			
Factory cost		…….			
To Opening Work-in-process		…….			

Tutorial Note: Frequently, problems are set, in which all the ledger balances are not given. Instead, details are given regarding the number of items in Inventories, quantity manufactured etc. the figures for Inventories, sales etc., would therefore have to be worked out independently from the data given.

The following general rules may be observed.

(a) The Manufacturing Account should have columns showing the quantities and values. Frequently, all the quantities are not given and the quantities applicable to one or more of the items would have to be worked out. For example, if the question does not state the total number of items sold, the quantity can be worked out by adding opening inventory and units manufactured and deducting closing inventory. It is, therefore, useful to have quantity columns in the account so that it can be seen that both sides balance.

(b) The Manufacturing Account will show the quantity of raw materials in inventory at the beginning and at the end of the year and the purchases during the year. As regards finished goods, it will only show the quantity manufactured and, as regards work-in-progress, the opening and closing amounts.

(c) The Trading Account will show the quantities of finished goods manufactured and sold and the opening and closing inventory. It will not show the quantity of raw materials or work-in-progress.

(d) For determining the value of closing inventory, in the absence of specific instruction to the contrary, it must be assumed that sales have been on "first in-first out" basis, that is, the closing inventory consists as far as possible of goods produced during the year, the opening inventory being sold out.

It may be mentioned here that nowadays no manufacturing business entity prepares manufacturing account as part of its final set of accounts. Even the items of manufacturing account are shown either in trading account (in case of non-corporate entities) or in Statement of profit and loss (in case of corporate entities).

The procedure of preparation of Trading Account, Profit and Loss Account and Balance Sheet have already been explained in Unit 1 of this chapter. Students should refer the earlier unit for attempting the problems based on the preparation of complete set of final accounts of a sole proprietor.

ILLUSTRATION 2

Mr. Vimal runs a factory which produces soaps. Following details were available in respect of his manufacturing activities for the year ended on 31.3.2022:

	₹
Opening Work-in-Process (10,000 units)	*16,000*
Closing Work-in-Process (12,000 units)	*20,000*
Opening inventory of Raw Materials	*1,70,000*
Closing inventory of Raw Materials	*1,90,000*
Purchases	*8,20,000*
Hire charges of machine @ ₹ 0.60 per unit manufactured	
Hire charges of factory	*2,20,000*

Direct wages-Contracted @ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of *Closing W.I.P.*	
Repairs and Maintenance	*1,80,000*
Units produced – 5,00,000 units	

Required

Prepare a Manufacturing Account of Mr. Vimal for the year ended 31.3.2022.

SOLUTION

In the Books of Mr. Vimal

Manufacturing Account for the Year ended 31.3.2022

Particulars		Units	Amount	Particulars	Units	Amount
			₹			₹
To Opening Work-in-Process		10,000	16,000	By Closing Work-in-Process	12,000	20,000
To Raw Materials Consumed:				By Trading A/c – Cost of finished goods transferred	5,00,000	19,00,800
Opening inventory	1,70,000					
Add: Purchases	8,20,000					
	9,90,000					
Closing Inventory	(1,90,000)		8,00,000			
To Direct Wages – W.N. (1)			4,04,800			
To Direct expenses:						
Hire charges on Machinery – W.N. (2)			3,00,000			
To Indirect expenses:						
Hire charges of Factory Shed			2,20,000			
Repairs Maintenance			1,80,000			
			19,20,800			19,20,800

Working Notes:

(1)	Direct Wages – 5,00,000 units @ ₹ 0.80 =	₹ 4,00,000
	12,000 units @ ₹ 0.40 =	₹ 4,800
		₹ 4,04,800
(2)	Hire charges on Machinery (5,00,000 units @ ₹ 0.60)	₹ 3,00,000

ILLUSTRATION 3

On 31st March, 2022 the Trial Balance of Mr. White were as follows:

Trial Balance as on 31st March, 2022

Particulars	Dr. ₹	Particulars	Cr. ₹
Stock on 1st April 2021			
Raw Materials	21,000	Sundry Creditors	15,000
Work in Progress	9,500	Bills Payable	7,500
Finished goods	15,500	Sale of Scrap	2,500
Sundry Debtors	24,000	Commission Received	450
Carriage on Purchases	1,500	Provision for doubtful debts	1,650
Bills Receivable	15,000	Capital Account	1,00,000
Wages	13,000	Sales	1,67,200
Salaries	10,000	Bank Overdraft	8,500
Telephone, Postage etc.	1,000		
Repairs to Office Furniture	350		
Cash at Bank	17,000		
Office Furniture	10,000		
Repairs to Plant	1,100		
Purchases	85,000		
Plant and Machinery	70,000		
Rent	6,000		
Lighting	1,350		
General Expenses	1,500		
	3,02,800		3,02,800

The following additional information is available:

Stocks on 31st March, 2022 were:

Raw Materials ₹ 16,200

Finished goods ₹ 18,100

Semi-finished goods ₹ 7,800

Salaries and wages unpaid for March 2022 were respectively, ₹ 900 and ₹ 2,000

Machinery is to be depreciated by 10% and office furniture by 71/2 %

Provision for doubtful debts is to be maintained @ 1% of sales

Office premises occupy 1/4 of total area.

Lighting is to be charged as to 2/3 to factory and 1/3 to office.

Prepare the Manufacturing Account Trading Account, Profit and Loss Account and the Balance Sheet relating to 31st March 2022.

SOLUTION

In the books of Mr. White

Manufacturing Account for the year ended 31st March, 2022

Particulars		₹	Particulars	₹
Raw material consumed:			By Closing Stock of Work in Progress	7,800
To Opening Stock of Raw Materials	21,000		By Sale of Scrap	2,500
			By Cost of goods Manufactured	
Add: Purchases	85,000		(Transferred to Trading Account)	1,19,000
Less: Closing Stock	16,200	89,800		
To Opening Stock of WIP		9,500		
To Wages	13,000			
Add: Outstanding Wages	2,000	15,000		
To Carriage on Purchases		1,500		
To Repairs to Plant		1,100		
To Rent *(3/4)*		4,500		

To Lighting *(2/3)*		900		
To Depreciation of Plant		7,000		
		1,29,300		1,29,300

Trading Account for the year ended 31st March, 2022

Particulars	₹	Particulars	₹
To Opening Stock of finished goods	15,500	By Sales	1,67,200
To Cost of goods transferred from Manufacturing A/c	1,19,000	By Closing Stock of finished goods	18,100
To Gross Profit c/d	50,800		
	1,85,300		1,85,300

Profit and Loss Account for the year ended 31st March, 2022

Particulars		₹	Particulars	₹
To Salaries	10,000		By Gross Profit b/d	50,800
Add: Outstanding	900	10,900	By Commission	450
To Telephone & Postage		1,000		
To Repairs to Furniture		350		
To Depreciation of furniture		750		
To Rent (1/4)		1,500		
To Lighting (1/3)		450		
To General Expenses		1,500		
To Provision for doubtful Debts: Required (1 % of ₹1,67,200)	1,672			
Less: Existing Provision	1,650	22		
To Net Profit		34,778		
		51,250		51,250

Balance Sheet as at 31st March, 2022

Capital and Liabilities		₹	**Assets**		₹
Capital Account	1,00,000		Plant & Machinery	70,000	
Add: Net Profit	34,778	1,34,778	*Less*: Depreciation	7,000	63,000
Bank Loan		8,500	Office Furniture	10,000	
Sundry Creditors		15,000	*Less*: Depreciation	750	9,250
Bills Payable		7,500	Closing Stock		
Salary Payable		900	Raw Materials		16,200
Wages Payable		2,000	Work in Progress		7,800
			Finished Goods		18,100
			Sundry Debtors	24,000	
			Less: Provision for Bad & Doubtful Debts	1,672	22,328
			Bills Receivable		15,000
			Cash at Bank		17,000
		1,68,678			1,68,678

NOTE: The ICAI has, through technical guide (issued in June, 2022) provided guidance on the formats of financial statements for non-corporate entities. This would enable these entities to communicate their financial performance and financial position in standardised formats thereby enhancing their consistency and comparability. The said format of financial statements has been given as **Annexure – I** at the end of the chapter for awareness of students. It may be noted that this format does not form part of syllabus and has been given here for the knowledge of students only.

SUMMARY

- Direct manufacturing expenses are costs, other than material or wages, which are incurred for a specific product or saleable service.
- Indirect Manufacturing expenses these are also called Manufacturing overhead, Production overhead, Works overhead, etc.
- Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.
- Indirect material means materials which cannot be linked directly with the units produced, for example, stores consumed for repair and maintenance work, small tools, fuel and lubricating oil, etc. In most manufacturing operations, the production of the main product is accompanied by the production of a subsidiary product which has a value on sale.
- By-product is a secondary product. This is produced from the same raw materials, which are used for producing the main product and without incurring any additional expenses from the same production process in which the main product is produced.

TEST YOUR KNOWLEDGE

True and False

1. *By-products valued at cost or net realisable value whichever is lower.*
2. *The manufacturing account is prepared to ascertain the profit or loss on the goods produced.*
3. *If there remain unfinished goods at the beginning and at the end of the accounting period, cost of such unfinished goods is shown in the Manufacturing Account.*
4. *Raw Material Consumed = Opening inventory of Raw Materials + Purchases – Closing inventory of Raw Materials.*
5. *The Trading Account will show the quantities of finished goods, raw materials and work-in-progress.*
6. *Overhead is defined as total cost of direct material, direct wages and direct expenses.*
7. *Manufacturing A/c is prepared by an enterprise engaged in trading activities.*

Multiple Choice Questions

1. *Under-statement of closing work in progress in the period will*
   - (a) *Understate cost of goods manufactured in that period.*
   - (b) *Overstate current assets.*
   - (c) *Understate net income in that period.*
   - (d) *None of the three.*
2. *Sales is equal to*
   - (a) *Cost of goods sold – Gross profit.*
   - (b) *Cost of goods sold + Gross profit.*
   - (c) *Gross profit – Cost of goods sold.*
   - (d) *Net profit + cost of goods sold.*
3. *Indirect Manufacturing expenses are also called*
   - (a) *Manufacturing overhead.*
   - (b) *Production overhead.*
   - (c) *Works overhead.*
   - (d) *All the three.*
4. *Sale value of the by-product is credited to*
   - (a) *Manufacturing account.*
   - (b) *Capital account.*
   - (c) *Overheads account.*
   - (d) *Trading account.*
5. *Manufacturing account shows*
   - (a) *Total cost of manufacturing the finished products.*
   - (b) *It provides details of factory cost.*
   - (c) *It facilitates reconciliation of financial books with cost records.*
   - (d) *All the three.*

Theoretical Questions

1. *Write short note on by-products.*
2. *Differentiate between Direct Manufacturing Expenses and Indirect Manufacturing expenses.*

Practical Questions

1. *Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2022.*

			₹
W.I.P.	- Opening		3,90,000
	- Closing		5,07,000
Raw Materials	- Purchases		12,10,000
	- Opening		3,02,000
	- Closing		3,10,000
	- Returned		18,000
	- Indirect material		16,000
Wages	- direct		2,10,000
	- indirect		48,000
Direct expenses	- Royalty on production		1,30,000
		- Repairs and maintenance	2,30,000
		- Depreciation on factory shed	40,000
		- Depreciation on plant & machinery	60,000
By-product at selling price			20,000

You are required to prepare Manufacturing Account of Mr. Pankaj for the year ended on 31.3.2022.

2. *Following are the Manufacturing A/c, Creditors A/c and Trading A/c provided by Ms. Shivi related to 2021-22. There are certain figures missing from these accounts.*

Raw Material A/c

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Opening Stock A/c	1,00,000		By Raw Material Consumed	....
	To Creditors A/c	....		By Closing Stock A/c	....

Creditors A/c

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Bank A/c	22,00,000		By Balance b/d	15,00,000
	To Balance c/d	6,00,000			

Manufacturing A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Raw Material Consumed	....	By Trading A/c	17,94,000
To Wages	3,50,000		
To Depreciation	2,00,000		
To Direct Expenses	2,44,000		

Additional Information:

1) *Purchase of machinery worth ₹ 10,00,000 has been omitted. Machinery are chargeable at a depreciation rate of 10%.*

2) *Wages include the following*

   Paid to Factory Workers - ₹ 3,00,000

   Paid to labour at office - ₹ 50,000

3) *Direct Expenses include following:*

   - *Electricity charges of ₹ 80,000 of which 30% pertained to office.*
   - *Fuel Charges of ₹ 20,000*
   - *Freight Inwards of ₹ 35,000*
   - *Delivery charges to customers - ₹ 20,000.*

You are required to prepare revised Manufacturing A/c, and Raw Material A/c.

3. *The following is the trial balance of Mr. Pandit for the year ended 31st March, 2022:*

Trial Balance as on 31st March 2022

Particulars	Dr. ₹	Particulars	Cr. ₹
Opening Stock:			
Raw Materials	1,50,000	Sundry Creditors	50,000
Finished goods	75,000	Purchase Returns	5,000
Purchase of Raw Materials	5,00,000	Capital	1,00,000
Land & Building	1,00,000	Bills Payable	24,000
Loose tools	30,000	Long-Term Loan	2,00,000
Plant & Machinery	30,000	Provision for Bad and Doubtful Debts	2,000
Investments	25,000	Sales	8,50,000
Cash in Hand	20,000	Bank Overdraft	23,000
Cash at Bank	5,000		
Furniture & Fixtures	15,000		
Bills Receivable	15,000		
Sundry Debtors	40,000		
Drawings	20,000		
Salaries	20,000		
Coal and Fuel	15,000		
Factory rent & rates	20,000		
General Expenses	4,000		
Advertisement	5,000		
Sales Return	10,000		
Bad Debts	4,000		
Direct Wages (Factory)	80,000		
Power	30,000		
Interest Paid	7,000		
Discount Allowed	3,000		

Carriage Inwards	*15,000*		
Carriage Outwards	*7,000*		
Commission Paid	*9,000*		
	12,54,000		*12,54,000*

Additional Information

Stock of finished goods at the end of the year ₹1,00,000.

A provision for doubtful debts is to be created. at 5% on Sundry Debtors. Depreciation on building ₹ 1,000 and ₹ 3,000 on Plant & Machinery to be provided.

Accrued commission of ₹ 12,500 is to be received for the year. Interest has accrued on investment ₹ 15,000.

Salary Outstanding ₹ 2,000 and Prepaid Interest ₹ 1,500.

You are required to prepare Manufacturing, Trading and Profit and Loss Account for the year ended 31st March, 2022.

ANSWERS/HINTS

True and False

1. False: By-products generally have insignificant value as compared to the value of main product. Therefore, they are generally valued at net realizable value.

2. False: The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities.

3. True: Manufacturing account deals with the raw material and work in progress.

4. True: Raw Material consumed is arrived at after adjustment of opening and closing inventory of raw materials and purchases.

5. False: The Trading Account will show the quantities of finished goods manufactured and sold and the opening and closing inventory. It will not show the quantity of raw materials or work-in-progress.

6. False: Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

7. False: Manufacturing A/c is prepared by the entities engaged in manufacturing activities.

Multiple Choice Questions

1.	(c)	**2.**	(b)	**3.**	(d)	**4.**	(a)	**5.**	(d)		

Theoretical Questions

1. By-products generally have insignificant value as compared to the value of main product. They are **generally valued at net realisable value,** if their costs cannot be separately identified. It is often treated, as "Miscellaneous income" but the correct treatment would be to credit the sale value of the by-product to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

2. **Direct manufacturing expenses** are costs, other than material or wages, which are incurred for a specific product or saleable service.

   Indirect Manufacturing expenses are also called Manufacturing overhead, Production overhead, Works overhead, etc. Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

   For detail, refer para 2.3

Practical Problems

1. **In the Books of Mr. Pankaj**

Manufacturing Account for the year ended on March 31,2022

Particulars		Amount	Particulars	Amount
	₹	₹		₹
To Opening W.I.P.		3,90,000	By Closing W-I-P	5,07,000
To Raw Material Consumed:			By by products	20,000
Opening inventory	3,02,000		By Trading A/c-	17,81,000
Purchases	12,10,000		Cost of finished	
	15,12,000		goods transferred	
Less: Return	(18,000)			
	14,94,000			

Less: Closing inventory	(3,10,000)	11,84,000		
To Direct Wages		2,10,000		
To Direct expenses:				
Royalty		1,30,000		
To Manufacturing Overhead:				
Indirect Material	16,000			
Indirect Wages	48,000			
Repairs & Maintenance	2,30,000			
Depreciation on				
Factory Shed	40,000			
Depreciation on Plant &				
Machinery	60,000	3,94,000		
		23,08,000		23,08,000

2. **Manufacturing A/c**

Particulars	Amount ₹	Particulars	Amount ₹
To Raw Material Consumed			
(Balancing Figure)	10,00,000	By Trading A/c (W.N. 4)	18,00,000
To Wages (W.N. 2)	3,00,000		
To Depreciation (W.N. 1)	3,00,000		
To Direct Expenses (W.N. 3)	2,00,000		
	18,00,000		18,00,000

Raw Material A/c

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Opening Stock A/c	1,00,000		By Raw Material Consumed (from Trading A/c above)	10,00,000

	To Creditors A/c (W.N. 5)	13,00,000		By Closing Stock A/c (Balancing Figure)	4,00,000
		14,00,000			14,00,000

Working Notes:

1) Since purchase of Machinery worth ₹ 10,00,000 has been omitted.

So, depreciation omitted from being charged = ₹ 10,00,000 X 10%

= ₹1,00,000

Correct total depreciation expense = ₹ (2,00,000 + 1,00,000)

= ₹ 3,00,000

2) Wages worth ₹ 50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged P&L A/c.

3) Expenses to be excluded from direct expenses:

Office Electricity Charges (80,000 X 30%)	24,000
Delivery Charges to Customers	20,000
Total expenses not part of Direct Expenses	44,000

=> Revised Direct Expenses = ₹ (2,44,000 - 44,000) = ₹ 2,00,000

Fuel charges are related to factory expenses and also freight inwards are incurred for bringing goods to factory/ godown so they are part of direct expenses.

4) **Revised Balance to be transferred to Trading A/c:**

Particulars	**Amount ₹**
Current Balance transferred	17,94,000
Add: Depreciation charges not recorded earlier	1,00,000
Less: Wages related to Office	(50,000)
Less: Office Expenses	(44,000)
Revised balance to be transferred	18,00,000

5) **Creditors A/c**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Bank A/c	22,00,000		By Balance b/d	15,00,000
	To Balance c/d	6,00,000		By Raw Materials A/c (Bal. figure)	13,00,000
		28,00,000			28,00,000

3. **In the books of Mr. Pandit**

Manufacturing Account for the year ended 31st March, 2022

Particulars		₹	Particulars	₹
To Opening Stock of Raw Materials		1,50,000	By Cost of Manufactured goods transferred to Trading A/c	8,08,000
To Purchase	5,00,000			
Less: Purchase Return	5,000	4,95,000		
To Carriage Inwards		15,000		
To Direct Wages		80,000		
To Power		30,000		
To Coal and fuel		15,000		
To Factory Rent and Rates		20,000		
To Depreciation on Machinery		3,000		
		8,08,000		8,08,000

Trading Account for the year ended 31st March, 2022

Particulars	₹	Particulars		₹
To Opening Stock of finished goods	75,000	By Sales	8,50,000	
To Cost of goods transferred from Manufacturing A/c	8,08,000	*Less*: Sales Return	10,000	8,40,000
		By Closing Stock		1,00,000
To Gross Profit c/d	57,000			
	9,40,000			9,40,000

Profit and Loss Account for the year ended 31st March 2022

Particulars		₹	Particulars	₹
To Carriage Outward		7,000	By Gross Profit b/d	57,000
To Discount Allowed		3,000	By Accrued Commission	12,500
To Commission Paid		9,000	By Accrued Interest	15,000
To General Expenses		4,000		
To Advertisement		5,000		
To Salaries	20,000			
Add: Outstanding	2,000	22,000		
To Interest Paid	7,000			
Less: Prepaid	1,500	5,500		
To Provision for Bad & Doubtful Debts	2,000			
Add: Bad Debts	4,000			
Less: Old Provision for Doubtful Debts	2,000	4,000		
To Depreciation on Building		1,000		
To Net Profit c/d		24,000		
		84,500		84,500

Balance Sheet as at 31st March, 2022

Capital and Liabilities		₹	Assets		₹
Capital	1,00,000		Plant & Machinery	30,000	
Add: Net Profit	24,000		*Less*: Depreciation	3,000	27,000
	1,24,000		Land & Building	1,00,000	
Less: Drawings	20,000	1,04,000	*Less*: Depreciation	1,000	99,000
Bills Payable		24,000	Furniture & Fixtures		15,000
Sundry Creditors		50,000	Investments		25,000
Salary Outstanding		2,000	Closing Stock		1,00,000
Long-Term Loans		2,00,000	Loose Tools		30,000

Bank Overdraft		23,000	Sundry Debtors	40,000	
			Less: Provision for Bad & Doubtful Debts	2,000	38,000
			Bills Receivable		15,000
			Accrued Commission		12,500
			Accrued Interest		15,000
			Prepaid Interest		1,500
			Cash in Hand		20,000
			Cash at Bank		5,000
		4,03,000			4,03,000

NOTES